TMS International Corp.
Form 10-Q
August 06, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**
For the Quarterly Period Ended June 30, 2013

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)

001-35128	**Delaware**	**20-5899976**
(Commission File Number)	**(State or other jurisdiction of incorporation or organization)**	**(I.R.S. Employer Identification No.)**

12 Monongahela Avenue

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 x 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 x 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	x
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 x

14,765,493 shares of Class A Common Stock, $0.001 par value per share, and 24,528,208 shares of Class B Common Stock, $0.001 par value per share, were outstanding as of the close of business on July 31, 2013.

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Explanatory Note

Unless the context otherwise indicates or requires, as used in this report for the quarterly period ended June 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.

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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)

	Second quarter ended June 30,		Six months ended June 30,	
	2013 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)
Revenue:				
Revenue from Sale of Materials	$ 493,812	$ 533,034	$ 947,442	$ 1,145,693
Service Revenue	137,609	136,321	273,574	270,620
Total Revenue	631,421	669,355	1,221,016	1,416,313
Costs and Expenses:				
Cost of Raw Materials Shipments	478,273	515,778	912,064	1,106,836
Site Operating Costs	100,480	100,016	202,148	201,862
Selling, General and Administrative Expenses	16,522	15,714	32,343	32,975
Depreciation	16,578	13,688	32,374	26,854
Amortization	3,079	3,051	6,162	6,104
Total Costs and Expenses	614,932	648,247	1,185,091	1,374,631
Income from Operations	16,489	21,108	35,925	41,682
Interest Expense, Net	(5,362)	(5,923)	(11,335)	(14,024)
Loss from equity investment	(61)		(104)	
Loss on early extinguishment of debt			(1,102)	(12,300)
Income Before Income Taxes	11,066	15,185	23,384	15,358
Income Tax Expense	(2,841)	(5,476)	(7,102)	(5,536)
Net Income	8,225	9,709	16,282	9,822
Net (income) loss attributable to noncontrolling interests	(87)	74	(81)	372
Net income attributable to TMS International Corp. common stock	$ 8,138	$ 9,783	$ 16,201	$ 10,194
Net Income per Share:				
Basic	$ 0.21	$ 0.25	$ 0.41	$ 0.26
Diluted	$ 0.21	$ 0.25	$ 0.41	$ 0.26
Average Common Shares Outstanding:				
Basic	39,281,908	39,255,973	39,279,687	39,255,973
Diluted	39,400,986	39,257,671	39,364,671	39,256,619

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

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TMS INTERNATIONAL CORP. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

(in thousands of dollars)

	TMS International Corp. Second quarter ended June 30		Noncontrolling Interests Second quarter ended June 30		Total Second quarter ended June 30	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Net income (loss)	$ 8,138	$ 9,783	$ 87	$ (74)	$ 8,225	$ 9,709
Other comprehensive income, net of tax:						
Changes in foreign currency translation	(3,194)	(5,803)	(108)	(86)	(3,302)	(5,889)
Net amount reclassified to earnings	89				89	
Total other comprehensive losses, net of tax	(3,105)	(5,803)	(108)	(86)	(3,213)	(5,889)
Comprehensive income (loss)	$ 5,033	$ 3,980	$ (21)	$ (160)	$ 5,012	$ 3,820

	TMS International Corp. Six months ended June 30		Noncontrolling Interests Six months ended June 30		Total Six months ended June 30	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Net income (loss)	$ 16,201	$ 10,194	$ 81	$ (372)	$ 16,282	$ 9,822
Other comprehensive income, net of tax:						
Changes in foreign currency translation	(7,261)	(1,444)	(222)	16	(7,483)	(1,428)
Net change from periodic revaluations		(6)				(6)
Net amount reclassified to earnings	431	246			431	246
Total other comprehensive (losses) income, net of tax	(6,830)	(1,204)	(222)	16	(7,052)	(1,188)
Comprehensive income (loss)	$ 9,371	$ 8,990	$ (141)	$ (356)	$ 9,230	$ 8,634

