

TMS International Corp.  
Form 10-Q  
November 06, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**  
**For the Quarterly Period Ended September 30, 2012**

or

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

For the transition period from            to            .

**TMS INTERNATIONAL CORP.**

(Exact name of registrant as specified in its charter)

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**001-35128**  
(Commission

**Delaware**  
(State or other jurisdiction of

**20-5899976**  
(I.R.S. Employer

File Number)

incorporation or organization)  
**12 Monongahela Avenue**

Identification No.)

**P.O. Box 2000**

**Glassport, PA 15045**

**(412) 678-6141**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

Large accelerated filer  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 Act). Yes  No

14,494,805 shares of Class A Common Stock, \$0.001 par value per share, and 24,782,636 shares of Class B Common Stock, \$0.001 par value per share, were outstanding as of the close of business on November 2, 2012.

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Unless the context otherwise indicates or requires, as used in this report for the quarterly period ended September 30, 2012 (the "Quarterly Report"), references to:

Company, TMS, we, our or us refer to TMS International Corp. and its consolidated subsidiaries;

IPO or initial public offering refers to the Company's initial public offering of 12,880,000 shares of its Class A Common Stock pursuant to a registration statement relating to these securities (File No. 333-166807), filed with the Securities and Exchange Commission and declared effective on April 8, 2011.

Mill Services Group refers to the mill services group segment of the Company;

Onex refers to Onex Partners II LP, collectively with other entities affiliated with Onex Corporation;

Raw Material and Optimization Group refers to the raw material and optimization group segment of the Company; and

TCIMS refers to the Company's wholly-owned indirect subsidiary, Tube City IMS Corporation, a Delaware corporation.

**Table of Contents****PART I Financial Information****Item 1. Financial Statements****TMS INTERNATIONAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands of dollars, except share and per share data)

	Third quarter ended September 30,		Nine months ended September 30,	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
<b>Revenue:</b>				
Revenue from Sale of Materials	\$ 443,003	\$ 589,146	\$ 1,588,696	\$ 1,693,882
Service Revenue	130,048	120,068	400,668	350,043
<b>Total Revenue</b>	<b>573,051</b>	<b>709,214</b>	<b>1,989,364</b>	<b>2,043,925</b>
<b>Costs and Expenses:</b>				
Cost of Raw Materials Shipments	424,087	569,911	1,530,923	1,632,369
Site Operating Costs	96,759	90,963	298,621	265,160
Selling, General and Administrative Expenses	16,490	14,011	49,465	44,012
Share based compensation associated with initial public offering				1,304
Provision for Transition Agreement		745		745
Depreciation	14,655	11,856	41,509	35,424
Amortization	3,100	3,068	9,204	9,202
<b>Total Costs and Expenses</b>	<b>555,091</b>	<b>690,554</b>	<b>1,929,722</b>	<b>1,988,216</b>
Income from Operations	17,960	18,660	59,642	55,709
Interest Expense, Net	(5,989)	(7,792)	(20,013)	(24,376)
Loss on early extinguishment of debt			(12,300)	
<b>Income Before Income Taxes</b>	<b>11,971</b>	<b>10,868</b>	<b>27,329</b>	<b>31,333</b>
Income Tax Expense	(1,920)	(4,497)	(7,456)	(13,044)
<b>Net Income</b>	<b>10,051</b>	<b>6,371</b>	<b>19,873</b>	<b>18,289</b>
Net (income) loss attributable to noncontrolling interests	(231)	134	141	194
Accretion on preferred stock				(7,156)
<b>Net income attributable to TMS International Corp. common stock</b>	<b>\$ 9,820</b>	<b>\$ 6,505</b>	<b>\$ 20,014</b>	<b>\$ 11,327</b>
<b>Net Income per Share:</b>				
Basic	\$ 0.25	\$ 0.17	\$ 0.51	\$ 0.43
Diluted	\$ 0.25	\$ 0.17	\$ 0.51	\$ 0.43
<b>Average Common Shares Outstanding:</b>				
Basic	39,274,874	39,255,973	39,262,343	26,290,157
Diluted	39,274,874	39,255,973	39,262,772	26,295,801

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



**Table of Contents****TMS INTERNATIONAL CORP. AND SUBSIDIARIES****STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)**

(in thousands of dollars)

	TMS International		Noncontrolling Interests		Total	
	Third quarter ended		Third quarter ended		Third quarter ended	
	September 30	September 30	September 30	September 30	September 30	September 30
	2012	2011	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 9,820	\$ 6,505	\$ 231	\$ (134)	\$ 10,051	\$ 6,371
Other comprehensive income (loss), net of tax:						
Changes in foreign currency translation	4,250	(7,721)	(5)	(31)	4,245	(7,752)
Net unrecognized gains on derivatives		248				248
Total other comprehensive income (losses), net of tax	4,250	(7,473)	(5)	(31)	4,245	(7,504)
Comprehensive income (loss)	\$ 14,070	\$ (968)	\$ 226	\$ (165)	\$ 14,296	\$ (1,133)

	TMS International		Noncontrolling Interests		Total	
	Nine months ended		Nine months ended		Nine months ended	
	September 30	September 30	September 30	September 30	September 30	September 30
	2012	2011	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 20,014	\$ 18,483	\$ (141)	\$ (194)	\$ 19,873	\$ 18,289
Other comprehensive income (loss), net of tax:						
Changes in foreign currency translation	2,806	(1,853)	11	(66)	2,817	(1,919)
Net unrecognized gains on derivatives	240	637			240	637
Total other comprehensive income (losses), net of tax	3,046	(1,216)	11	(66)	3,057	(1,282)
Comprehensive income (loss)	\$ 23,060	\$ 17,267	\$ (130)	\$ (260)	\$ 22,930	\$ 17,007

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

**Table of Contents****TMS INTERNATIONAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands of dollars, except share data)**

	September 30, 2012 (unaudited)	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 26,478	\$ 108,830
Accounts receivable, net of allowance for doubtful accounts of \$2,868 and \$2,613, respectively	291,957	292,546
Inventories	54,300	56,297
Prepaid and other current assets	20,458	31,041
Deferred tax asset	7,609	7,114
Total current assets	400,802	495,828
Property, plant and equipment, net	206,080	158,314
Deferred financing costs, net of accumulated amortization of \$1,326 and \$9,517, respectively	10,357	10,638
Goodwill	242,407	241,771
Other intangibles, net of accumulated amortization of \$68,767 and \$59,461, respectively	149,293	155,769
Other noncurrent assets	5,212	3,675
Total assets	\$ 1,014,151	\$ 1,065,995
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 279,769	\$ 273,816
Salaries, wages and related benefits	29,396	28,105
Accrued expenses	18,845	24,340
Revolving bank borrowings		159
Current portion of long-term debt	4,400	3,585
Total current liabilities	332,410	330,005
Long-term debt	296,451	379,250
Loans from noncontrolling interests	7,440	5,275
Deferred tax liability	54,966	53,791
Other noncurrent liabilities	21,685	20,833
Total liabilities	712,952	789,154
Stockholders' equity (deficit):		
Class A Common Stock; 200,000,000 shares authorized, \$0.001 par value per share; 14,494,805 and 12,894,333 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively.	13	13
Class B Common Stock; 30,000,000 shares authorized, \$0.001 par value per share; 24,782,636 and 26,361,640 issued and outstanding at September 30, 2012 and December 31, 2011, respectively.	26	26
Capital in excess of par value	435,804	434,841
Accumulated deficit	(128,218)	(148,232)
Accumulated other comprehensive (loss)	(8,029)	(11,075)
Total TMS International Corp. stockholders' equity	299,596	275,573
Noncontrolling interests	1,603	1,268
Total stockholders' equity	301,199	276,841

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Total liabilities and stockholders' equity	\$ 1,014,151	\$ 1,065,995
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*The accompanying notes are an integral part of these condensed consolidated financial statements.*



**Table of Contents****TMS INTERNATIONAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of dollars, except share and per share data)

	Nine months ended September 30,	
	2012 (unaudited)	2011 (unaudited)
<b>Cash flows from operating activities:</b>		
Net Income	\$ 19,873	\$ 18,289
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation and Amortization	50,713	44,626
Amortization of deferred financing costs and original issue discount	1,950	1,850
Deferred income tax	3,589	11,789
Provision for bad debts	251	412
(Gain) loss on the disposal of equipment	(82)	44
Non cash share based compensation cost	1,390	1,909
Loss on early extinguishment of debt	12,300	
Increase (decrease) from changes in:		
Accounts receivable	338	(119,091)
Inventories	1,997	(23,674)
Prepaid and other current assets	5,730	2,182
Other noncurrent assets	(734)	295
Accounts payable	5,953	89,579
Accrued expenses	(4,218)	(11,030)
Other noncurrent liabilities	(218)	(589)
Other, net	66	(2,529)
Net cash provided by operating activities	98,898	14,062
<b>Cash flows from investing activities:</b>		
Capital Expenditures	(84,865)	(50,598)
ERP & software expenditures	(2,249)	(1,105)
Proceeds from sale of equipment	464	520
Acquisition		(50)
Long-term investment	(900)	
Contingent payment for acquired business	(131)	(337)
Cash flows related to IU International, net	(27)	(284)
Net cash used in investing activities	(87,708)	(51,854)
<b>Cash flows from financing activities:</b>		
Revolving credit facility borrowing (repayments), net	(159)	3,259
Net proceeds from initial public offering		128,657
Borrowing from noncontrolling interest	2,347	
Repayment of debt	(382,857)	(45,277)
Proceeds from debt issuance, net of original issue discount	300,703	
Contributions from noncontrolling interests	(13,727)	
Payments to acquire noncontrolling interest	(231)	
Debt issuance and termination fees	269	979
Net cash (used in) provided by financing activities	(93,655)	87,618
Effect of exchange rate on cash and cash equivalents	113	(490)

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<b>Cash and cash equivalents:</b>		
Net (decrease) increase in cash	(82,352)	49,336
Cash at beginning of period	108,830	49,492
Cash at end of period	\$ 26,478	\$ 98,828

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

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## TMS INTERNATIONAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

(In thousands of dollars, except share data)

(unaudited)

	TMS International Corp. Common Stock		
	Class A Shares	Class B Shares	Total Shares
<b>Balances, December 31, 2010</b>		4,943,992	4,943,992
Share-based compensation costs			
Issuance of primary shares and recapitalization of existing shares	12,880,000	(2,000,000)	10,880,000
Accumulating dividend on Class A preferred stock			
Conversion of preferred shares		23,384,801	23,384,801
Issuance of restricted stock associated with the IPO		47,180	47,180
Investment of noncontrolling interest			
Net income (loss)			
Other comprehensive income (loss)			
<b>Balances, September 30, 2011</b>	12,880,000	26,375,973	39,255,973
	TMS International Corp. Common Stock		
	Class A Shares	Class B Shares	Total Shares
<b>Balances, December 31, 2011</b>	12,894,333	26,361,640	39,255,973
Share-based compensation costs			
Conversion of shares	1,579,004	(1,579,004)	
Issuance of restricted stock	21,468		21,468
(Acquisition of) Investment by noncontrolling interest			
Net income (loss)			
Other comprehensive income (loss)			
<b>Balances, September 30, 2012</b>	14,494,805	24,782,636	39,277,441

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	TMS International Corp.								
	Common Stock			Accumulated		TMS		Noncontrolling	
	Class	Amount	Par Value	Accumulated Deficit	Other Comprehensive Income (Loss)	Corp. Total	Interest	Total	
<b>Balances, December 31, 2010</b>	\$	\$	\$	\$ (165,717)	\$ (5,502)	\$ (171,219)	\$ 266	\$ (170,953)	
Share-based compensation costs			1,299			1,299		1,299	
Issuance of primary shares and recapitalization of existing shares	13	3	128,639			128,655		128,655	
Accumulating dividend on Class A preferred stock			(11)	(7,147)		(7,158)		(7,158)	
Conversion of preferred shares		23	303,979			304,002		304,002	
Issuance of restricted stock associated with the IPO			613			613		613	
Investment of noncontrolling interest							979	979	
Net income (loss)				18,483		18,483	(194)	18,289	
Other comprehensive income (loss)					(1,216)	(1,216)	(66)	(1,282)	
<b>Balances, September 30, 2011</b>	\$ 13	\$ 26	\$ 434,519	\$ (154,381)	\$ (6,718)	\$ 273,459	\$ 985	\$ 274,444	

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	TMS International Corp.								
	Common Stock			Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	TMS International Corp. Total	Noncontrolling Interest	Total
	Class A	Class B	Amount						
<b>Balances, December 31, 2011</b>	\$ 13	\$ 26	\$ 434,841	\$ (148,232)	\$ (11,075)	\$ 275,573	\$ 1,268	\$ 276,841	
Share-based compensation costs			1,390			1,390		1,390	
Conversion of shares									
Issuance of restricted stock									
(Acquisition of) Investment by noncontrolling interest			(427)			(427)	465	38	
Net income (loss)				20,014		20,014	(141)	19,873	
Other comprehensive income (loss)					3,046	3,046	11	3,057	
<b>Balances, September 30, 2012</b>	\$ 13	\$ 26	\$ 435,804	\$ (128,218)	\$ (8,029)	\$ 299,596	\$ 1,603	\$ 301,199	

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

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**Notes to Unaudited Condensed Consolidated Financial Statements.**

**Note 1 Nature of Operations**

TMS International Corp. (the Company) through its subsidiaries, including TCIMS, is the largest provider of outsourced industrial services to steel mills in North America with a substantial international presence. The Company operates at 80 customer sites in 10 countries and has a raw materials procurement network that extends to five continents. The Company's primary services include: (i) scrap management and preparation, (ii) semi-finished and finished material handling, (iii) metal recovery and slag handling, processing and sales, (iv) surface conditioning, (v) raw materials procurement and logistics and (vi) proprietary software-based raw materials cost optimization.

**Note 2 Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2012 and 2011 are not necessarily indicative of the results that may be expected for future periods. The balance sheet as of December 31, 2011, has been derived from the audited consolidated financial statements at that date, but does not include all the notes required by GAAP for complete financial statements. Certain amounts have been reclassified to conform to current presentation. In the nine-month period ending September 30, 2011, the Company recorded \$1.0 million of Revenue from the Sale of Materials and a \$0.8 million credit to Cost of Raw Materials Shipments related to certain adjustments and a legal settlement of accounts with a trade partner which are not recurring in nature.

In April 2011, the Company completed an initial public offering. In connection with this offering;

the Company amended and restated its certificate of incorporation to create two classes of common stock: Class A Common Stock and Class B Common Stock;

the Company effectuated a 207.4307-for-one stock split of its common stock on April 13, 2011. The stock split has been retroactively reflected in these consolidated financial statements;

the Company's outstanding Class A preferred stock automatically converted into common stock;

the Company granted 47,180 shares of Class B Common Stock under its Restricted Stock Plan;

the Company initially sold 9,200,000 shares of Class A Common Stock and subsequently sold 1,680,000 shares of Class A Common Stock pursuant to an underwriters' overallotment option; and

the stockholders of the Company sold 2,000,000 shares of Class B Common Stock, which converted to Class A Common Stock upon sale.

As a result of the activity in connection with the initial public offering, as of April 19, 2011, the Company had outstanding 39,255,973 shares of common stock. As of November 2, 2012, a total of 39,277,441 shares of common stock were outstanding with 14,494,805 shares designated as Class A Common Stock and 24,782,636 shares designated as Class B Common Stock.