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

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TMS INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except share data)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 33,135	$ 26,936
Accounts receivable, net of allowance for doubtful accounts of $3,075 and $3,038, respectively	269,271	280,472
Inventories	50,732	50,520
Prepaid and other current assets	35,734	22,757
Deferred tax asset	7,727	7,485
Total current assets	396,599	388,170
Property, plant and equipment, net	213,487	214,668
Equity investment	2,130	2,235
Deferred financing costs, net of accumulated amortization of $2,860 and $1,863, respectively	8,809	10,069
Goodwill	241,363	242,669
Other intangibles, net of accumulated amortization of $77,870 and $72,012, respectively	146,589	147,885
Other noncurrent assets	3,910	4,098
Total assets	$ 1,012,887	$ 1,009,794
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 248,817	$ 251,941
Salaries, wages and related benefits	25,502	29,274
Current taxes payable	2,380	964
Accrued expenses	23,601	18,284
Revolving bank borrowings	418	
Current portion of long-term debt	7,458	8,395
Total current liabilities	308,176	308,858
Long-term debt	301,465	303,657
Loans from noncontrolling interests	2,638	4,341
Deferred tax liability	59,644	58,192
Other noncurrent liabilities	27,154	27,704
Total liabilities	699,077	702,752
Stockholders equity (deficit):		
Class A Common Stock; 200,000,000 shares authorized, $0.001 par value per share; 14,765,493 and 14,564,928 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	14	14
Class B Common Stock; 30,000,000 shares authorized, $0.001 par value per share; 24,528,208 and 24,712,513 issued and outstanding at June 30, 2013 and December 31, 2012, respectively	25	25
Capital in excess of par value	433,897	436,359
Accumulated deficit	(105,953)	(122,154)
Accumulated other comprehensive loss	(15,793)	(8,963)
Total TMS International Corp. stockholders equity	312,190	305,281
Noncontrolling interests	1,620	1,761

Total stockholders equity	313,810	307,042
Total liabilities and stockholders equity	$ 1,012,887	$ 1,009,794

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

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TMS INTERNATIONAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Six months ended June 30,	
	2013 (unaudited)	2012 (unaudited)
Cash flows from operating activities:		
Net Income	$ 16,282	$ 9,822
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation and Amortization	38,536	32,958
Amortization of deferred financing costs and original issue discount	1,259	1,350
Deferred income tax	3,021	2,501
Provision for bad debts		206
Loss (gain) on the disposal of equipment	25	(168)
Non cash share based compensation cost	1,571	818
Loss on early extinguishment of debt	1,102	12,300
Increase (decrease) from changes in:		
Accounts receivable	11,201	4,673
Inventories	(212)	(5,162)
Prepaid and other current assets	(12,948)	4,834
Other noncurrent assets	188	(210)
Accounts payable	(3,124)	10,323
Accrued expenses	(967)	(8,330)
Other noncurrent liabilities	(550)	1,193
Other, net	(3,313)	(2,132)
Net cash provided by operating activities	52,071	64,976
Cash flows from investing activities:		
Capital Expenditures	(36,038)	(55,028)
Software and systems expenditures	(5,431)	(483)
Proceeds from sale of equipment	140	347
Contingent payment for acquired business		(131)
Cash flows related to IU International, net		(67)
Net cash used in investing activities	(41,329)	(55,362)
Cash flows from financing activities:		
Revolving credit facility borrowing (repayments), net	418	(3)
Borrowing from noncontrolling interest		2,347
Repayment of debt	(5,858)	(381,254)
Proceeds from debt issuance, net of original issue discount	2,250	300,703
Contributions from noncontrolling interests		269
Payments to acquire noncontrolling interest		(231)
Debt issuance and termination fees	(772)	(13,711)
Net cash used in financing activities	(3,962)	(91,880)
Effect of exchange rate on cash and cash equivalents	(581)	(62)
Cash and cash equivalents:		
Net increase (decrease) in cash	6,199	(82,328)
Cash at beginning of period	26,936	108,830
Cash at end of period	$ 33,135	$ 26,502

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

Notes to Unaudited Condensed Consolidated Financial Statements.