***Offering details and proceeds***

On April 19, 2011, the Company closed an initial public offering selling 9,200,000 shares of Class A Common Stock at \$13.00 per share. The Company received \$111.8 million in net proceeds after deducting the underwriters' commission. In the same initial public offering the Company's

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existing stockholders also sold 2,000,000 shares of Class B Common Stock, which converted to Class A Common Stock upon sale, at \$13.00 per share. On April 29, 2011, the Company sold an additional 1,680,000 shares of Class A Common Stock at \$13.00 per share, generating an additional \$20.4 million as the Company's underwriters exercised their overallotment option. Additionally, the Company incurred \$3.5 million of expenses as a direct result of the initial public offering, which reduced the net proceeds available for use. The Company used \$44.0 million of proceeds from the initial public offering to pay off in full its obligations under the Series 2008 promissory notes. The remaining proceeds have been used for general corporate purposes including funding capital expenditures for new contracts.

### *Amendment to certificate of incorporation and stock split*

On April 5, 2011, prior to its initial public offering, the Company amended and restated its certificate of incorporation creating two classes of common stock: Class A Common Stock and Class B Common Stock. The Company's previously-outstanding shares of common stock, including those issued under the Company's Restricted Stock Plan, were converted into shares of Class B Common Stock. The Company's amended and restated certificate of incorporation also provided for a stock

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split to occur on the date of pricing of the Company's initial public offering. The Company priced the initial public offering on April 13, 2011 at \$13.00 per share and effectuated a 207.4307-for-one stock split of the Class B Common Stock. The stock split has been retroactively reflected in the accompanying consolidated financial statements.

**Restricted Stock Plan grant and accelerated vesting**

In connection with its initial public offering, the Company accelerated vesting of the remaining unvested shares under its Restricted Stock Plan. The remaining 53,105 shares that were unvested at the initial public offering vested upon completion of the initial public offering. As a result of this modification, the Company recorded a \$0.7 million charge in April 2011.

Additionally, the Company granted an additional 47,180 shares of Class B Common Stock under its Restricted Stock Plan concurrently with the initial public offering. Those shares vested immediately and the Company recorded a \$0.6 million charge in April 2011 related to the grant.

**Note 3 Earnings per Share**

The calculation of basic earnings per share for each period is based on the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is calculated using the weighted-average number of common shares plus potential common shares outstanding during the period, but only to the extent that such potential common shares are dilutive. The Company's Class A preferred stock, including the accumulated dividend thereon, automatically converted into 23,384,801 shares of Class B Common Stock on April 19, 2011 upon the Company completing its initial public offering.

The table below reconciles the basic weighted average shares outstanding to the dilutive weighted average shares outstanding for the periods indicated;

	Third quarter ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Basic average common shares outstanding	39,274,874	39,255,973	39,262,343	26,290,157
Dilutive effect of stock options outstanding			429	5,644
Diluted average common shares outstanding	39,274,874	39,255,973	39,262,772	26,295,801

As of September 30, 2012, the Company had outstanding 876,640 options to purchase shares of Class A Common Stock. The dilutive impact of those options is calculated using the treasury stock method.

**Note 4 Inventories**

Inventories consisted of the following (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011
Scrap iron and steel	\$ 27,016	\$ 20,447
Goods in transit	13,506	24,351
Spare parts and supplies	13,778	11,499
Total inventories	\$ 54,300	\$ 56,297

Scrap iron and steel inventories are stated at the lower of cost or net realizable value, with cost being determined using the weighted-average method. During the three months and nine months ended September 30, 2012, due to falling market prices for scrap and scrap substitutes, the Company recorded a charge of \$0.9 million and \$2.3 million, respectively, to record its scrap and steel inventories at their net realizable value.





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The income tax expense for the nine months ended September 30, 2012 and 2011 reflects a year-to-date effective tax rate of 27.3% and 41.8%, respectively, and a 2012 estimated annualized effective tax rate of 28.9%. The income tax expense for the nine months ended September 30, 2012, is based on an estimated annual effective rate, which requires management to make its best estimate of expected pre-tax income for the year. The estimated effective tax rate for 2012 differs from the federal statutory rate of 35.0% due principally to a reduction in the valuation allowance on foreign tax credits due to the expected use of those credits. State taxes, foreign taxes and permanent differences related to nondeductible marketing expenses also contributed to the difference. The estimated rate for 2011 differed from the statutory rate due principally to state taxes, foreign taxes and permanent differences related to nondeductible marketing expenses and foreign deemed dividends.

**Accounting for Uncertainty in Income Taxes**

As of September 30, 2012 and December 31, 2011, the Company has recorded a \$1.2 million and \$1.4 million liability, respectively, for uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The change in the uncertain tax position liability resulted from a statute expiration with a coinciding increase to income. The total amount of interest and penalty recognized related to uncertain tax positions as of September 30, 2012 and 2011 was not material. The tax years 2009-2011 remain open to examination by the major taxing jurisdictions where the Company conducts business.

**Note 6 Debt**

Debt is summarized as follows (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011
ABL facility	\$	\$
Invoice discounting facility		159
Senior secured term loan due 2019, net of original issue discount	295,729	
Senior secured term loan due 2014		157,163
Senior subordinated notes		223,000
Loans from noncontrolling interests	7,440	5,275
Bank term loan facility	3,418	
Capital equipment leases and installment notes	1,704	2,672
<b>Total indebtedness</b>	<b>\$ 308,291</b>	<b>\$ 388,269</b>

Total indebtedness includes the following line items on the condensed consolidated balance sheets (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011
Revolving borrowings	\$	\$ 159
Current portion of long-term debt	4,400	3,585
Long-term debt	296,451	379,250
Loans from noncontrolling interests	7,440	5,275
<b>Total indebtedness</b>	<b>\$ 308,291</b>	<b>\$ 388,269</b>

**2012 Refinancing**

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On March 20, 2012 (the Closing Date), certain subsidiaries of the Company, including TCIMS (as the borrower) and Metal Services Holdco LLC (Metal Services) and Tube City IMS, LLC, as guarantors, entered into a new \$300 million senior secured term loan agreement due in March 2019 (Term Loan Facility).

TCIMS received \$297.0 million in proceeds from the Term Loan Facility which was net of a discount of \$3.0 million, or 1%. On the Closing Date, TCIMS used the proceeds from the Term Loan Facility, combined with available cash and a draw on its revolving credit facility, to extinguish its obligations under its previous senior secured term loan due 2014, which allowed for prepayment without penalty, and to discharge and extinguish its liability under its senior subordinated notes due 2015. To extinguish its liability under the senior subordinated notes, TCIMS deposited \$233.2 million in cash with the senior notes trustee, which was used to fund the repayment of \$223.0 million in outstanding senior notes principal, a \$5.4 million

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redemption premium, \$3.0 million of accrued and unpaid interest through the date of discharge and \$1.8 million of additional interest payable through the redemption date. Upon depositing the funds, TCIMS was discharged from its obligations under the senior notes indenture and received notice of the discharge from the senior notes trustee. The senior notes were redeemed in full on April 19, 2012 using the previously deposited funds.

In connection with the refinancing, the Company incurred a \$12.3 million loss on the early extinguishment of debt which was comprised of the \$5.4 million senior note redemption premium, \$1.8 million of additional interest payable through the redemption date, \$5.0 million to write-off the unamortized deferred issuance costs on the extinguished indebtedness and \$0.1 million in miscellaneous legal and administrative charges.

### ***Asset-Based Revolving Credit Facility***

On December 15, 2011, certain of the Company's subsidiaries, including TCIMS, entered into a new five year, asset-backed, multi-currency revolving credit facility (the ABL facility) with a group of lenders including JP Morgan Chase Bank as administrative agent. The ABL facility permits borrowing up to \$350.0 million in total. The Company's U.S. subsidiaries are permitted to borrow up to the full \$350.0 million limit of the facility. There are separate sub-facilities that allow the Company's Canadian subsidiary to borrow up to \$20.0 million, the Company's U.K. subsidiaries to borrow up to \$10.0 million and the Company's French subsidiaries to borrow up to \$20.0 million. The borrowings on those sub-facilities are available in the local currency of the subsidiaries. The ABL facility also provides for a sub-limit of borrowings on the same-day notice referred to as swingline loans up to \$30.0 million and a sub-limit for the issuance of letters of credit up to \$100.0 million.

There is no scheduled amortization under the ABL facility. The principal amount outstanding will be due and payable in full at maturity, on December 15, 2016. The maximum available commitments under the ABL facility are based on specified percentages of the value of cash, accounts receivable, inventory, equipment and owned real property, less certain ineligible assets and subject to certain customary reserves as may be determined by the agent.

As of September 30, 2012, the eligible accounts receivable, inventory and equipment that comprise the collateral under the ABL facility supported a gross borrowing base of \$242.9 million. At September 30, 2012, there were no borrowings outstanding under the ABL facility and \$8.1 million letters of credit outstanding against the facility, leaving a net available balance of \$234.8 million. The ABL facility allows for eligible equipment to provide borrowing base capacity under the facility and the ABL lenders have a first lien on the domestic and Canadian equipment of the Company. The Company expects to add up to approximately \$75.5 million of equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with agent for the ABL lenders. The Company believes the ABL facility and other sources of liquidity are adequate to fund its operations, but is carefully monitoring the global economic environment and its impact on its customers' procurement volumes, which could affect its liquidity.

The per annum interest rates with respect to loans made under the U.S. dollar and Canadian dollar tranches of the ABL facility are, at the option of TCIMS, (1) the U.S. prime rate of JPMorgan Bank, plus an applicable margin ranging between 0.5% and 1.25%, as determined based on average historical excess availability under the ABL facility or (2) LIBOR, plus an applicable margin ranging between 1.5% and 2.25%, as determined based on average historical excess availability under the ABL facility. The per annum interest rates with respect to loans made under the Pound Sterling and Euro tranches are LIBOR, plus an applicable margin ranging between 1.5% and 2.25%, as determined based on average historical excess availability under the ABL facility.

The Borrowers are required to pay a commitment fee in respect of unused commitments equal to either 0.25% or 0.375% per annum determined based on the average historical unused portion of the commitments under the ABL facility. In addition, the Borrowers pay the agents and issuing banks customary administrative fees and letter of credit fees.

The ABL facility is subject to mandatory prepayment with: (i) 100% of the net cash proceeds of certain asset sales, subject to certain reinvestment rights; (ii) 100% of the net cash proceeds from issuance of debt, other than debt permitted under the ABL facility; and (iii) 100% of net cash proceeds from certain insurance and condemnation payments, subject to certain reinvestment rights.

The commitments may be voluntarily reduced or terminated by TCIMS without premium or penalty subject to certain conditions including customary breakage costs.

TCIMS and the Company's other domestic subsidiaries guarantee the entire ABL facility. The facility is secured, subject to certain exceptions, by a first-priority security interest in substantially all of the U.S. domiciled current assets and related intangible assets of the Company's U.S. subsidiaries. The Company's Canadian, U.K. and French subsidiaries



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guarantee the respective sub-facilities available to them. The individual sub-facilities are secured, subject to certain exceptions, by a first-priority security interest in the current assets of the respective subsidiary. Borrowing base availability for borrowings by our foreign subsidiaries can be provided either by their own current assets or by excess availability under the borrowing base supplied by U.S. assets. However, the U.S. subsidiaries may only borrow against borrowing base supplied by their own assets and may not use collateral support from the foreign subsidiaries who are party to the agreement. The priority of security interests between the lenders under the ABL facility and the lenders under the Term Loan Facility are governed by an intercreditor agreement.

Our ABL facility contains customary negative covenants, including: (1) limitations on indebtedness; (2) limitations on liens and negative pledges; (3) limitations on investments, loans, advances and acquisitions; (4) limitations on capital expenditures; (5) limitations on dividends and other payments in respect of capital stock and payments or repayments of subordinated debt; (6) limitations on mergers, consolidations, liquidations and dissolutions; (7) limitations on sales of assets; (8) limitations on transactions with stockholders and affiliates; (9) limitations on sale and leaseback transactions; and (10) limitations on changes in lines of business. The credit agreement also contains certain customary affirmative covenants.

During each period commencing when the amount available under our ABL facility is less than 10.0% of the total commitments under our ABL facility, and continuing until the amount available under the ABL facility has been greater than 10.0% of the total commitments under our ABL facility for 30 consecutive days, a minimum fixed charge coverage ratio (as defined in the credit agreement) of at least 1.0 to 1.0 will apply. The credit agreement also contains events of default for breach of principal or interest payments, breach of certain representations and warranties, breach of covenants and other customary events of default.

### ***Senior Secured Term Loan due 2019***

The Term Loan Facility replaced TCIMS' existing senior secured term loan credit facility among TCIMS, Metal Services, certain other subsidiaries party thereto, Credit Suisse (a/k/a Credit Suisse AG, Cayman Islands Branch), as administrative agent and collateral agent, and the other agents and lenders party thereto from time to time. No prepayment penalties or fees were assessed in connection with the prepayment of the existing term loan facility, which was due to mature on January 25, 2014.

Obligations of TCIMS under the Term Loan Facility are senior obligations guaranteed by Metal Services and substantially all of TCIMS wholly-owned existing and future direct and indirect U.S. subsidiaries, with certain customary and agreed-upon exceptions. TCIMS and the subsidiary guarantors have pledged substantially all of their assets as security for such obligations, while Metal Services has pledged its shares of capital stock of TCIMS, provided that the security interest in favor of the lenders under the Term Loan Agreement has second priority for such lenders with respect to all collateral securing TCIMS' ABL Facility (including accounts receivable, inventory and certain fixed assets) and first priority with respect to substantially all other pledged assets.

The Term Loan Facility also permits TCIMS to incur incremental borrowings thereunder in an aggregate principal amount equal to the greater of (1) \$75 million and (2) an amount such that, after giving effect to such incremental borrowing, TCIMS will be in pro forma compliance with a total net first lien senior secured leverage ratio of 2.75 to 1.00. Incremental borrowings are uncommitted and the availability thereof will depend on market conditions at the time TCIMS seeks to incur such borrowings.

Commencing on the last business day of June 2012, the Term Loan Facility will amortize in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount thereof, with any remaining balance payable on the final maturity date of the Term Loan Facility, which is March 20, 2019. TCIMS may prepay amounts outstanding under the Term Loan Facility at any time. If such prepayment is made as a result of certain refinancing or repricing transactions within one year following the closing date, TCIMS will be required to pay a fee equal to 1.00% of the principal amount of the obligations so refinanced or repriced. Subject to certain exceptions, the Term Loan Facility requires TCIMS to prepay certain amounts outstanding thereunder with (a) the net cash proceeds of certain asset sales and certain issuances of debt and (b) a percentage of excess cash flow, which percentage is based upon TCIMS' total net first lien senior secured leverage ratio.

Borrowings under the Term Loan Facility bear interest at a rate equal to an applicable margin plus, at TCIMS' option, either (a) a base rate calculated in a customary manner (which will never be less than the adjusted eurodollar rate plus 1%) or (b) an adjusted eurodollar rate calculated in a customary manner (with a floor of 1.25%). The applicable margin is 3.50% per annum with respect to base rate borrowings and 4.50% per annum with respect to eurodollar rate borrowings.

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The Term Loan Facility contains customary negative covenants, including among others: (1) limitations on indebtedness; (2) limitations on liens; (3) limitations on investments, loans, advances and acquisitions; (4) limitations on dividends and other payments in respect of capital stock and payments or repayments of pari passu and subordinated debt; (5) limitations on mergers, consolidations, liquidations and dissolutions; (6) limitations on sales of assets; (7) limitations on transactions with affiliates; (8) limitations on sale and leaseback transactions; and (9) limitations on changes in lines of business. The Term Loan Agreement also contains certain customary affirmative covenants. These negative and affirmative covenants are subject to certain customary and agreed-upon exceptions. The Term Loan Agreement also contains events of default for breach of principal or interest payments, breach of certain representations and warranties, breach of covenants, defaults on other indebtedness, judgment defaults, bankruptcy proceedings and other customary events of default. Certain events of default, including the breach of principal payments and bankruptcy proceedings, result in the immediate termination of commitments under the Term Loan Agreement and all amounts shall become due and payable. Such amounts shall bear the interest rate applicable thereto plus 2.0%.