Note 1 Nature of Operations

TMS International Corp. (the Company) through its subsidiaries, including Tube City IMS Corporation and Tube City IMS, LLC,, is the largest provider of outsourced industrial services to steel mills in North America with a substantial international presence. The Company operates at 81 customer sites in 12 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. For the six-month period ended June 30, 2012, $0.4 million of selling, general and administrative expenses were recorded as an increase to non-current liabilities. The amount was subsequently reclassified as an increase to other comprehensive income and accumulated other comprehensive income. Operating results for the first six months ended June 30, 2013 and 2012 are not necessarily indicative of the results that may be expected for future periods. The balance sheet as of December 31, 2012, 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.

Note 3 Earnings and Dividends 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 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 table below reconciles the basic weighted average shares outstanding to the dilutive weighted average shares outstanding for the periods indicated;

	Second quarter ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Basic average common shares outstanding	39,281,908	39,255,973	39,279,687	39,255,973
Dilutive effect of stock options outstanding	119,078	1,292	84,984	646
Diluted average common shares outstanding	39,400,986	39,257,265	39,364,671	39,256,619

As of June 30, 2013, the Company had outstanding 1,358,570 options to purchase shares of Class A Common Stock. The dilutive impact of those options is calculated using the treasury stock method.

On April 24, 2013, the Company declared a cash dividend, payable on July 3, 2013 to the holders of record of each issued and outstanding share of Class A and Class B Common Stock as of the close of business on May 16, 2013, in the amount of $0.10 per share and recorded $3.9 million in accrued expenses on the balance sheet.

Note 4 Inventories

Inventories consisted of the following (in thousands):

	June 30, 2013	December 31, 2012

	(unaudited)	
Scrap iron and steel	$ 15,620	$ 26,183
Goods in transit	22,701	11,926
Spare parts and supplies	12,411	12,411
Total inventories	$ 50,732	$ 50,520

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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 second quarter of 2012, due to falling market prices for scrap and scrap substitutes, the Company recorded a charge of $1.4 million to record its scrap and steel inventories at their net realizable value.

Note 5 Income Taxes

The income tax expense for the six months ended June 30, 2013 and 2012 reflects a year-to-date effective tax rate of 30.4 % and 36.0%, respectively, and a 2013 estimated annualized effective tax rate, excluding discrete items, of 29.3%. The income tax expense for the six months ended June 30, 2013 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 difference between the estimated annualized effective tax rate and the year-to-date effective tax rate is caused by discrete items including the immediate recognition of the anticipated impact of a tax law change in South Africa. The expense recorded reflects management s current best estimate of the effect of the law change, but may be subject to further adjustment as we continue to analyze the expected application of the new law. The estimated effective tax rates for 2013 and 2012 differ from the United States federal statutory rate of 35.0% due principally to state taxes, foreign taxes and permanent differences related to nondeductible marketing expenses.

Accounting for Uncertainty in Income Taxes

As of June 30, 2013 and December 31, 2012, the Company s liability equaled $1.2 million for uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The total amount of interest and penalty recognized related to uncertain tax positions as of June 30, 2013 and 2012 was not material. The tax years 2009-2012 remain open to examination by the major taxing jurisdictions where the Company conducts business.

Note 6 Debt

Debt is summarized as follows (in thousands):

	June 30, 2013 (unaudited)	December 31, 2012
Asset based revolving credit facility	$	$
Vendor financing program	418	
Senior secured term loan due 2019, net of original issue discount $2,335 and $2,664, respectively	296,165	295,086
Loans from noncontrolling interests	2,638	4,341
Bank term loan facility	11,300	14,958
Capital equipment leases, installment notes and other	1,458	2,008
Total indebtedness	$ 311,979	$ 316,393

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

	June 30, 2013 (unaudited)	December 31, 2012
Revolving bank borrowings	$ 418	$
Current portion of long-term debt	7,458	8,395
Long-term debt	301,465	303,657
Loans from noncontrolling interests	2,638	4,341
Total indebtedness	$ 311,979	$ 316,393

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Vendor Financing Program

During the second quarter of 2013, the Company began processing payments under a vendor financing program with a financial institution. Under this program, the financial institution processes payments on behalf of the Company under one of two methods; (1) ACH transfers and (2) a virtual single-use credit card payment.

Under the virtual credit card program, the financial institution pays subscribed vendors on the Company s behalf via a credit card. The financial institution pays under reduced terms with a negotiated discount. The Company reimburses the financial institution at some later date based upon an agreed upon cycle. The program includes a rebate that is paid to the Company based on the volume of payments processed under the program. The rebate amount ultimately depends on reaching a certain annual level of spending. As of June 30, 2013, the financial institution had made payments to the Company s vendors totaling $0.4 million for which the Company had not yet reimbursed the financial institution. This amount is included in Revolving bank borrowings on the consolidated balance sheet.

2013 Repricing Amendment

On March 21, 2013, TCIMS, the Company s wholly owned subsidiary, and certain other of its subsidiaries entered into Amendment No. 1 (the Amendment) to TCIMS s outstanding senior secured Term Loan B credit agreement (the Existing Term Loan Agreement and, as amended by the Amendment, the Amended Term Loan) among TCIMS, as borrower, certain other subsidiaries of the Company, as guarantors, JPMorgan Chase Bank, N.A., as administrative agent and lender, and the other lenders party thereto.

Pursuant to the Amendment, the applicable margin used to calculate the amount of interest payable on borrowings under the Amended Term Loan has been reduced. Prior to the amendment, borrowings under the Existing Term Loan Agreement bore interest at a rate equal to an applicable margin plus, at TCIMS option, either (a) a base rate calculated in a customary manner (which would 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 under the Existing Term Loan Agreement was 3.50% per annum with respect to base rate borrowings and 4.50% per annum with respect to Eurodollar rate borrowings. Pursuant to the Amendment, the applicable margin has been amended to be 2.75% with respect to base rate borrowings and 3.75% with respect to Eurodollar rate borrowings, and the interest rate floor with respect to Eurodollar rate borrowings has been reduced to 1.00%.

In connection with the Amendment, the Company received $2.25 million in proceeds bringing the principal amount of the Term Loan back to $300.0 million. The Company incurred a $1.1 million loss on debt extinguishment and modification associated with the amendment. The loss on debt extinguishment and modification was comprised of $0.7 million of fees paid in connection with the transition and a $0.4 million write-off of unamortized deferred issuance cost and original issue discount.

2012 Refinancing

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 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 June 30, 2013, the eligible accounts receivable, inventory and equipment that comprise the collateral under the ABL facility supported a gross borrowing base of $274.5 million. At June 30, 2013, there were no borrowings drawn under the ABL facility and $33.0 million letters of credit outstanding against the facility, leaving a net available balance of $241.5 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 $15.0 million of additional equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with the 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 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.

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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

In the 2012 refinancing described above, the Term Loan Facility replaced TCIMS then 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.

The Term Loan Facility amortizes 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.

After the March 21, 2013 Amendment, 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 1.00%). The applicable margin is 2.75% per annum with respect to base rate borrowings and 3.75% per annum with respect to eurodollar rate borrowings.

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%.

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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 and 100.0 million Rand ($11.5 million USD) in proceeds in the fourth 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.

Capital Leases

From time to time, the Company enters into lease arrangements with unrelated parties to finance the acquisition of equipment used on its job sites. Determinations of whether each arrangement should be treated as a capital or operating lease are made by applying the rules of ASC Topic 840 on accounting for leases.

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 *Accounting for Derivative Instruments and Hedging Activities Topic of FASB ASC*	Derivatives Balance Sheet Location	Fair Value June 30, 2013	Fair Value December 31, 2012
Interest rate swaps	Other noncurrent liabilities	$	$

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 second quarter ended June 30, 2013 and 2012 and for the six-month periods ending June 30, 2013 and 2012, 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			
	Second quarter ended June 30, (Unaudited)		Six months ended June 30, (Unaudited)			Second quarter ended June 30, (Unaudited)		Six months ended June 30, (Unaudited)	
	2013	2012	2013	2012		2013	2012	2013	2012
Interest rate swaps	$	$	$	$ (6)	Interest Expense	$	$	$	$ 246

The amount of gain (loss) recognized in 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

Common Stock

As of June 30, 2013, there were 14,765,493 shares of Class A Common Stock and 24,528,208 shares of Class B Common Stock outstanding. There were 14,564,928 shares of Class A Common Stock and 24,712,513 outstanding at December 31, 2012.