### ***Loans From Noncontrolling Interest***

In 2011, the Company formed a South African subsidiary with a minority partner. The Company controls the subsidiary through a 75% ownership of the subsidiary's common stock and the results of the subsidiary are consolidated. In addition to its equity funding, the South African subsidiary received proceeds from loans from its shareholders. The loans were made in the same proportion as the equity interest so that the subsidiary received 75% of its shareholder loan funding from the Company. The remaining 25% of the South African subsidiary's shareholder loan funding has been received from the minority partner and is recorded as Loans from noncontrolling interests.

### ***Bank Term Loan Facility***

In addition to equity and loan funding from its shareholders, the Company's South African subsidiary (the South African Subsidiary) has entered into a term loan agreement with a South African bank (Bank term loan facility). The South African Subsidiary received 30.0 million Rand (\$3.6 million USD) in proceeds in the second quarter of 2012 from such loan. The loan carries interest at the South African prime rate minus 0.8% and is payable in South African Rand. The loan is subject to financial covenants based on the results of operations of the South African Subsidiary. The loan is non-recourse to the Company and to any subsidiary or affiliate of the Company other than the South African Subsidiary.

## **Note 7 Derivative Financial Instruments and Fair Values**

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and foreign currency risk. The *Accounting for Derivative Instruments and Hedging Activities* Topic of FASB ASC required all companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position.

### ***Interest Rate Risk***

As part of its overall risk management strategy, the Company attempts to reduce the volatility in cash interest payments associated with its variable rate term debt. TCIMS had entered into interest rate swap agreements swapping its variable rate interest payment for fixed payments to reduce the volatility of cash requirements associated with its variable rate debt. In accordance with the *Accounting for Derivative Instruments and Hedging Activities* Topic of FASB ASC, the Company designated its interest rate swaps as cash flow hedges of variable interest payments. In connection with its debt refinancing on March 20, 2012, the Company terminated its outstanding swap agreements. This termination occurred 10 days before the March 30, 2012 scheduled expiration of the swap agreements.

The effective portion of the gain or loss on the interest rate swaps was reported as a component of other comprehensive income and reclassified into earnings in the same period in which the hedged transaction, the incurrence of variable rate interest, occurred. The variable rates and reset dates of the interest rates swap agreements mirrored the terms of the associated term debt. Accordingly, the hedges were highly effective in mitigating the underlying risk. The Company hedged a total notional amount of \$80.0 million from April 1, 2010 until terminating the agreements on March 20, 2012 as follows (notional amounts in thousands):

	Notional Amount	Fixed Rate	Index Rate	Effective Date	Termination Date
Interest Rate Swap 4	\$ 40,000	2.1675%	1 month LIBOR	April 1, 2010	March 20, 2012
Interest Rate Swap 5	40,000	2.3375%	1 month LIBOR	April 1, 2010	March 20, 2012

Total/average	\$ 80,000	2.2525%
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At the dates indicated, the Company recognized the following fair value liabilities in its consolidated balance sheets related to its interest rate swap agreements designated as cash flow hedging instruments (in thousands):

Derivatives designated as hedging instruments under the <i>Accounting for Derivative Instruments and Hedging</i>	Derivatives Balance Sheet Location	Fair Value	
		September 30, 2012	December 31, 2011
Interest rate swaps	Other noncurrent liabilities	\$	\$ 391

The interest rate swaps that became effective on April 1, 2010 settled on a monthly basis and the Company recorded Interest Expense for cash payments it made to its counterparties.

The Company recognized the following amounts related to its derivatives for the third quarter ended September 30, 2012 and 2011 and for the nine-month periods ending September 30, 2012 and 2011, respectively (in thousands):

Derivatives in SFAS 133 Cash Flow Hedging Relationship	Amount of gain (loss) recognized in OCI on derivative instruments				Location of loss reclassified from accumulated OCI into expense	Amount of loss reclassified from accumulated OCI into expense			
	Third quarter ended		September 30, ended			Third quarter ended		September 30, ended	
	September 30, (Unaudited) 2012	2011	September 30, (Unaudited) 2012	2011		September 30, (Unaudited) 2012	2011	September 30, (Unaudited) 2012	2011
Interest rate swaps	\$	\$ (12)	\$ (7)	\$ (120)	Interest Expense	\$	\$ 258	\$ 247	\$ 756

The amount of gain (loss) recognized in Other Comprehensive Income ( OCI ) on derivatives is net of a deferred tax benefit which was not material.

The volume of the Company's derivative activity is limited. The Company will, from time to time, evaluate its future exposure to variable interest payments and may enter into additional interest rate swap agreements based on its evaluation of that exposure. However, such evaluation is made at infrequent intervals.

The Company is also continuing to increase its international raw materials procurement activities and may encounter transactions where the related purchase and sale of materials are in different currencies. In those cases, the Company will evaluate its exposure and may enter into additional foreign currency forward agreements to protect its margin on those transactions. The Company will also continue to monitor other risks, including risks related to commodity pricing, and, in the future, may use derivative instruments to mitigate those risks as well.

**Note 8 Stockholders' Equity (Deficit)**

**Common Stock** On April 5, 2011, the Company amended and restated its certificate of incorporation creating two classes of common stock: Class A Common Stock and Class B Common Stock. The Company's previously outstanding shares of common stock, including those issued under the Company's Restricted Stock Plan, were converted into Class B Common Stock. On April 13, 2011, in connection with its initial public offering, the Company effectuated a 207.4307-for-one stock split of its common stock. The creation of two classes of common stock and the stock split have been retroactively reflected in these consolidated financial statements. See Note 2 Basis of Presentation.

As of September 30, 2012, there were 14,494,805 shares of Class A Common Stock and 24,782,636 shares of Class B Common Stock outstanding. There were 12,894,333 shares of Class A Common Stock and 26,361,640 outstanding at December 31, 2011.

Holders of the Company's Class B Common Stock consist of current and former employees and affiliates of the Company, including Onex. Pursuant to the Company's Certificate of Incorporation, shares of Class B Common Stock are convertible into Class A Common Stock, on a one-for-one basis, at the option of the holder. Certain stockholders have effected such conversions to allow for the sale or potential future sale of the resulting Class A Shares.

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*Class A Preferred Stock* The Company has 22,000 shares of authorized Class A preferred stock with a par value of \$0.001. On April 19, 2011, in connection with the Company's initial public offering, all of the then outstanding shares of Class A preferred stock automatically converted into Class B Common Stock. There were no shares of Class A preferred stock outstanding at either September 30, 2012 or December 31, 2011.

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The preferred Class A stock had an initial liquidation preference of \$9,900 per share and carried an 8% accumulating, compounding dividend. The accumulated dividends were recorded as an increase to the liquidation value of the redeemable preferred stock and a decrease to capital in excess of par value to the extent available and then as an increase in accumulated deficit. During the nine months ended September 30, 2011, the Company recorded accumulating dividends of \$7.2 million.

**Note 9 Stock Based Compensation***Long Term Incentive Plan Stock Options*

In April 2011, the Company adopted the TMS International Corp. Long-Term Incentive Plan and registered 1,558,170 shares of Class A Common Stock to be available for awards. The plan provides for grants of stock-based awards to key employees and non-employee directors. The Company has had two grants of stock options under the Long Term Incentive Plan. On April 13, 2011, the date of the Company's initial public, the Company granted 519,390 stock options. On April 13, 2012, the Company granted an additional 386,500 stock options. Each grant vests over four years with 10% vesting on the first anniversary date of the grant, 20% on the second anniversary, 30% on the third anniversary and 40% on the fourth anniversary. In addition to the time based vesting requirement, one-half the total grant is also subject to a performance based exercisability requirement: For those options to be exercisable, the share price of the Company's Class A Common Stock must close at 115% or more of the exercise price of the option on the day immediately preceding the exercise of the option. The 2011 grant has an exercise of \$13.00 per option and half the award is exercisable only when the stock price is \$14.95 per share or greater. The 2012 grant has an exercise price of \$11.18 and half the award is exercisable only when the stock price is \$12.86 or greater.

For that portion of the awards that is subject to time based vesting only, the Company used the Black-Scholes option pricing model to value the options. The expected term of grant was determined using a safe harbor calculation provided in SAB 107 for entities without extensive historical data. The term is calculated as the mid-point between the vesting period and the contractual term of the option. The risk free interest rate was determined for each vesting tranche of an award based upon the calculated yield on U.S. Treasury obligations for the expected term of the award. The expected forfeiture rate was estimated based on forfeiture experience in the Company's previous share based compensation plans. The expected volatility was estimated based on the average volatility of the stock price of peer group companies that were identified based on their market capitalization, industry, stage of life cycle and capital structure.

For that portion of the award which is subject to the additional performance based restriction, the Company completed a Monte Carlo simulation which simulates a distribution of stock prices throughout the contractual life of the option. The lookback period for the peer historical volatility used in the model is 10 years, since 10 years of prices must be simulated and the valuation was done in a risk-neutral framework using the 10-year risk-free rate.

The fair value of each type of award was calculated for each individual vesting tranche. The options granted, exercise price, minimum stock price required for exercisability, weighted-average fair value of each type of award, total weighted average fair value of options granted with the assumptions used in determining the fair values is:

	2012 Grant		2011 Grant	
	Time based vesting only	Time based vesting + performance criteria	Time based vesting only	Time based vesting + performance criteria
Options granted	193,250	193,250	259,695	259,695
Exercise price	\$ 11.18	\$ 11.18	\$ 13.00	\$ 13.00
Minimum stock price for exercise	N/A	\$ 12.86	N/A	\$ 14.95
Weighted average fair value of grant	\$ 5.77	\$ 5.73	\$ 6.84	\$ 6.78
Total fair value of options granted (in thousands)	\$ 1,115	\$ 1,107	\$ 1,776	\$ 1,761
Risk-free rate	1.27%	2.08%	2.59%	3.42%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Expected forfeiture rate	2.00%	2.00%	2.00%	2.00%
Expected volatility	52.41%	49.16%	50.87%	48.32%
Expected term in years	6.50	6.59	6.50	6.59



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The Company is recognizing the expense related to the time based only vesting options using the accelerated method. The Company is recognizing the expense related to the performance based options by amortizing each individual tranche over the estimated requisite service period. During the nine-month period ended September 30, 2012, the Company recognized \$1.4 million in share based compensation expense related to the Long Term Incentive Plan.

Of the 386,500 shares of our Class A Common Stock underlying the options in the 2012 grant, 372,400 shares were drawn from the aggregate amount reserved for issuance under the Long-Term Incentive Plan, and the remaining 14,100 shares were drawn from shares underlying options that were issued in the 2011 grant but that were subsequently forfeited and (under the terms of the Long-Term Incentive Plan) became available for re-issuance.

The following tables show the grants and forfeitures of options granted under the Long Term Incentive Plan during the nine months ended September 30, 2012.

Time based vesting only options	Weighted average exercise price per share	Outstanding 12/31/2011	Nine months ended September 30, 2012		Outstanding 09/30/2012
			Granted	Forfeited/Expired	
Grant date					
April 13, 2012	\$ 11.18		193,250	(1,500)	191,750
April 13, 2011	\$ 13.00	253,995		(7,425)	246,570

Time based vesting + performance criteria options	Weighted average exercise price per share	Outstanding 12/31/2011	Nine months ended September 30, 2012		Outstanding 09/30/2012
			Granted	Forfeited/Expired	
Grant date					
April 13, 2012	\$ 11.18		193,250	(1,500)	191,750
April 13, 2011	\$ 13.00	253,995		(7,425)	246,570
<i>Long Term Incentive Plan Restricted Shares</i>					

The Long Term Incentive Plan also provides for the issuance of restricted share units.

On July 11, 2012, the Company granted 21,468 shares of Class A Common Stock to independent members of its board of directors. The shares granted to a director will vest if the recipient remains installed on the Company's board of directors on the day immediately prior to the Company's 2013 annual stockholder meeting. Once vested, the recipient will have the right to sell 40% of the shares immediately, but the remaining 60% will be restricted from sale or transfer for three years after the vesting date. The shares were valued at \$9.54 per share, which was the closing price on the date of grant. The Company recognized \$0.1 million of share based compensation expense related to the award in the third quarter of 2012.

**2007 Restricted Stock Plan**

Effective February 28, 2007, TMS established the TMS International Corp. restricted stock plan and granted 447,228 shares of restricted stock to employees of the Company. On the grant date, 111,807 shares, 25% of the total grant, vested immediately and, so long as the recipients remain actively employed by the Company, the remaining shares were scheduled to vest in even 15% increments on each of the first five anniversary dates of the grant. The Company estimated the restricted shares had a fair value of \$0.48 per share on the grant date based on the amount paid for its common stock during the acquisition of us by Onex. Share based compensation costs for the restricted stock before any modification of the award for the nine months ended September 30, 2012 and 2011 were not material.

On April 13, 2011, in connection with the IPO, the Company accelerated the vesting of the 53,105 shares that had not previously vested under the plan. The acceleration of the vesting was a modification of the plan and required that the fair value, which was the initial public offering price of the Company's common stock, be established on the date of the modification and recorded as an expense. Additionally, on April 13, 2011 the Company granted 47,180 new restricted shares which vested immediately and accordingly the fair value was immediately recognized in the Company's results. The Company recognized \$1.3 million of share based compensation expense associated with its initial public offering for the acceleration of vesting and the new restricted shares issued based on the initial public offering price of \$13.00 per share.

**Note 10 Operating Segments**

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The Company has two reportable operating segments in addition to its administrative group; the Mill Services Group and the Raw Material and Optimization Group. The services provided under the Mill Services Group segment are performed at the Company's customers' sites under long-term contracts. These contracts are typically structured on a fee-per-ton basis tied to production volumes at the Company's customers' sites and are not based on the underlying price of steel. In addition, these contracts typically include tiered pricing structures, with unit prices that increase as volume declines, and/or minimum monthly fees, each of which stabilizes the Company's revenue in the event of volume fluctuations. The services provided to

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the Company's customers under this segment include: (i) scrap management and preparation; (ii) semi-finished and finished material handling; (iii) metal recovery and slag handling, processing and sales; and (iv) surface conditioning. The services provided under the Raw Material and Optimization Group segment include (i) raw materials procurement and logistics and (ii) proprietary software-based raw materials cost optimization.