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 shareholders have effected such conversions to allow for the sale or potential future sale of the resulting Class A Shares.

Accumulated Other Comprehensive income (loss)

The changes in accumulated other comprehensive loss by component, net of tax, are as follows:

For the three months ended June 30, 2013:

In thousands	Foreign currency translation	Pension and post retirement benefit plans	Total
Balance at March 31, 2013	$ (5,469)	$ (7,219)	$ (12,688)
Other comprehensive income before reclassifications	(3,194)		(3,194)
Amounts reclassified from accumulated other comprehensive income, net of tax of $254		89	89
Net current-period other comprehensive income	(3,194)	89	(3,105)
Balance at June 30, 2013	$ (8,663)	$ (7,130)	$ (15,793)

For the six months ended June 30, 2013:

In thousands	Foreign currency translation	Pension and post retirement benefit plans	Total
Balance at December 31, 2012	$ (1,402)	$ (7,561)	$ (8,963)
Other comprehensive income before reclassifications	(7,261)		(7,261)
Amounts reclassified from accumulated other comprehensive income, net of tax of $254		431	431
Net current-period other comprehensive income	(7,261)	431	(6,830)
Balance at June 30, 2013	$ (8,663)	$ (7,130)	$ (15,793)

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The amounts reclassified from accumulated other comprehensive income consisted of the amortization of actuarial losses on defined benefit plans and were charged to selling, general and administrative expenses.

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 three grants of stock options under the Long Term Incentive Plan. On April 13, 2011, the date of the Company s initial public offering, the Company granted 519,390 stock options. On April 13, 2012, the Company granted 386,500 stock options and on February 18, 2013, the Company granted 508,300 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 market 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 price 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. The 2013 grant has an exercise price of $13.35 and half the award is exercisable only when the stock price is $15.36 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. For the option grants in 2011 and 2012, 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 the option grants in 2013 the expected volatility was estimated using a combination of peer group companies and the Company s own historical volatility for the period from its initial public offering in April 2011 through the 2013 grant date.

For that portion of the award which is subject to the additional market 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:

	2013 Grant		2012 Grant		2011 Grant	
	Time based vesting only	Time based vesting + market criteria	Time based vesting only	Time based vesting + market criteria	Time based vesting only	Time based vesting + market criteria
Options granted	254,150	254,150	193,250	193,250	259,695	259,695
Exercise price	$ 13.35	$ 13.35	$ 11.18	$ 11.18	$ 13.00	$ 13.00
Minimum stock price for exercise	N/A	$ 15.36	N/A	$ 12.86	N/A	$ 14.95
Weighted average fair value of grant	$ 7.42	$ 7.16	$ 5.77	$ 5.73	$ 6.84	$ 6.78
Total fair value of options granted (in thousands)	$ 1,885	$ 1,819	$ 1,115	$ 1,107	$ 1,776	$ 1,761

	2013 Grant		2012 Grant		2011 Grant	
	Time based vesting only	Time based vesting + market criteria	Time based vesting only	Time based vesting + market criteria	Time based vesting only	Time based vesting + market criteria
Risk free rate	1.27%	2.09%	1.27%	2.08%	2.59%	3.42%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected forfeiture rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Expected volatility	57.59%	53.26%	52.41%	49.16%	50.87%	48.32%
Expected term in years	6.50	6.58	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 market based options by amortizing each individual tranche over the estimated requisite service period. During the six-month period ended June 30, 2013 and June 30, 2012, the Company recognized $1.4 million and $0.8 million, respectively, in share based compensation expense related to options issued under the Long Term Incentive Plan.

As of June 30, 2013 there were 1,358,570 stock options outstanding, of which 180,096 were vested. Of the vested total, 90,048 are subject to a performance condition and may only be exercised if the price of the Company s common stock closes at $14.95 or higher on the day before exercise.

Long Term Incentive Plan Restricted Shares

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.