Information by reportable segment is as follows (in thousands):

	Third quarter ended September 30,		Nine months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
<b>Revenues, net of inter-segment revenues</b>				
Mill Services Group	\$ 164,554	\$ 168,360	\$ 527,222	\$ 495,605
Raw Material and Optimization Group	408,469	540,853	1,462,084	1,548,286
Administrative Group	28	1	58	34
	\$ 573,051	\$ 709,214	\$ 1,989,364	\$ 2,043,925
<b>Adjusted earnings before interest, taxes, depreciation and amortization</b>				
Mill Services Group	\$ 32,000	\$ 29,537	\$ 99,858	\$ 89,507
Raw Material and Optimization Group	13,372	13,254	39,631	39,223
Administrative Group	(9,657)	(8,462)	(29,134)	(26,346)
	\$ 35,715	\$ 34,329	\$ 110,355	\$ 102,384
<b>Depreciation and Amortization</b>				
Mill Services Group	\$ 15,651	\$ 12,765	\$ 44,376	\$ 38,148
Raw Material and Optimization Group	94	112	287	328
Administrative Group	2,010	2,047	6,050	6,150
	\$ 17,755	\$ 14,924	\$ 50,713	\$ 44,626

	September 30, 2012 (unaudited)
<b>Total assets</b>	
Mill Services Group	\$ 673,101
Raw Material and Optimization Group	355,217
Administrative Group	(14,167)
	\$ 1,014,151

	Third quarter ended September 30,		Nine months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
<b>Percentage of total revenue contributed by each Segment:</b>				
Mill Services Group	28.7%	23.7%	26.5%	24.2%

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Raw Material and Optimization Group	71.3%	76.3%	73.5%	75.8%
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The following table provides a reconciliation of earnings before interest, taxes, depreciation and amortization to income before tax for the periods indicated (in thousands):

	Third quarter ended September 30,		Nine months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Adjusted earnings before interest, taxes, depreciation and amortization	\$ 35,715	\$ 34,329	\$ 110,355	\$ 102,384
Less: Depreciation and Amortization	(17,755)	(14,924)	(50,713)	(44,626)
Interest Expense	(5,989)	(7,792)	(20,013)	(24,376)
Share based compensation associated with IPO				(1,304)
Loss on early extinguishment of debt			(12,300)	
Provision for Transition Agreement		(745)		(745)
<b>Income Before Income Taxes</b>	<b>\$ 11,971</b>	<b>\$ 10,868</b>	<b>\$ 27,329</b>	<b>\$ 31,333</b>

**Note 11 Retirement and Pension Plans**

The following table reports net periodic pension costs for the Company and includes the components of net pension expense (benefit) recognized under the *Employers Accounting for Defined Benefit Pensions and Other Post Retirement Benefit Plans* Topic of FASB ASC (in thousands):

	Third quarter ended September 30,		Nine months ended September 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
<b>U.S. plans</b>				
Service cost				
Interest cost	242	234	727	702
Expected return on plan assets	(308)	(342)	(924)	(1,025)
Net amortization	226	128	677	384
<b>Net periodic pension (income) costs-U.S. plans</b>	<b>\$ 160</b>	<b>\$ 20</b>	<b>\$ 480</b>	<b>\$ 61</b>
<b>Canadian plans</b>				
Service cost	53	51	159	153
Interest cost	64	64	190	192
Expected return on plans assets	(51)	(58)	(155)	(174)
Net amortization	9	5	31	15
<b>Net periodic pension costs-Canadian plans</b>	<b>75</b>	<b>62</b>	<b>225</b>	<b>186</b>
<b>Other plans</b>				
Defined contribution	763	676	2,619	2,409
Multi-employer pension plans	1,448	1,336	4,314	3,974
<b>Total other plans</b>	<b>2,211</b>	<b>2,012</b>	<b>6,933</b>	<b>6,383</b>
<b>Total net pension expense</b>	<b>\$ 2,446</b>	<b>\$ 2,094</b>	<b>\$ 7,638</b>	<b>\$ 6,630</b>

The Company's contributions to its defined benefit pension plans for the nine months ended September 30, 2012 and 2011 were \$1.4 million and \$0.8 million, respectively.



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For the full year 2012, the Company estimates that it will make employer contributions to its defined benefit pension plans of approximately \$1.2 million. The following table reports net periodic cost for the Company's other post-employment benefit plans (in thousands):

	Third quarter ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Service cost	\$ 76	\$ 44	\$ 228	\$ 131
Interest cost	78	64	234	192
Net amortization	17		51	
Net periodic costs	\$ 171	\$ 108	\$ 513	\$ 323

The Company does not expect to contribute to the other post-employment benefit plan in 2012 and intends to pay benefit claims as they become due. For the nine months ended September 30, 2012 and 2011, other post-employment benefit payments were \$0.1 million and \$0.1 million, respectively.

**Note 12 Fair Value of Financial Instruments**

The carrying amount of cash and equivalents, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company's obligations under its ABL facility, Term Loan and bank term loan facility all have variable interest rates and, in our opinion, the carrying value approximates the fair value at the balance sheet dates. The fair value of the Company's senior subordinated notes is based on quoted market prices; however, the senior subordinated notes are thinly traded. The fair value of the Company's capital equipment leases has been estimated based on future expected cash flows relative to current interest rates.

The fair value compared to the carrying value is summarized as follows (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011
Carrying value of financial instruments in:		
Accrued expenses		
Interest rate swaps	\$	\$ 391
Long-term debt (includes current portion)		
Senior secured term loan	\$	\$ 157,163
Senior subordinated notes		223,000
New Senior Secured Term Loan	295,729	
Bank term loan facility	3,418	
Capital equipment leases and other	9,144	7,947
Total long-term debt	\$ 308,291	\$ 388,110
Fair value:		
Accrued expenses		
Interest rate swaps	\$	\$ 391
Long-term debt (includes current portion)		
Senior secured term loan	\$	\$ 157,163
Senior subordinated notes		224,673
New Senior Secured Term Loan	295,729	
Bank term loan facility	3,418	
Capital equipment leases and other	9,144	7,947

Total long-term debt	\$ 308,291	\$ 389,783
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**Note 13 Commitments and Contingencies**

Two non-operating subsidiaries of a predecessor company, along with a landfill and waste management business, were spun-off to our former stockholders in October 2002. The two former subsidiaries were subject to asbestos-related personal injury claims. We believe that the Company has no obligation for asbestos-related claims regarding the spun-off subsidiaries. In addition, the Company has been named as a defendant in certain asbestos-related claims relating to lines of business that were discontinued over 20 years ago. We believe that the Company is sufficiently protected by insurance with respect to these asbestos-related claims related to these former lines of business, and we do not believe that the ultimate outcome will have a material adverse effect on the Company's financial position, results of operations or cash flows.

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The Company is a party to other lawsuits, litigation and proceedings arising in the normal course of business, including but not limited to regulatory, commercial and personal injury matters. While the precise amount of loss, if any, is not presently determinable, the Company does not believe that the final outcome of these matters will have a material adverse effect on the Company's financial position or results of operations or cash flows.

The Company has agreements with certain officers and other employees of the Company. The agreements provide for termination benefits in the event of termination without cause, or in some instances, in the event of a change in control of the Company. The aggregate commitment for such potential future benefits at September 30, 2012 was approximately \$8.8 million.

### **Note 14 Commercial Arbitration Award**

On March 28, 2011, the Company was awarded \$13.2 million against a former customer in a commercial arbitration case brought under the parties' service agreement. The basis for the Company's claims was the refusal of the customer to negotiate required price increases based on its change of practices and the customer's wrongful unilateral early termination of the agreement. The Company considers the arbitration award a contingent gain and therefore did not record a gain for the full amount of the award, but recorded income when the proceeds from the award were constructively received.

The former customer and its parent entity were sold pursuant to a stock sale to a buyer ( Buyer Entities ) following the dispute and subsequent to the arbitration award. Following the purchase by the Buyer Entities, in April 2011, the Company petitioned the arbitrator for fees and costs in the amount of \$3.1 million. In July 2011, the Company entered into a scrap purchase agreement with the Buyer Entities, and in August 2011, the Company and the Buyer Entities entered into a payment agreement pursuant to which the Buyer Entities agreed to pay the Company \$15.0 million in respect of the arbitration award and the Company's fees and costs, which represented a discount of \$1.2 million against the total amount of the award, costs and expenses. Pursuant to the agreement, the discount would only be applied if the \$15.0 million was paid in full by June 30, 2012. The Buyer Entities did not pay the agreed \$15.0 million in full by June 30, 2012. The Buyer Entities had been making payments against the award partially by committed cash payments and the balance by credits against the transfer of various scrap metal commodities from the Buyer Entities to the Company at mutually agreed values under the scrap purchase agreement.

On May 31, 2012, the Buyer Entities and various other subsidiaries and affiliates filed for protection under the U.S. Bankruptcy Code. At that date, the remaining balance of the arbitration award plus fees and costs, as restated to \$16.3 million based on the loss of the discount owed to the Company, was \$4.8 million. That balance is an unsecured claim in the bankruptcy proceedings of the Buyer Entities. The Company does not expect to recognize any further income from this award, and certain payments previously received from the Buyer Entities under the award may be subject to normal course preference claims or other avoidance actions during bankruptcy proceedings. The amount and validity of any such claims, if made, cannot yet be determined. Accordingly, the Company has not reserved for any potential avoidance actions.

During the three months ended September 30, 2012 the Company recognized no benefit from the arbitration award. During the three months ended September 30, 2011, the Company recorded \$2.8 million against the arbitration award for cash payments and for the value of scrap commodities transferred to the Company by the Buyer Entities in lieu of cash payments and the Company incurred contingent legal fees related to the arbitration award of \$0.4 million. The fees were recognized in selling, general and administrative expense.

During the nine months ended September 30, 2012 and September 30, 2011, the Company recorded \$5.1 million and \$3.8 million, respectively, against the arbitration award and incurred contingent legal fees of \$1.0 million and \$0.6 million, respectively.

### **Note 15 Related-Party Transactions**

The Company's series 2008 promissory notes were issued to Onex, members of the Company's senior management team, its board of directors and certain other employees who also have an equity interest in the Company. The holders earned interest on those notes totaling \$1.0 million in 2011. The notes were redeemed in April 2011 in connection with the Company's initial public offering.

The Company incurred and paid management fees and expenses incurred to an affiliate of its majority owner, Onex Partners II LP, totaling \$0.8 million and \$0.8 million for the nine months ended September 30, 2012 and 2011, respectively. The third quarter 2012 and 2011 amounts incurred were \$0.3 and \$0.3, respectively.

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**Note 16 Recent Accounting Pronouncements**

During the second quarter of 2011, the FASB issued guidance that provides two alternatives for the presentation of other comprehensive income, either (i) present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income or (ii) present items of other comprehensive income in a separate statement immediately following the statement of net income. Under either presentation method, amounts reclassified from other comprehensive income to net income and totals for net income, other comprehensive income, and comprehensive income will be presented. This guidance does not change the items that are reported in net income and other comprehensive income or the calculation of earnings per share. The guidance is effective for the Company on January 1, 2012, and retrospective application is required for all years presented. Early adoption is permitted. The adoption is not expected to have a material impact on the consolidated financial statements.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our consolidated results of operations, financial condition and liquidity should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Quarterly Report. The following discussion contains forward-looking statements that reflect our current expectations, estimates, forecast and projections. These forward-looking statements are not guarantees of future performance, and actual outcomes and results may differ materially from those expressed in these forward-looking statements. See Risk Factors and Forward-Looking Statements.*

#### **Introduction**

The following discussion is provided to supplement the consolidated financial statements and the related notes included in Part 1, Item 1 of this Quarterly Report to help provide an understanding of our financial condition, changes in financial condition and results of our operations, and is organized as follows:

*Company Overview.* This section provides a general description of our business in order to better understand our financial condition and results of operations and to anticipate future trends and risks in our business.

*Certain Line Items Presented.* This section provides an explanation of certain GAAP line items that are presented in our consolidated financial statements included in this Quarterly Report. These line items are discussed in detail under the heading Results of Operations below for the periods presented.

*Key Measures We Use to Evaluate Our Company.* This section provides an overview of certain non-GAAP measures that we believe are critical to understand in order to evaluate and assess our business. These are the measures that management utilizes most to assess our results of operations, anticipate future trends and risks and determine compensation levels, including under our management bonus plan.

*Application of Critical Accounting Policies.* This section discusses the accounting policies and estimates that we consider important to our financial condition and results of operations and that require significant judgment and estimates on the part of management in their application.

*Results of Operations.* This section provides a discussion of our results of operations for the third quarter and nine-month period ended September 30, 2012 compared to the third quarter and nine-month period ended September 30, 2011.

*Liquidity and Capital Resources.* This section provides an analysis of our cash flows for the nine-month period ending September 30, 2012 compared to the nine-month period ended September 30, 2011. This section also includes a discussion of our liquidity and Capital Expenditures.

#### **Company Overview**

We are the largest provider of outsourced industrial services to steel mills in North America as measured by revenue and have a substantial and growing international presence. We offer the most comprehensive suite of outsourced industrial services to the steel industry. Our employees and equipment are embedded at customer sites and are integral throughout the steel production process other than steel making itself. Our services are critical to our customers' 24-hour-a-day operations, enabling them to generate substantial operational efficiencies and cost savings while focusing on their core business of steel making. We operate at 80 customer sites in 10 countries across North America, Europe, Latin America, and the Middle East and our global raw materials procurement network spans five continents. Over the past 80 years we have established long-standing customer relationships and have served our top 10 customers, on average, for over 34 years. Our diversified customer base includes 12 of the top 15 largest global steel producers, including United States Steel, ArcelorMittal, Gerdau, Nucor, Baosteel, POSCO and Tata Steel.

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We provide a broad range of services through two reporting segments: our Mill Services Group and our Raw Material and Optimization Group:

*Mill Services Group.* The services provided under this segment are performed at our customer sites under long-term contracts. These contracts are typically structured on a fee-per-ton basis tied to production volumes at our customer sites and are not based on the underlying price of steel. In addition, our contracts typically include tiered pricing structures, with unit prices that increase as volumes decline, and/or minimum monthly fees, each of which stabilizes our revenue in the event of volume fluctuations. The services provided to our customers under this segment include: (1) scrap management and preparation; (2) semi-finished and finished material handling; (3) metal recovery and slag handling, processing and sales; and (4) surface conditioning. The revenues from these services appear in the line item *Service Revenue* on our statement of operations, and the costs associated therewith appear in *Site Operating Costs* on our statement of operations. Substantially all of our Capital Expenditures, whether Growth Capital Expenditures or Maintenance Capital Expenditures, are incurred in connection with the services provided by this segment. This segment also includes the results of operations at our location where we buy, process and sell scrap for our own account, which revenues appear in the line item *Revenue from Sale of Materials* on our statement of operations and the costs associated therewith appear in *Cost of Raw Materials Shipments* on our statement of operations. The Total Revenue and Cost of Raw Materials Shipments from this location will fluctuate based upon the underlying price of scrap.

*Raw Material and Optimization Group.* The services provided under this segment include: (1) raw materials procurement and logistics; and (2) proprietary software-based raw materials cost optimization. Revenues for the raw materials procurement and logistics services we provide are primarily generated pursuant to two alternative transaction models: (1) a contractually determined, volume-based fee for arranging delivery of raw materials shipments to a customer directly from a vendor with no price or inventory risk; or (2) a generally concurrent arrangement to purchase for our own account and sell raw materials at specified prices, typically locking in a margin with minimal price or inventory risk. In addition, we occasionally take measured market risk in connection with our raw materials procurement services by either purchasing raw materials at a fixed price without an immediate corresponding sale order or agreeing to sell raw materials at a fixed price before having procured such materials. The revenues from our raw materials procurement and logistics services appear in the line item *Revenue from Sale of Materials* and the related costs appear in the line item *Cost of Raw Materials Shipments* on our statement of operations. Our earnings are primarily driven by the steel production volumes of our customers rather than by the prices of steel or raw materials. We subtract the Cost of Raw Materials Shipments from Revenue from Sale of Materials, because market prices of the raw materials we procure for and generally concurrently sell to our customers are offset on our statement of operations. By subtracting the Cost of Raw Materials Shipments, we isolate the margin that we make on our raw materials procurement and logistics services, and we are better able to evaluate our performance in terms of the volume of raw materials we procure for our customers and the margin we generate. We refer to this measure as *Revenue After Raw Materials Costs*, which is a non-GAAP financial measure that we believe is critical in order to assess and evaluate our business. For additional information on Revenue After Raw Materials Costs, see *Key Measures We Use to Evaluate Our Company Revenue After Raw Materials Costs* below.

The vast majority of our Revenue After Raw Materials Costs and profitability is tied to our customers' production volumes. Factors that impact a steel mill's production levels include general economic conditions, North American and global demand for steel, competition and competitive pricing, and the relative strength of the U.S. dollar.

Over the last five years, we have expanded from primarily generating our Revenue After Raw Materials Costs and Adjusted EBITDA from North America, to generating approximately 26% and 24% of our year to date 2012 Revenue After Raw Materials Costs and Adjusted EBITDA, respectively, internationally. We believe we have substantial international growth opportunities which will be driven by expansion of our market share and continued growth in outsourcing in developing markets, such as Latin America, Eastern Europe, Asia and the Middle East.

### ***Initial Public Offering***

#### ***Offering details and proceeds***

In April 2011 we completed an initial public offering of 12,880,000 shares of our Class A Common Stock. A registration statement relating to these securities (File No. 333-166807) was filed with the Securities and Exchange Commission and declared effective on April 8, 2011. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC were the joint book runners for the initial public offering. On





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April 19, 2011, we issued and sold 9,200,000 shares of Class A Common Stock and certain of our stockholders sold 2,000,000 shares of Class A Common Stock. The shares were sold at a public offering price of \$13.00 per share, with an aggregate public offering price of \$145.6 million. The underwriting discount was \$0.845 per share, or \$9.5 million in total. The initial public offering generated \$111.8 million of proceeds to us before expenses and \$24.3 million of proceeds to the selling stockholders before expenses. We did not receive any proceeds from the sale of Class A Common Stock by the selling stockholders.

We used \$44.0 million of proceeds from the initial public offering to pay off in full our obligations under the series 2008 promissory notes. The remaining proceeds were retained for general corporate purposes.

On April 29, 2011, we completed the sale of an additional 1,680,000 shares of Class A Common Stock pursuant to the underwriters overallotment option. The shares were sold at a public offering price of \$13.00 per share, with an aggregate public offering price of \$21.8 million. After deducting the underwriting discount of \$0.845 per share, or \$1.4 million in total, we realized \$20.4 million of proceeds before expenses.

Through December 31, 2010, we had incurred \$1.8 million of incremental costs related directly to the initial public offering. Those costs were recorded as a prepaid asset at December 31, 2010. In 2011, we incurred \$1.7 million of additional incremental costs related directly to the initial public offering. After deducting the total incremental costs the initial public offering generated net proceeds to us of \$128.7 million.

In connection with the initial public offering, our Class A preferred stock automatically converted into 23,384,801 shares of Class B Common Stock. Immediately following our initial public offering, including the related stock split and conversion of series A preferred stock, we had outstanding 39,255,973 shares of common stock of which 12,880,000 shares were Class A Common Stock and 26,375,973 shares were Class B Common Stock.

### *Amendment to certificate of incorporation and stock split*

On April 5, 2011, in connection with but prior to our initial public offering, we amended and restated our certificate of incorporation creating two classes of common stock: Class A Common Stock and Class B Common Stock. Our previously-outstanding shares of common stock, including those issued under the restricted stock plan, were converted into shares of Class B Common Stock. The amended and restated certificate of incorporation also provided for a stock split to occur on the date of pricing of the Company's initial public offering. We priced an initial public offering on April 13, 2011 at \$13.00 per share and effectuated a 207.4307-for-one stock split of our common stock.

### *Restricted Stock Plan grant and accelerated vesting*

Also in connection with the initial public offering, we accelerated vesting of the remaining unvested shares under our restricted stock plan. The remaining 53,105 shares of restricted stock that were unvested at the initial public offering, vested upon completion of the initial public offering. As a result of this modification, we recorded a \$0.7 million charge in April 2011. We also granted an additional 47,180 shares under the restricted stock plan concurrently with the initial public offering. Those shares vested immediately and we recorded a \$0.6 million charge in April 2011 related to the grant.

### *Long Term Incentive Plan*

Also in connection with the IPO, we established our Long Term Incentive Plan and reserved 1,558,170 shares for issuance under that plan. On April 19, 2011, we awarded options to purchase 519,390 shares of Class A Common Stock, subject to vesting conditions, at an exercise price of \$13.00 per share, the public offering price for shares sold in our initial public offering.

## **Certain Line Items Presented**

*Revenue from Sale of Materials.* Revenue from Sale of Materials is generated by each of our two operating segments as follows:

Our Mill Services Group generates Revenue from Sale of Materials by buying, processing, and selling scrap for our own account.

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Our Raw Material and Optimization Group primarily generates Revenue from Sale of Materials through raw materials procurement activities using two alternative transaction models. In the first type we take no title to the materials being procured and we record only our commission as revenue; in the second type, we take title to the material and sell it to a buyer, typically in a transaction where a buyer and seller are matched, and we record Revenue from Sale of Materials for the full value of the material based on the amount we invoice to our customer.

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In the first nine months of 2012, approximately 8% of our Revenue from Sale of Materials was generated by our Mill Services Group, and approximately 92% of our Revenue from Sale of Materials was generated by the raw materials procurement activities of our Raw Material and Optimization Group.

*Service Revenue.* Service Revenue is generated from our two operating segments as follows:

Our Mill Services Group generates Service Revenue from the services we provide to customers at their sites. This Service Revenue is generated from a combination of: (1) contractually committed base monthly fees; (2) fees for services based on customer production volumes; and (3) revenue from the sale of steel manufacturing co-products sold for our own account, less a royalty fee paid to the host mill.

Our Raw Material and Optimization Group generates Service Revenue by providing our proprietary software-based raw materials cost optimization service, which calculates the lowest cost blend of raw materials necessary to make a customer's specified chemistry of steel. We typically charge an optimization service fee for each ton of scrap used in steel manufacturing.

In the first nine months of 2012, approximately 99% of our Service Revenue was generated by our Mill Services Group, and approximately 1% of our Service Revenue was generated by our Raw Material and Optimization Group.

*Cost of Raw Materials Shipments.* The activities that generate Revenue from Sale of Materials also incur Cost of Raw Materials Shipments, and are described as follows:

Our Mill Services Group generates Revenue from Sale of Materials by buying, processing and selling scrap for our own account. We record the cost of the purchase of raw materials as Cost of Raw Materials Shipments.

Our Raw Material and Optimization Group generates Revenue from Sale of Materials through our raw materials procurement activities. When we arrange to purchase and sell scrap and other raw materials, the cost of such materials purchased and other direct costs including transportation are recorded as Cost of Raw Materials Shipments.

*Site Operating Costs.* Our Site Operating Costs are highly variable and largely correlated to the volume of steel produced at our customer sites. Site Operating Costs are predominantly incurred by our Mill Services Group and consist of employees' wages, employee benefits, costs of operating supplies such as fuels and lubricants, repair and maintenance costs and equipment leasing costs.

*Selling, General and Administrative Expenses.* Our Selling, General and Administrative Expenses consist of labor and related costs of selling and administration, professional fees, insurance costs, management fees, bad debt costs, bank fees and corporate expenses and bonuses.

*Depreciation and Amortization.* Our consolidated Depreciation consists of depreciation expenses related to property, plant and equipment. Our consolidated Amortization consists of amortization expenses related to finite life intangibles such as environmental permits, customer related intangibles, patents and unpatented technology, in each case recognized on a straight-line basis over the estimated useful life of the asset.

*Income (Loss) from Operations.* Income (Loss) from Operations consists of Total Revenue less Total Costs and Expenses but does not include Interest Expense, Net.

## **Key Measures We Use to Evaluate Our Company**

In addition to the GAAP line items described above, we also use the following additional financial measures to evaluate and assess our business:

*Revenue After Raw Materials Costs.* We measure our sales volume on the basis of Revenue After Raw Materials Costs, which we define as Total Revenue minus Cost of Raw Materials Shipments. Revenue After Raw Materials Costs is not a recognized financial measure under GAAP, but we believe it is useful in measuring our operating performance because it excludes the fluctuations in the market prices of the raw materials we procure for and sell to our customers. We subtract the Cost of Raw Materials Shipments from Total Revenue because market prices of the raw

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materials we procure for and generally concurrently sell to our customers are offset on our statement of operations. Further, in our raw materials procurement business, we generally engage in two alternative types of transactions that require different accounting treatments for Total Revenue. In the first type, we take no title to the materials being procured and we record only our commission as revenue; in the second type, we take title to the materials and sell it to a buyer, typically in a transaction where a buyer and seller are matched. By subtracting the Cost of Raw Materials Shipments, we isolate the margin that we make on our raw materials procurement and logistics services, and we are better able to evaluate our operating performance in terms of the volume of raw materials we procure for our customers and the margin we generate.

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*Adjusted EBITDA.* Adjusted EBITDA is not a recognized financial measure under GAAP, but we believe it is useful in measuring our operating performance. Adjusted EBITDA is used internally to determine our incentive compensation levels, including under our management bonus plan, and it is required, with some additional adjustments, in certain covenant compliance calculations under our senior secured credit facilities. We also use Adjusted EBITDA to benchmark the performance of our business against expected results, to analyze year-over-year trends and to compare our operating performance to that of our competitors. We also use Adjusted EBITDA as a performance measure because it excludes the impact of tax provisions and Depreciation and Amortization, which are difficult to compare across periods due to the impact of accounting for business combinations and the impact of tax net operating losses on cash taxes paid. In addition, we use Adjusted EBITDA as a performance measure of our operating segments in accordance with ASC Topic 280, *Disclosures About Segments of an Enterprise and Related Information*. We believe that the presentation of Adjusted EBITDA enhances our investors' overall understanding of the financial performance of and prospects for our business.

*Adjusted EBITDA Margin.* Adjusted EBITDA Margin is not a recognized financial measure under GAAP, but we believe it is useful in measuring our operating performance. We calculate Adjusted EBITDA Margin by dividing our Adjusted EBITDA by our Revenue After Raw Materials Costs. We use Adjusted EBITDA Margin to measure our profitability and our control of cash operating costs relative to Revenue After Raw Materials Costs.

*Capital Expenditures.* We separate our Capital Expenditures into two categories: (1) Growth Capital Expenditures and (2) Maintenance Capital Expenditures. We separate our Capital Expenditures between these two categories because it helps us to differentiate between the discretionary cash we invest in our growth and the cash required to maintain our existing business. Growth Capital Expenditures and Maintenance Capital Expenditures are not recognized financial measures under GAAP, but we believe they are useful in measuring our operating performance. We also use these measures as a component in determining our performance-based compensation.

Growth Capital Expenditures relate to the establishment of our operations at new customer sites, the performance of additional services or significant productivity improvements at existing customer sites. We incur Growth Capital Expenditures when we win a new contract. Our Mill Services Group contracts generally require that we acquire the capital equipment necessary to provide the service in advance of receiving revenue from the contract.

We incur Maintenance Capital Expenditures as part of our ongoing operations. Maintenance Capital Expenditures generally include: (1) the cost of normal replacement of capital equipment used at existing customer sites on existing contracts; (2) any additional capital expenditures made in connection with the extension of an existing contract; and (3) any capital costs associated with acquiring previously leased equipment. We generally replace our equipment on a schedule that is based on the operating hours of that equipment. We expect Maintenance Capital Expenditures to be greater in periods where our customers' production volumes are high, requiring us to operate more hours. Conversely, when our customers are producing less, we would expect fewer operating hours and reduced Maintenance Capital Expenditures.

*Discretionary Cash Flow.* Discretionary Cash Flow is not a recognized financial measure under GAAP. We calculate Discretionary Cash Flow as our Adjusted EBITDA minus our Maintenance Capital Expenditures, and we believe it is an important measure in analyzing our liquidity. In combination with our available liquidity, we use our Discretionary Cash Flow to assist us in determining our capacity to: (1) invest in Growth Capital Expenditures; (2) finance changes in our working capital, particularly in our raw materials procurement activities; and (3) voluntarily repay portions of our debt obligations. In addition, we use this measure to help determine how efficiently we are managing our assets, and we also use it as a component in determining our performance-based compensation. The term Discretionary Cash Flow used in this quarterly report replaces the term Free Cash Flow used by us in certain prior reports.

### **Application of Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions in applying our critical accounting policies that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. We continually evaluate our judgments and estimates in determining our financial condition and operating results. Estimates are based upon information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and operating results and require management's most subjective judgments. The most critical accounting policies and estimates are described below.

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*Revenue Recognition.* Revenue includes two categories: (1) Revenue from Sale of Materials and (2) Service Revenue.

Revenue from Sale of Materials is mainly generated by our raw materials procurement business, although it also includes revenue from our Mill Services Group location where we buy, process and sell scrap for our own account. We recognize Revenue from Sale of Materials when title and risk of loss pass to the customer, which is determined by the terms of the sale.

We generate Service Revenue from scrap management, scrap preparation, raw materials optimization, metal recovery and sales, material handling or product handling, slag processing and metal recovery services, surface conditioning and other services. We recognize revenue when we perform the service or when title and risk of loss pass to the buyer.

In our raw materials procurement business, we generally engage in two types of transactions that require different accounting treatment. For certain transactions, we facilitate the purchase or sale of raw materials between a buyer and seller for a volume-based commission. The seller assumes the credit risk after delivery. At no point in the transaction do we take title to or assume the risk of loss of the material. We record only the commission as revenue on these transactions.

For other raw materials procurement transactions, we purchase the material from a seller and sell it to a buyer. In these transactions, we take title to the material and assume the risk of loss for some period of time, usually during transit between the seller and the buyer for F.O.B. destination sales. While we take steps to mitigate credit loss exposure, we also assume credit risk for the full amount billed to the customer. In these transactions, we record Revenue from Sale of Materials for the full value of the material based on the amount we invoice to our customer.

*Trade Receivables.* We perform ongoing credit evaluations of our customers and generally do not require our customers to post collateral, although we typically require letters of credit or other credit assurances in our raw materials procurement business for international transactions. Account balances outstanding longer than the payment terms are considered past due and provisions are made for estimated uncollectible receivables. Our estimates are based on historical collection experience, a review of the current status of receivables, our judgment of the credit quality of our customer and the condition of the general economy and the industry. Decisions to charge off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts.

*Property, Plant and Equipment.* Property, plant and equipment are recorded at cost less accumulated depreciation. Costs in connection with business combinations are based on fair market value at the time of acquisition. Major components of certain high value equipment are recorded as separate assets with depreciable lives determined independently from the remainder of the asset. Expenditures that extend the useful lives of existing plant and equipment are capitalized, while expenditures for repairs and maintenance that do not extend the useful lives or improve productivity of the related assets are charged to expenses as incurred. The cost of property, plant and equipment retired or otherwise disposed of and the related accumulated depreciation are removed from our accounts, and any resulting gain or loss is reflected in current operations.

Depreciation of property, plant and equipment is computed principally on the straight-line method over the estimated useful lives of assets.

*Goodwill and Other Intangible Assets.* Goodwill and other indefinite life intangible assets not subject to amortization are recorded at the lower of cost or implied fair value. Finite life intangible assets subject to amortization are recorded at cost less accumulated amortization provided on a straight-line basis over the intangible assets' estimated useful lives. Goodwill and indefinite life intangibles are evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. ASC Topic 350, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment evaluation used to identify potential impairment compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired, and the second step of the impairment evaluation is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step of the evaluation must be performed to measure the goodwill impairment loss, if any. The second step of the evaluation compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill so calculated, an impairment loss is recognized in an amount equal to the excess.

*Impairment of Long-Lived Assets.* Long-lived assets, including property, plant and equipment and amortizable intangible assets, are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Impairment is assessed when the undiscounted expected cash flow derived from an asset is less than its recorded amount. Impairment losses are measured as the amount by which the carrying value of





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an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment evaluation, the undiscounted cash flow used to assess impairments and the fair value of an impaired asset.

*Foreign Currency Translation.* The financial statements of our foreign subsidiaries are generally measured using the local currency as the functional currency. Assets and liabilities of our foreign subsidiaries are translated at the exchange rate as of the balance sheet date. Resulting translation adjustments are recorded in the cumulative translation adjustment account, a separate component of other comprehensive income (loss). Income and expense items are translated at average monthly exchange rates.