On June 5, 2013, the Company granted an additional 16,260 shares of Class A Common Stock to independent members of its board of directors. These shares granted will vest if the recipient remains installed on the Company s board of directors on the day immediately prior to the Company s 2014 annual stockholder meeting. The shares were valued at $14.76 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 awards during the six-month period ended June 30, 2013. As of June 30, 2013, the Company had 37,728 shares granted and outstanding of which 21,468 are vested.

Note 10 Operating Segments

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 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):

	Second quarter ended June 30,		Six months ended June 30,	
	2013 (unaudited)	**2012 (unaudited)**	**2013 (unaudited)**	**2012 (unaudited)**
Revenues, net of inter-segment revenues				
Mill Services Group	$ 171,377	$ 182,598	$ 343,728	$ 362,668
Raw Material and Optimization Group	460,121	486,743	877,311	1,053,615
Administrative Group	(77)	14	(23)	30
	$ 631,421	$ 669,355	$ 1,221,016	$ 1,416,313
Adjusted earnings before interest, taxes, depreciation and amortization				
Mill Services Group	$ 34,477	$ 35,441	$ 67,227	$ 67,858

Raw Material and Optimization Group	11,049	11,644	24,818	26,258
Administrative Group	(9,441)	(9,238)	(17,688)	(19,476)
	$ 36,085	$ 37,847	$ 74,357	$ 74,640

	Second quarter ended June 30,		Six months ended June 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Depreciation and Amortization				
Mill Services Group	$ 17,587	$ 14,616	$ 34,369	$ 28,725
Raw Material and Optimization Group	65	103	151	193
Administrative Group	2,005	2,020	4,016	4,040
	$ 19,657	$ 16,739	$ 38,536	$ 32,958

	June 30, 2013 (unaudited)	December 31, 2012
Total assets		
Mill Services Group	$ 654,544	$ 720,942
Raw Material and Optimization Group	299,358	315,884
Administrative Group	58,985	(27,032)
	$ 1,012,887	$ 1,009,794

	Second quarter ended June 30,		Six months ended June 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Percentage of total revenue contributed by each Segment:				
Mill Services Group	27.1%	27.3%	28.1%	25.6%
Raw Material and Optimization Group	72.9%	72.7%	71.9%	74.4%

The following table provides a reconciliation of earnings before interest, taxes, depreciation and amortization to income before tax for the periods indicated (in thousands):

	Second quarter ended June 30,		Six months ended June 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Adjusted earnings before interest, taxes, depreciation and amortization	$ 36,085	$ 37,847	$ 74,357	$ 74,640
Less: Depreciation and Amortization	(19,657)	(16,739)	(38,536)	(32,958)
Interest Expense	(5,362)	(5,923)	(11,335)	(14,024)
Loss on early extinguishment of debt			(1,102)	(12,300)
Income Before Income Taxes	$ 11,066	$ 15,185	$ 23,384	$ 15,358

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):

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	Second quarter ended June 30, 2013 (unaudited)	2012 (unaudited)	Six months ended June 30, 2013 (unaudited)	2012 (unaudited)
U.S. plans				
Service cost	$	$	$	$
Interest cost	220	242	441	485
Expected return on plan assets	(306)	(308)	(611)	(616)
Net amortization	303	226	604	451
Net periodic pension costs-U.S. plans	217	160	434	320
Canadian plans				
Service cost	59	53	118	106
Interest cost	62	63	123	126
Expected return on plans assets	(52)	(52)	(103)	(104)
Net amortization	15	11	30	22
Net periodic pension costs-Canadian plans	84	75	168	150
Other plans				
Defined contribution	886	764	1,961	1,856
Multi-employer pension plans	1,343	1,457	2,796	2,866
Total other plans	2,229	2,221	4,757	4,722
Total net pension expense	$ 2,530	$ 2,456	$ 5,359	$ 5,192

The Company s contributions to its defined benefit pension plans for the six months ended June 30, 2013 and 2012 were $0.9 million and $1.0 million, respectively.