*Health Insurance.* We provide health insurance to a portion of our employees through premium-based indemnity plans or nationalized health care plans that may require employer contributions. We provide health insurance to the rest of our employees under a self-insurance plan that uses a third-party administrator to process and administer claims. We have stop-loss coverage through an insurer, in excess of a stated self-insured limit per employee. We maintain an accrual for unpaid claims and claims incurred but not reported. In March 2010, the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act were signed into law. We are currently evaluating the impact of this comprehensive legislation on our self-insured health plans and our business, financial condition and results of operations.

*Workers Compensation.* We self-insure our workers compensation insurance under a large deductible program. Under this program, the maximum exposure per claim is \$1.0 million and stop-loss coverage is maintained for amounts above this limit. The aggregate maximum exposure is limited to a percentage of payroll for each open policy. We accrue for this expense in amounts that include estimates for incurred but not reported claims, as well as estimates for the ultimate cost of all known claims.

*Share-Based Compensation.* We established our Long-Term Incentive Plan in 2011. On April 13, 2011, we issued options to purchase 519,390 shares of our Class A Common Stock. ASC Topic 780 requires that share based payments be accounted for at their fair value on the date of grant or the date of the modification of a grant. The options granted in 2011 had a grant date fair value of \$3.5 million and the expense is being recognized over the requisite service period of the recipients. On April 13, 2012 we issued additional options to purchase 386,500 shares of our Class A Common Stock. The options granted in 2012 had a grant date fair value of \$2.2 million and the expense is recognized over the requisite service period.

The Long-Term Incentive Plan also provides for the issuance of restricted shares. In July 2012, we issued 21,486 shares of Class A Common Stock to independent members of our board of directors. The grant date fair value of the shares was \$0.2 million and the expense is being recognized over the requisite service period.

We adopted our Restricted Stock Plan in 2007. Under the plan, 25% of the shares granted vested immediately and the remainder were scheduled to vest in five annual equal installments, on the anniversary of the grant date, so long as the recipient remained an employee. Unvested shares that had not been forfeited were accelerated and vested upon completion of our initial public stock offering. On April 13, 2011, in connection with our IPO, we recognized \$0.7 million related to the accelerated vesting of 53,105 previously issued restricted shares. We also recognized \$0.6 million of expense related to 47,180 shares that were newly issued in connection with the IPO and vested immediately. The total of \$1.3 million was recognized as Share based compensation associated with initial public offering.

**Results of Operations**

***Quarter ended September 30, 2012 compared to Quarter ended September 30, 2011***

The following table sets forth each of the line items in our statement of operations for each of the periods indicated and the changes between the periods in terms of dollar amounts and percentage changes. The table also provides a reconciliation of Total Revenue to Revenue after Raw Materials Costs for each of the periods presented.

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(dollars in thousands)	Quarter ended September 30,		Variances	
	2012 (unaudited)	2011	\$	%
<b>Statement of Operations Data:</b>				
Revenue:				
Revenue from Sale of Materials	\$ 443,003	\$ 589,146	\$ (146,143)	-24.8%
Service Revenue	130,048	120,068	9,980	8.3%
<b>Total Revenue</b>	<b>573,051</b>	<b>709,214</b>	<b>(136,163)</b>	<b>-19.2%</b>
Costs and expenses:				
Cost of Raw Materials Shipments	424,087	569,911	(145,824)	-25.6%
Site Operating Costs	96,759	90,963	5,796	6.4%
Selling, General and Administrative Expenses	16,490	14,011	2,479	17.7%
Share based compensation associated with initial public offering				
Provision for Transitional Agreement		745	(745)	
Depreciation and Amortization	17,755	14,924	2,831	19.0%
<b>Total costs and expenses</b>	<b>555,091</b>	<b>690,554</b>	<b>(135,463)</b>	<b>-19.6%</b>
Income from Operations	17,960	18,660	(700)	-3.8%
Interest Expense, Net	(5,989)	(7,792)	1,803	-23.1%
Income Before Income Taxes	11,971	10,868	1,103	10.1%
Income Tax Expense	(1,920)	(4,497)	2,577	-57.3%
<b>Net Income</b>	<b>\$ 10,051</b>	<b>\$ 6,371</b>	<b>\$ 3,680</b>	<b>57.8%</b>
<b>Other Financial Data:</b>				
Revenue After Raw Materials Costs:				
<b>Consolidated:</b>				
Total Revenue	\$ 573,051	\$ 709,214	\$ (136,163)	
Cost of Raw Materials Shipments	(424,087)	(569,911)	145,824	
<b>Revenue After Raw Materials Costs</b>	<b>\$ 148,964</b>	<b>\$ 139,303</b>	<b>\$ 9,661</b>	<b>6.9%</b>
<b>Mill Services Group:</b>				
Total Revenue	\$ 164,554	\$ 168,360	\$ (3,806)	
Cost of Raw Materials Shipments	(33,593)	(46,317)	12,724	
<b>Revenue After Raw Materials Costs</b>	<b>\$ 130,961</b>	<b>\$ 122,043</b>	<b>\$ 8,918</b>	<b>7.3%</b>
<b>Raw Material and Optimization Group:</b>				
Total Revenue	\$ 408,469	\$ 540,853	\$ (132,384)	
Cost of Raw Materials Shipments	(390,497)	(523,601)	133,104	
<b>Revenue After Raw Materials Costs</b>	<b>\$ 17,972</b>	<b>\$ 17,252</b>	<b>\$ 720</b>	<b>4.2%</b>
<b>Administrative:</b>				
Total Revenue	\$ 28	\$ 1	\$ 27	
Cost of Raw Materials Shipments	3	7	(4)	
<b>Revenue After Raw Materials Costs</b>	<b>\$ 31</b>	<b>\$ 8</b>	<b>23</b>	
<b>Adjusted EBITDA:</b>				
Net Income	\$ 10,051	\$ 6,371	\$ 3,680	

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Income Tax Expense	1,920	4,497	(2,577)	
Interest Expense, Net	5,989	7,792	(1,803)	
Depreciation and Amortization	17,755	14,924	2,831	
Share based compensation associated with initial public offering				
Provision for Transition Agreement		745	(745)	
Adjusted EBITDA	\$ 35,715	\$ 34,329	\$ 1,386	4.0%
Adjusted EBITDA by Operating Segment:				
Mill Services Group	\$ 32,000	\$ 29,537	\$ 2,463	8.3%
Raw Material and Optimization Group	13,372	13,254	118	0.9%
Administrative	(9,657)	(8,462)	(1,195)	14.1%
	\$ 35,715	\$ 34,329	\$ 1,386	4.0%
Adjusted EBITDA Margin	24.0%	24.6%	-0.6%	

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*Revenue from Sale of Materials.* Revenue from Sale of Materials was \$443.0 million for the third quarter of 2012 compared to \$589.1 million for the third quarter of 2011. Revenue from Sale of Materials is primarily generated from raw material procurement activities, which produced \$406.6 million or 92% of the Revenue from Sale of Materials in the third quarter of 2012, and \$539.0 million or 91% in the third quarter of 2011. The remaining Revenue from Sale of Materials of \$36.4 million in the third quarter of 2012 and \$50.2 million in the third quarter of 2011 was primarily generated by our Mill Services Group location where we buy, process and sell raw material for our own account.

Revenue from the Sale of Materials decreased 24.8% and the cost to procure the materials decreased by 25.6% in the third quarter of 2012 compared to the third quarter of 2011. The decline in both our Revenue from the Sale of Materials and Cost of Raw Materials Shipments was driven by a decrease in the price of materials we procured for our customers. The price of #1 Heavy Melt, an indicative grade of scrap, decreased approximately 19% year-over-year. The total volume of material we procured or arranged for our customers in the third quarter of 2012 was approximately equal to the third quarter of 2011. However, a portion of the volume we procure or arrange for our customers includes shipments where we do not take title and only record a commission or fee for arranging the shipments. Excluding the tonnage related to such arrangements, which have a minimal effect on our Revenue from Sale of Materials, our shipments decreased approximately 3%, which also contributed to the decrease in Revenue from the Sale of Materials and the cost to procure the materials.

*Service Revenue.* Service Revenue was \$130.0 million in the third quarter of 2012 compared to \$120.1 million in the third quarter of 2011, an increase of 8.3%. Service Revenue is primarily generated by our Mill Services Group which produced \$128.2 million and \$118.2 million in the third quarter of 2012 and 2011, respectively. The Mill Services Group accounted for approximately 99% of Service Revenue in each period, with the remainder generated by optimization services from our Raw Material and Optimization Group.

Our Service Revenue is largely generated on the basis of the volume of steel our customers produce, although service contracts typically include base monthly fees and/or tiered pricing arrangements. Our Service Revenue increased 8.3% year-over-year. The increase was primarily driven by new business, partially offset by a decline in our customers' production and a reduction in Service Revenue related to an arbitration award settlement stemming from a loss of revenue that resulted when a former customer shut down operations at a site prior to the end of our service contract. See Note 14 Commercial Arbitration Award for a discussion of the arbitration award settlement (the Arbitration Award Settlement). Factors that impact the year-over-year change in Service Revenue also impact the change in Revenue After Raw Materials Costs and are discussed below.

*Cost of Raw Materials Shipments.* Similar to the 24.8% decrease in Revenue from the Sale of Materials, the Cost of Raw Materials Shipments decreased 25.6% due predominantly to a decrease in the price of raw materials. The average composite price of #1 Heavy Melt Scrap during the third quarter of 2012 was \$341 per ton compared to \$418 per ton in the third quarter of 2011.

*Revenue After Raw Materials Costs.* Revenue After Raw Materials Costs for our Mill Services Group increased \$8.9 million, or 7.3%, to \$131.0 million in the third quarter of 2012 compared to \$122.0 million in the third quarter of 2011. We generated \$11.7 million in additional revenue from new contracts outside of the United States and Canada, including five new sites and a cross-sold service at an existing site. Within the U.S., we generated an incremental \$0.9 million of Service Revenue from two new sites. These increases in Service Revenue were partially offset by a decrease in amounts recognized related to the Arbitration Award Settlement. We recorded no Service Revenue related to the award in the third quarter 2012, a decrease from the \$3.8 million we recorded in the third quarter of 2011. See Note 14 Commercial Arbitration Award for a further discussion of the Arbitration Award Settlement and its current procedural status.

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The Revenue After Raw Materials Costs for our Raw Material and Optimization Group increased \$0.7 million, or 4.2%, to \$18.0 million. The per ton margin on our raw material procurement activity increased approximately 5% driven mainly by margin improvements in one domestic and one international channel of business. The increase was achieved net of a \$0.7 million charge to reduce the carrying value of our September 30, 2012 inventory to its net realizable value. The increase in our per ton margins drove the year-over-year increase in Revenue After Raw Materials Costs for our Raw Material and Optimization Group as the tonnage we procured for and sold to our customers was approximately equal year-over-year.

*Site Operating Costs.* Site Operating Costs are primarily the costs incurred by our Mill Services Group in providing services to our customers. Site Operating Costs are largely variable and generally vary in-line with our customers' production and our Service Revenue. Site operating costs increased \$5.8 million year-over-year, or 6.4%. New international sites and contracts contributed \$5.6 million of additional site operating costs in the third quarter of 2012 compared to the third quarter of 2011. New sites in the United States added \$0.8 million of site operating costs year-over-year. Site operating costs at other sites were down slightly as our customers' production decreased approximately 3% year-over-year. Generally, new sites will incur some operating and overhead costs in advance of generating revenue in order to ramp-up operations as well as hire and train the workforce.

*Selling, General and Administrative Expenses.* Selling, General and Administrative Expenses for the third quarter of 2012 were \$16.5 million, compared to \$14.0 million in the third quarter of 2011, an increase of \$2.5 million. Foreign exchange gains and losses contributed to the increase as we realized a \$0.3 million foreign exchange loss in the third quarter of 2012 compared to a \$0.3 million foreign exchange gain in the third quarter of 2011. Our insurance costs were up \$0.4 million as a result of an accrual related to a one-time billing for a past change in the payment basis for our insurance. Additionally, our wage and benefit costs increased \$1.1 million and our professional fees increased \$0.3 million, both largely as a result of supporting international growth.

*Adjusted EBITDA.* Adjusted EBITDA for the third quarter of 2012 was \$35.7 million compared to \$34.3 million for the third quarter of 2011, an increase of 4.0%.

Our Mill Services Group's Adjusted EBITDA increased \$2.5 million, or 8.3%, to \$32.0 million. Year-over-year, new sites and contracts provided \$5.9 million of additional Adjusted EBITDA. Additionally, increased revenue at one large domestic site and two international sites helped to generate an additional \$1.8 million of Adjusted EBITDA. This increase was partially offset by a decrease in amounts recognized related to the Arbitration Award Settlement. We recorded no benefit related to the award, a decrease from the \$2.4 million we recorded in the third quarter of 2011. See Note 14 Commercial Arbitration Award for a further discussion of the Arbitration Award Settlement and its current procedural status. Adjusted EBITDA from the domestic location where we buy, process and sell scrap for our own account declined by \$0.5 million year-over-year, including a \$0.2 million charge to state inventories at their net realizable value.

Our Raw Material and Optimization Group's Adjusted EBITDA increased by \$0.1 million, or 0.9%. The increase was driven by the group's Revenue After Raw Material Costs increase that resulted from an increase in per ton margins. The increase was achieved net of a \$0.7 million charge to reduce the carrying value of our September 30, 2012 inventory to its net realizable value. That increase was partially offset by a \$0.4 million increase in the group's salary and benefit costs.

Our Administrative net expenses increased \$1.2 million, or 14.1%, in the third quarter of 2012 compared to the third quarter of 2011. The increase was primarily due to higher wage and benefit costs of \$0.3 million, including severance cost of \$0.1 million, higher professional fee costs of \$0.3 million and higher insurance costs of \$0.3 million stemming from an accrual related to a one-time billing for a past change in the payment basis for our insurance.

*Adjusted EBITDA Margin.* Adjusted EBITDA margin in the third quarter of 2012 was 24.0% compared to 24.6% in the third quarter of 2011. The decrease was mainly due to the \$2.4 million reduction in EBITDA from the Arbitration Award Settlement and the impact of a \$0.9 million charge to state our inventories at their net realizable value due to a decline in the market price of scrap and raw materials in September, 2012. These unfavorable variances were partially offset by the increase in EBITDA from our new sites.

*Depreciation and Amortization.* Depreciation and amortization expense during the third quarter of 2012 was \$17.8 million compared to \$14.9 million in the third quarter of 2011, an increase of approximately 19.0%. The increase was driven by higher Growth Capital Expenditures in the second half of 2011 and through the first nine months of 2012. Growth Capital Expenditures for eight new operating sites resulted in an additional \$2.7 million of depreciation expense. Amortization expense for the third quarter of 2012 was comparable to that incurred in the third quarter of 2011.



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*Interest Expense, Net.* Interest Expense, Net for the third quarter of 2012 was \$6.0 million, compared to \$7.8 million in the third quarter of 2011, a decrease of \$1.8 million. This decrease is due to lower average outstanding debt balances and underlying interest rates resulting from our 2012 refinancing.

*Income Tax Expense.* Income Tax Expense for the third quarter of 2012 was \$1.9 million, or 16% of our pre-tax income, compared to a \$4.5 million expense, or 41.4% of our pre-tax income, in the third quarter of 2011. In the third quarter of 2012, we revised our estimated annualized effective tax rate from approximately 36% to approximately 27%. The decrease in our estimated annualized effective tax rate resulted from the release of \$2.6 million of valuation allowances on foreign tax credits based on increased certainty that the credits can be utilized before they expire. The quarterly rate for the third quarter of 2012 represents the adjustment from the previous rate of 36% to the new estimated effective rate of 27%. The 2011 estimated effective tax rate differs from the statutory rate due principally to state taxes, permanent differences related to non-deductible marketing expenses, valuation allowances on foreign tax credits.

**Table of Contents****Results of Operations***Nine months ended September 30, 2012 compared to nine months ended September 30, 2011*

The following table sets forth each of the line items in our statement of operations for each of the periods indicated and the changes between the periods in terms of dollar amounts and percentage changes. The table also provides a reconciliation of Total Revenue to Revenue after Raw Materials Costs for each of the periods presented.

(dollars in thousands)	Nine months ended September 30,		Variances	
	2012	2011	\$	%
<b>(unaudited)</b>				
<b>Statement of Operations Data:</b>				
Revenue:				
Revenue from Sale of Materials	\$ 1,588,696	\$ 1,693,882	\$ (105,186)	-6.2%
Service Revenue	400,668	350,043	50,625	14.5%
<b>Total Revenue</b>	<b>1,989,364</b>	<b>2,043,925</b>	<b>(54,561)</b>	<b>-2.7%</b>
Costs and expenses:				
Cost of Raw Materials Shipments	1,530,923	1,632,369	(101,446)	-6.2%
Site Operating Costs	298,621	265,160	33,461	12.6%
Selling, General and Administrative Expenses	49,465	44,012	5,453	12.4%
Share based compensation associated with initial public offering		1,304	(1,304)	
Provision for Transition Agreement		745	(745)	
Depreciation and Amortization	50,713	44,626	6,087	13.6%
<b>Total costs and expenses</b>	<b>1,929,722</b>	<b>1,988,216</b>	<b>(58,494)</b>	<b>-2.9%</b>
Income from Operations	59,642	55,709	3,933	7.1%
Interest Expense, Net	(20,013)	(24,376)	4,363	-17.9%
Loss on early extinguishment of debt	(12,300)		(12,300)	
<b>Income Before Income Taxes</b>	<b>27,329</b>	<b>31,333</b>	<b>(4,004)</b>	<b>-12.8%</b>
Income Tax Expense	(7,456)	(13,044)	5,588	-42.8%
<b>Net Income</b>	<b>\$ 19,873</b>	<b>\$ 18,289</b>	<b>\$ 1,584</b>	<b>8.7%</b>
<b>Other Financial Data:</b>				
Revenue After Raw Materials Costs:				
<i>Consolidated:</i>				
Total Revenue	\$ 1,989,364	\$ 2,043,925	\$ (54,561)	
Cost of Raw Materials Shipments	(1,530,923)	(1,632,369)	101,446	
<b>Revenue After Raw Materials Costs</b>	<b>\$ 458,441</b>	<b>\$ 411,556</b>	<b>\$ 46,885</b>	<b>11.4%</b>
<i>Mill Services Group:</i>				
Total Revenue	\$ 527,222	\$ 495,605	\$ 31,617	
Cost of Raw Materials Shipments	(122,772)	(135,072)	12,300	
<b>Revenue After Raw Materials Costs</b>	<b>\$ 404,450</b>	<b>\$ 360,533</b>	<b>\$ 43,917</b>	<b>12.2%</b>
<i>Raw Material and Optimization Group:</i>				
Total Revenue	\$ 1,462,084	\$ 1,548,286	\$ (86,202)	



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Cost of Raw Materials Shipments	(1,408,144)	(1,497,321)	89,177	
Revenue After Raw Materials Costs	\$ 53,940	\$ 50,965	\$ 2,975	5.8%
<i>Administrative:</i>				
Total Revenue	\$ 58	\$ 34	\$ 24	
Cost of Raw Materials Shipments	(7)	24	(31)	
Revenue After Raw Materials Costs	\$ 51	\$ 58	\$ (7)	
Adjusted EBITDA:				
Net Income	\$ 19,873	\$ 18,289	\$ 1,584	
Income Tax Expense	7,456	13,044	(5,588)	
Interest Expense, Net	20,013	24,376	(4,363)	
Loss on early extinguishment of debt	12,300		12,300	
Depreciation and Amortization	50,713	44,626	6,087	
Share based compensation associated with initial public offering		1,304	(1,304)	
Provision for Transition Agreement		745	(745)	
Adjusted EBITDA	\$ 110,355	\$ 102,384	\$ 7,971	7.8%
Adjusted EBITDA by Operating Segment:				
Mill Services Group	\$ 99,858	\$ 89,507	\$ 10,351	11.6%
Raw Material and Optimization Group	39,631	39,223	408	1.0%
Administrative	(29,134)	(26,346)	(2,788)	10.6%
	\$ 110,355	\$ 102,384	\$ 7,971	7.8%
Adjusted EBITDA Margin	24.1%	24.9%	-0.8%	

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*Revenue from Sale of Materials.* Revenue from Sale of Materials was \$1,588.7 million for the nine-month period ending September 30, 2012 compared to \$1,693.9 million for the nine-month period ending September 30, 2011. Revenue from Sale of Materials is primarily generated from raw material procurement activities, which produced \$1,456.7 million, or 92%, of the Revenue from Sale of Materials in the nine-month period ending September 30, 2012, and \$1,543.1 million, or 91%, in the nine-month period ending September 30, 2011. The remaining Revenue from Sale of Materials of \$132.0 million in the nine-month period ending September 30, 2012 and \$150.8 million in the nine-month period ending September 30, 2011 was primarily generated by our Mill Services Group location where we buy, process and sell raw material for our own account.

Revenue from Sale of Materials decreased by 6.2% in the nine-month period ending September 30, 2012 compared to the nine-month period ending September 30, 2011. The decline in both our Revenue from the Sale of Materials and Cost of Raw Materials Shipments was driven by a decrease in the price of materials we procured for our customers. The price of #1 Heavy Melt, an indicative grade of scrap, decreased approximately 9% year-over-year. The impact of the reduction caused by a decrease in market value was partially offset by the total volume of material we procured or arranged for our customers in the first nine months of 2012 which was approximately equal to the first nine months of 2011. However, a portion of the volume we procure or arrange for our customers includes shipments where we do not take title and only record a commission or fee for arranging the shipments. Excluding the tonnage related to such arrangements, which have a minimal effect on our Revenue from Sale of Materials, our shipments increased approximately 5%.

*Service Revenue.* Service Revenue was \$400.7 million in the nine-month period ending September 30, 2012, compared to \$350.0 million in the nine-month period ending September 30, 2011. Service Revenue is primarily generated by our Mill Services Group which produced \$395.2 million and \$344.8 million in the nine-month periods ending September 30, 2012 and September 30, 2011, respectively. The Mill Services Group accounted for more than 98% of Service Revenue in each period, with the remainder generated by optimization services from our Raw Material and Optimization Group.

Our Service Revenue is largely generated on the basis of the volume of steel our customers produce, although service contracts typically include base monthly fees and/or tiered pricing arrangements. While steel produced by our customers, excluding customers where we have been operating under a contract for less than one year, was flat year-over-year, our Service Revenue increased \$50.6 million, or 14.5%. The increase in Service Revenue was primarily driven by new contract wins both internationally and domestically.

*Cost of Raw Materials Shipments.* Cost of Raw Materials Shipments decreased 6.2% in the first nine months of 2012 compared to the first nine months of 2011. The decrease was attributable to the same factors that drove the decrease in Revenue from the Sale of Materials, primarily a drop in the market price of raw materials that we procure for and sell to our customers. The average composite price of #1 Heavy Melt Scrap during the nine-month period ending September 30, 2012 was \$378 per ton, compared to \$415 per ton in the nine-month period ending September 30, 2011.

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*Revenue After Raw Materials Costs.* Revenue After Raw Materials Costs for our Mill Services Group increased \$43.9 million, or 12.2%, to \$404.5 million in the nine-month period ending September 30, 2012 compared to the nine-month period ending September 30, 2011. We generated \$34.7 million in additional Service Revenue from new contracts outside the United States and Canada, including five new sites and a cross-sold service at an existing site. Within the U.S., we generated an incremental \$1.1 million from new contracts and \$7.5 million of Service Revenue from two of our largest sites due to incremental volume produced by our customers. Additionally, we recorded \$5.1 million of Service Revenue related to the Arbitration Award Settlement. Comparatively, we recorded \$3.8 million of Service Revenue relating to the Arbitration Award in the nine-month period ending September 30, 2011. The entity, from which we had received proceeds under the Arbitration Award Settlement, filed for bankruptcy on May 31, 2012 and we expect that we will not earn additional amounts under the arbitration awards and certain amounts we had received under the award might be subject to avoidance actions in the bankruptcy proceedings. See Note 14 Commercial Arbitration Award for a discussion of the arbitration award settlement.

Revenue After Raw Materials Costs for our Raw Material and Optimization Group increased \$3.0 million, or 5.8%, to \$53.9 million. The volume of raw materials we procured and arranged was consistent year-over-year. The increase in the Raw Material and Optimization Group's Revenue After Raw Materials Costs was driven by an increase in our per ton margin which was achieved net of a \$0.7 million charge in September 2012 that was necessary to record inventory at net realizable value. A sizeable increase in the margin of one domestic channel of business drove the overall increase in the per ton margin.

*Site Operating Costs.* Site Operating Costs are primarily the costs incurred by our Mill Services Group in providing services to our customers. These costs are largely variable and are generally correlated with our customers' production levels. Site Operating Costs increased by \$33.5 million year-over-year, or approximately 12.6%. New sites and contracts contributed \$25.4 million of additional site operating costs in the nine-month period ended September 30, 2012 as compared to the nine-month period ended September 30, 2011. Labor and fringe benefit costs increased \$5.2 million, with \$2.1 million of that increase occurring at two sites where we generated \$8.2 million of additional revenue year-over-year. Fuel and other petroleum-based supply costs increased \$1.1 million.

*Selling, General and Administrative Expenses.* Selling, General and Administrative Expenses for the nine-month period ending September 30, 2012 were \$49.5 million, compared to \$44.8 million in the nine-month period ending September 30, 2011, an increase of 10.5%. Of the increase, \$1.0 million related to higher performance-based compensation accrual and \$3.9 million related to salaries, wages and fringe benefit costs for new raw material procurement staff as well as additional administrative headcount to support our international expansion. Professional fees increased by \$0.5 million and our insurance costs increased by \$0.8 million driven by a \$0.4 million accrual related to a one-time billing for a past change in the payment basis for our insurance. The increase in selling, general and administrative expenses was partially offset by a value added tax refund of \$0.5 million. The refund, received in May 2012, related to a first quarter 2011 assessment. At the time of the assessment, we were uncertain as to whether or not we would recover the VAT and we recorded a reserve of \$0.5 million. That reserve was relieved when we received the refund.

*Adjusted EBITDA.* Adjusted EBITDA for the nine-month period ending September 30, 2012 was \$110.4 million compared to \$102.4 million for the nine-month period ending September 30, 2011, an increase of \$8.0 million or 7.8%.

Our Mill Services Group's Adjusted EBITDA increased \$10.4 million, or 11.6%, to \$99.9 million. The increase in Adjusted EBITDA was driven by \$13.3 million of incremental EBITDA associated with new customer contracts. Adjusted EBITDA also benefitted from recognizing \$4.1 million related to the Arbitration Award Settlement compared to \$3.2 million in the nine months ending September 30, 2011. See Note 14 Commercial Arbitration Award for a discussion of the arbitration award settlement. Additionally increased revenue at one large domestic site and two international sites helped to generate an additional \$1.8 million of Adjusted EBITDA. These favorable impacts were partially offset by the results of our domestic location where we buy, process and sell scrap for our own account, where Adjusted EBITDA declined \$2.9 million year-over-year, including a \$0.2 million charge to state inventories at their net realizable value.

Our Raw Material and Optimization Group's Adjusted EBITDA increased \$0.4 million or 1.0% to \$39.6 million. Our per ton margins on material we procured or arranged for our customers increased, driven primarily by a margin increase in

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one domestic channel of business. Year-over-year the volume we procured or arranged for our customers was relatively consistent. The increase in per ton margins was achieved net of a \$0.7 million charge to reduce the carrying value of Raw Materials and Optimization Group inventory to its net realizable value in September 2012. Additionally, our results for nine-months ended September 30, 2011, benefited from the recording of \$1.8 million of certain adjustments and a legal settlement of accounts with a trade partner and a \$1.0 million arbitration award which were non-recurring. We were able to increase our per ton margins in the first nine-months of 2012 without the benefit of similar items.

Our Administrative net expenses increased \$2.8 million in the nine-month period ending September 30, 2012 to \$29.1 million, compared to the nine-month period ending September 30, 2011. The increase was driven by a \$0.9 million increase in the accrual for performance based compensation and \$0.6 million of accruals for severance costs. Also, salaries and benefits costs increased \$0.9 million and professional fees also increased \$0.6 million largely as a result of international growth.

*Adjusted EBITDA Margin.* Our Adjusted EBITDA margin decreased from 24.9% in the nine-month period ending September 30, 2011 to 24.1% during the nine-month period ending September 30, 2012. The decline was mainly due to the decrease in EBITDA at the domestic locations where we buy, process and sell scrap for our own account, a \$0.9 million charge to state our inventories at their net realizable value due to a decline in the market price of scrap and raw materials in September 2012 and the impact of the costs associated with the ramp-up and administrative support of new international business. These negative impacts were partially offset by the operating results of our new international business.

*Depreciation and Amortization.* Depreciation and amortization expense during the nine-month period ending September 30, 2012 was \$50.7 million compared to \$44.6 million in the nine-month period ending September 30, 2011, an increase of 13.6%. The increase is the result of higher Growth Capital Expenditures in the latter half of 2011 and 2012 primarily at our new Mill Services Group sites. Six new Mill Services Group sites incurred \$6.7 million of additional depreciation expense as a result of the Growth Capital Expenditures for those sites. Amortization expense for the nine-month period ending September 30, 2012 was comparable to that incurred in the nine-month period ending September 30, 2011.

*Loss on Early Extinguishment of Debt.* In March 2012, we entered into a new \$300.0 million term loan facility and paid off our obligations under our previous term loan facility due 2014 and our senior subordinated notes due 2015. In connection with the refinancing, we incurred a \$12.3 million loss in the early extinguishment of debt which consisted of a \$5.4 million senior note redemption premium, \$1.8 million of interest payable to holders through the redemption date, \$5.0 million to write-off the unamortized deferred issuance costs on the extinguished indebtedness and \$0.1 million in miscellaneous legal and administrative charges.

*Interest Expense, Net.* Interest Expense, Net for the nine-month period ending September 30, 2012 was \$20.0 million, compared to \$24.4 million for the nine-month period ending September 30, 2011, a decrease of \$4.4 million. This decrease is due to lower average outstanding debt balances and lower underlying interest rates resulting from our 2012 refinancing.

*Income Tax Expense.* Income Tax Expense for the nine-month period ending September 30, 2012 was \$7.5 million, or 27.3% of our pre-tax income, compared to \$13.0 million of expense, or 41.6% of our pre-tax income in the nine-month period ending September 30, 2011. The Income Tax Expense for the nine months of 2012 is based on an estimated annual effective rate, which requires us to make our best estimate of expected pre-tax income for the year. The decrease in our estimated annualized effective tax rate resulted from the release of \$2.6 million of valuation allowances on foreign tax credits based on revised allocation of foreign source income and the expected utilization of the credits.

## **Liquidity and Capital Resources**

The eligible accounts receivable, inventory and equipment that comprise the collateral under the ABL facility as of September 30, 2012 supported a gross borrowing base of approximately \$242.9 million. Our excess available balance was \$234.8 million as we had no outstanding borrowings and \$8.1 million of outstanding letters of credit. The gross borrowing base was approximately \$107.1 million below the \$350.0 million limit of the ABL facility. The ABL facility allows for eligible equipment to provide borrowing base capacity under the facility and, with the senior secured term loan due 2014 extinguished, the ABL facility has a first lien on our domestic and Canadian equipment. The Company expects to add an additional approximately \$75.5 million of equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with the agent for the ABL lenders.

We believe that cash flow from operations, together with availability under our new ABL facility, will be sufficient to fund our operating, capital and debt service requirements for at least the next 12 months.



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The nature of our procurement activities is such that the amount we invest in inventories and our accounts receivable may significantly vary at any given point in time. Cash flow provided by operating activities in the nine-month period ending September 30, 2012 was \$98.9 million compared to cash provided by operations of \$14.1 million in the nine-month period ending September 30, 2011. Working capital items provided \$9.8 million of cash in the first nine months of 2012 compared to using \$62.0 million in the first nine months of 2011. Significant changes in working capital items generally relate to our raw material procurement activities and while we work to manage the timing of disbursements and collections, our working capital levels fluctuate, sometimes significantly, over reporting periods. Additionally, we may, from time to time, invest in our working capital in order to take advantage of opportunities to realize higher than normal margins in our Raw Material and Optimization Group.

Net cash used in investing activities in the nine-month period ending September 30, 2012 was \$87.7 million, of which \$56.5 million funded Growth Capital Expenditures and \$28.4 million funded Maintenance Capital Expenditures. In the nine-month period ending September 30, 2011, our net cash used by investing activities consisted primarily of \$23.3 million of Growth Capital Expenditures and \$28.6 million of Maintenance Capital Expenditures. Generally, our Maintenance Capital Expenditures will vary with our customer production as the schedule of assets and major components replacement is highly correlated with equipment operating hours.

Net cash used for financing activities in the first nine months of 2012 was \$93.7 million, mainly comprised of amounts paid to reduce our overall indebtedness as part of our March 2012 refinancing and the issuance and termination fees associated with that refinancing. We received \$297.0 million in proceeds from our new Term Loan Facility and paid off \$223.0 million of senior subordinated notes and \$157.2 million outstanding on our senior secured term loan due 2014. We also incurred \$13.7 million of debt issuance and termination fees associated with the transaction. In addition to the proceeds of our new senior secured term loan, we used available cash and a \$30.0 million draw on our ABL facility to consummate the March 2012 refinancing. During the second quarter of 2012, we paid down our ABL facility with cash on hand by \$25.0 million. Net cash provided by financing activities during the first nine months of 2011 consisted of primarily \$128.7 million of net proceeds from our initial public offering. A portion of the proceeds were used to repay \$45.3 million of debt, including \$44.2 to retire our Series 2008 Promissory Notes.

**Discretionary Cash Flow**

During the nine-month period ending September 30, 2012 we generated \$82.0 million of Discretionary Cash Flow compared to \$73.7 million in the first nine months of 2011. We define Discretionary Cash Flow as Adjusted EBITDA less Maintenance Capital Expenditures and it is calculated as follows for the periods indicated (in thousands):

	Nine months ended	
	September 30, 2012	September 30, 2011
Adjusted EBITDA	\$ 110,355	\$ 102,384
Maintenance Capital Expenditures	(28,373)	(28,640)
<b>Discretionary Cash Flow</b>	<b>\$ 81,982</b>	<b>\$ 73,744</b>

The increase in Discretionary Cash Flow was driven by our improved operating results and through achieving that improvement with a comparable level of Maintenance Capital Expenditures.

The table below reconciles Discretionary Cash Flow to cash flow provided by (used in) operating activities, for the periods indicated (in thousands):

	Nine months ended	
	September 30, 2012	September 30, 2011
Discretionary Cash Flow	\$ 81,982	\$ 73,744
Maintenance Capital Expenditures	28,373	28,640

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Cash interest expense	(25,980)	(28,661)
Cash income taxes	(3,491)	(1,214)
Change in accounts receivable	338	(119,091)
Change in inventory	1,997	(23,674)
Change in account payable	5,953	89,579
Change in other current assets and liabilities	9,831	(2,755)
Other operating cash flows	(105)	(2,506)
Net cash provided by (used in) operating activities	\$ 98,898	\$ (14,062)

**Table of Contents****Working Capital**

Our current assets and liabilities, particularly our accounts receivable, inventory and accounts payable, vary significantly with changes in underlying business conditions including the volume and price of raw materials we procure for our customers. The volume and per ton price of the raw materials we buy from our vendors and sell to our customers will impact our Revenue from the Sale of Materials and our Cost of Raw Materials shipments. The same factors will typically impact our accounts receivable, inventory and accounts payable in comparable fashion. We generally expect that those increases will have offsetting effects and that any resulting impact to cash flows is temporary. However, because of the purchasing scale of our raw material procurement business, changes in the timing of collection of receivables or payment of accounts payable can have significant impacts on our cash flow from operations in a given period. We generally expect that these impacts will be temporary. However, from time to time, we may decide to invest in our working capital to take advantage of opportunities to realize higher than normal margins in our raw materials and optimization activities. The chart below shows the weighted average price of #1 Heavy Melt Scrap based on published prices of the commodity weighted by our monthly volume of raw materials shipments.

	2009	2010	2011	9 months -2011	9 months -2012
Weighted average per ton price of #1 Heavy Melt Scrap	\$ 209	\$ 384	\$ 411	\$ 415	\$ 378

New site start-ups in our mill services business also impact working capital movements as we fund the operating costs for some period of time before receiving the first cash payments for our services.

During the nine-month period ending September 30, 2012, our accounts receivable decreased \$0.6 million, or 0.2%, to \$292.0 million, and our inventory decreased \$2.0 million, or 3.5%, to \$54.3 million, in each case compared to the levels present at December 31, 2011. Our accounts payable increased \$6.0 million during the same period. Working capital movements during the nine-month period ending September 30, 2011 were more in line with typical trends as the negative cash flow impacts from increases in accounts receivable and inventory were partially offset by the positive cash flow impact of an increase in accounts payable all of which was driven by the increase in the volume and market price of the raw materials we procured for our customers. During the first nine months of 2011, our accounts receivable increased \$118.7 million, or 57%, and our inventory increased by \$23.7 million, or 61%. The cash invested in these items was partially offset by an increase in accounts payable of \$89.6 million, or 44%.

**Forward Looking Statements**

This Quarterly Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, with respect to our financial condition, results of operations and business and our expectations or beliefs concerning future events. Such forward-looking statements include the discussions of our business strategies, estimates of future global steel production and other market metrics and our expectations concerning future operations, margins, profitability, liquidity and capital resources. Forward-looking statements may be preceded by, followed by or include the words may, will, believe, expect, anticipate, intend, plan, could, might, or continue or the negative or other variations thereof or comparable terminology. Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed in Item 1A of Part I of this report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, estimates and assumptions. Actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any such statement to reflect new information, or the occurrence of future events or changes in circumstances.



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Many factors could cause actual results to differ materially from those indicated by the forward-looking statements or could contribute to such differences, including:

North American and global steel production volumes and demand for steel are impacted by regional and global economic conditions and by conditions in our key end-markets, including automotive, consumer appliance, industrial equipment and construction markets;

we rely on a number of significant customers and contracts, the loss of any of which could have a material adverse effect on our results of operations;

some of our operations are subject to market price and inventory risk arising from changes in commodity prices;

if we fail to make accurate estimates in bidding for long-term contracts, our profitability and cash flow could be materially adversely affected;

operating in various international jurisdictions subjects us to a variety of risks;

our international expansion strategy may be difficult to implement and may not be successful;

our business involves a number of personal injury and other operating risks, and our failure to properly manage these risks could result in liabilities and loss of future business not fully covered by insurance and loss of future business and could have a material adverse effect on results of operations;

we are subject to concentrated credit risk and we could become subject to constraints on our ability to fund our planned capital investments and/or maintain adequate levels of liquidity and working capital under our senior secured ABL facility as a result of concentrated credit risk, declines in raw material selling prices or declines in steel production volumes;

if we experience delays between the time we procure raw materials and the time we sell them, we could become subject to constraints on our ability to maintain adequate levels of liquidity and working capital;

our estimates of future production volumes may not result in actual revenue or translate into profits;

counterparties to agreements with us may not perform their obligations;

exchange rate fluctuations or decreases in exports of steel may materially adversely impact our business;

an increase in our debt service obligations may materially adversely affect our earnings and available cash and could make it more difficult to refinance our existing debt;

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the terms of our credit facilities may restrict our current and future operations, particularly our ability to finance additional growth or take some strategic or operational actions;

we expend significant funds and resources to embed ourselves at our customers' sites, but we may not receive significant profits for a period of time following such efforts;

increases in costs of maintenance and repair of our equipment or increases in energy prices could increase our operating costs and reduce profitability;

higher than expected claims under our self-insured health plans, under which we retain a portion of the risk, and our large deductible workers' compensation program could adversely impact our results of operations and cash flows;

we are exposed to work stoppages and increased labor costs resulting from labor union activity among our employees and those of our customers;

we could be exposed to unknown or unmanaged risks or losses due to employee misconduct or fraud;

certain of our pension and other post-employment benefit plans are currently underfunded or unfunded, and we have to make cash payments, which may reduce the cash available for our business;

higher than expected claims that are in excess of the amount of our coverage under insurance policies would increase our costs;

equipment failure, failure of our computer, information processing, or communications hardware, software, systems or infrastructure, or other events could cause business interruptions that could have a material adverse effect on our results of operations;

we are subject to acquisition risks. If we are not successful in integrating companies that we acquire or have acquired, we may not achieve the expected benefits, and our profitability and cash flow could suffer. In addition, the cost of evaluating and pursuing acquisitions may not result in a corresponding benefit;

our business is subject to environmental and health and safety regulations that could expose us to liability, increase our cost of operations, or otherwise have a material adverse effect on our results of operations;

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failure to comply with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar regulations could subject us to penalties and other adverse consequences;

we may see increased costs arising from health care reform;

rapidly growing supply in China and other developing economies may grow faster than demand in those economies, which may result in additional excess worldwide capacity and falling steel prices;

a downgrade in our credit ratings would make it more difficult for us to raise capital and would increase the cost of raising capital;

we face significant competition in the markets we serve;

we may not be able to sustain our competitive advantages in the future;

we may not be able to successfully adapt to changes in the scrap trading industry;

the future success of our business depends on retaining existing and attracting new key personnel;

future conditions might require us to make substantial write-downs in our assets, including requiring us to incur goodwill impairment charges, which could materially adversely affect our balance sheet and results of operations;

we may be subject to potential asbestos-related and other liabilities associated with former businesses;

certain of our operations are dependent on access to freight transportation;

our tax liabilities may substantially increase if the tax laws and regulations in the jurisdictions in which we operate change or become subject to adverse interpretations or inconsistent enforcement;

increased use of materials other than steel may have a material adverse effect on our business;

regulation of greenhouse gas emissions and climate change issues may materially adversely affect our operations and markets; and

if we fail to protect our intellectual property and proprietary rights adequately or infringe the intellectual property of others, our business could be materially adversely affected.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Quarterly Report. We assume no obligation to update any forward-looking statements after the date of this Quarterly Report as a result of new information, future events or developments except as required by federal securities laws.

**Item 3. Quantitative and Qualitative Disclosure about Market Risks**

Certain statements we make under this Quantitative and Qualitative Disclosures About Market Risk section constitute forward-looking statements. See Forward-Looking Statements.

We do not carry market risk sensitive financial instruments for trading purposes, but we are exposed to the impact of interest rate and commodity price changes and, to a lesser extent, foreign currency fluctuations. In the normal course of business, we employ established policies and procedures to manage our exposure changes in interest rates on our variable rate debt using financial instruments we deem appropriate.

*Inflation and Changing Prices*

Other than the impact of rising fuel costs, we believe that inflation did not have a material impact on our consolidated results of operations during the last three fiscal years because inflation rates generally have remained at relatively low levels during the periods presented. Our customer contracts typically provide for price adjustments based on published indices, which pass defined increases or decreases in key operating costs through to our customers and have the effect of reducing our exposure to inflation.

*Interest Rate Risk*

Our financing agreements include a variable rate term loan with an outstanding balance of \$298.5 million at September 30, 2012 and a \$350 million variable rate, asset-based, revolving line of credit. At September 30, 2012, there were no outstanding revolving borrowings. Assuming no changes in variable rate borrowings from the amounts outstanding at September 30, 2012, a hypothetical 1.0% change in underlying variable rates would change our annual Interest Expense and cash flow from operations by approximately \$3.0 million.

**Table of Contents***Foreign Currency Risk*

Movements in foreign currency exchange rates may affect the translated value of our earnings and cash flows associated with our foreign operations as well as the translation of net asset or liability positions that are denominated in foreign currencies. For the nine months ended September 30, 2012, we derived approximately 70.3% of our Revenue After Raw Materials Costs from providing services and products to steel mills in the United States. In countries outside the United States, we generate revenue and incur operating expenses denominated in local currencies. We are exposed to changes in the value of the U.S. dollar relative to the Euro, Canadian dollar, British pound, Serbian dinar, Mexican peso, Trinidad/Tobago dollar, New Taiwan dollar, Bahraini dinar, United Arab Emirates dirham and the South African rand. For the nine months ended September 30, 2012, we generated approximately \$18.5 million of Income from Operations in foreign currencies. On an annual basis, we expect operating income in these countries would decrease or increase by approximately \$2.5 million if all foreign currencies uniformly weaken or strengthen 10% relative to the U.S. dollar. As part of our growth strategies discussed above and elsewhere in this Quarterly Report, we are seeking to increase our operations overseas with the possibility that such operations will increase our foreign currency risk. We also plan to employ strategies, when appropriate, to mitigate foreign currency risk, and such strategies may include the use of derivative financial instruments.

*Commodity Risk*

Our operations, which include raw materials procurement, logistics and processing for our customers, have limited raw materials price risk. In general, we carry little inventory relative to our sales volume, although we do maintain some inventory at our scrap processing and other locations. In addition, we occasionally take measured market risk in connection with our raw materials procurement services by either purchasing raw materials at a fixed price without an immediate corresponding sale order or agreeing to sell raw materials at a fixed price before having procured such materials. As a result, we have some exposure to changes in raw material prices.

We also purchase commodities for use in our operations, most notably diesel fuel. We consume approximately eight to 11 million gallons of diesel fuel annually, and we incurred \$38.3 million in fuel and other petroleum-based supplies costs for the nine months ended September 30, 2012. We estimate that a 10% change in the price of fuel would affect Income from Operations by approximately \$5.1 million per year. To help mitigate the risk of changes in fuel and other commodity risks, our contracts typically provide for price adjustments based on published price indices which pass defined increases or decreases in key operating costs through to our customers. However, the timing of the impact of changes in commodity prices will generally precede the impact of a price adjustment mechanism. For example, changes in commodity prices in 2012 would likely change the indices used to calculate the 2013 price adjustment mechanism.

**Item 4. Controls and Procedures**

The Company's senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act)) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings.

The Company is controlled by Onex Partners II LP, an affiliate of Onex Corporation, a public company listed on the Toronto Stock Exchange, and, therefore, is required to maintain internal controls over financial reporting as required by applicable Canadian regulations.

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There were no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II Other Information****Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. There have been no material changes to the Company's risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. The risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2011 are not the only risks facing us. In the normal course of business, the Company is routinely subject to a variety of risks.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	XBRL data file

filed herewith.

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended (the Securities Act), are deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise not subject to liability under those sections. This exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates this exhibit by reference.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Glassport, Commonwealth of Pennsylvania, on November 6, 2012.

**TMS International Corp. and Subsidiaries**

By: /s/ Joseph Curtin  
Joseph Curtin

President, Chief Executive Officer and Director  
(Principal Executive Officer)

By: /s/ Daniel E. Rosati  
Daniel E. Rosati  
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)