For the full year 2013, the Company estimates that it will make employer contributions to its defined benefit pension plans of approximately $0.9 million. The following table reports net periodic cost for the Company s other post-employment benefit plans (in thousands):

	Second quarter ended June 30, 2013 (unaudited)	2012 (unaudited)	Six months ended June 30, 2013 (unaudited)	2012 (unaudited)
Service cost	$ 84	$ 76	$ 167	$ 152
Interest cost	73	78	146	156
Net amortization	25	17	51	34
Net periodic costs	$ 182	$ 171	$ 364	$ 342

The Company does not expect to contribute to the other post-employment benefit plan in 2013 and intends to pay benefit claims as they become due. For the six months ended June 30, 2013 and 2012, 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 and bank term loan facility both 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 secured term loan is estimated from available information from an inactive market. The fair value of the Company s capital equipment leases has been estimated based on future expected cash flows relative to current interest rates.

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

	June 30, 2013 (unaudited)	December 31, 2012
Carrying value of financial instruments in:		
Long-term debt (includes current portion)		
Senior secured term loan due 2019, net of original issue discount	$ 296,165	$ 295,086
Bank term loan facility	11,300	14,958
Capital equipment leases, installment notes and noncontrolling partner loan	4,514	6,349
Total long-term debt	$ 311,979	$ 316,393
Fair value:		
Long-term debt (includes current portion)		
Senior secured term loan due 2019	$ 298,500	$ 300,728
Bank term loan facility	11,300	14,958
Capital equipment leases, installment notes and noncontrolling partner loan	4,514	6,349
Total long-term debt	$ 314,314	$ 322,035

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.

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. 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 June 30, 2013 was approximately $8.2 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.

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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. In February 2013, RG Steel Wheeling, LLC, the entity against whom the Award was entered, and various affiliated companies, including RG Steel Sparrows Point, LLC and RG Steel Warren, LLC (collectively, the Plaintiffs), filed adversary actions against the Company asserting causes of action under the preference and fraudulent transfer sections of the Bankruptcy Code with respect to transfers alleged to have been received by the Company from the Plaintiffs prior to the filing of the bankruptcies. The above described complaints are generic, in nature, and at this juncture, prevent the Company from accurately assessing the extent to which the relief sought relates to payments received or set offs asserted by the Company in respect of the award; nonetheless, the Company believes that it has meritorious defenses to any such claims. The Company has not recorded a liability with regard to such claims.

During the six months ended June 30, 2013, the Company recorded no amounts related to the arbitration award. During the three months ended June 30, 2012, the Company recorded $3.0 million against the arbitration award and incurred related contingent legal fees of $0.6 million. During the six months ended June 30, 2012, the Company recorded $5.1 million against the arbitration award and incurred related contingent legal fees of $1.0 million.

Note 15 Related-Party Transactions

The Company incurred and paid management fees and expenses incurred to an affiliate of its majority owner, Onex Partners II LP, totaling $0.5 million and $0.5 million for the six months ended June 30, 2013 and 2012, respectively. The second quarter 2013 and 2012 amounts incurred were $0.2 million and $0.2 million, respectively.

Note 16 Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is then necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for us in fiscal 2013. We do not believe that ASU No. 2012-02 will have a material impact on our consolidated financial statements.

In February 2013 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02 (ASU 2013-02), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The ASU requires reporting and disclosure about changes in accumulated other comprehensive income (AOCI) balances and reclassifications out of AOCI. For public companies, the ASU is effective prospectively for fiscal years and interim periods within those years beginning after 15 December 2012. The Company adopted this ASU in the first quarter of 2013 and the disclosure is presented in Note 8 Stockholders Equity.

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.

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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 second quarter and six-month period ended June 30, 2013 compared to the second quarter and six-month period ended June 30, 2012.

Liquidity and Capital Resources. This section provides an analysis of our cash flows for the six-month period ended June 30, 2013 compared to the six-month period ended June 30, 2012. 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 81 customer sites in 12 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 35 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.

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, many of our contracts 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 are included 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. This location represented 2% of the Mill Services Group s Adjusted EBITDA for the six months ended June 30, 2013. 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 are included 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. Tables reconciling Total Revenue to Revenue After Raw Materials Costs are included in Summary Consolidated Financial Data.

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 2013 Revenue After Raw Materials Costs and Adjusted EBITDA, respectively, outside of the U.S. and Canada. 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, Africa, Asia and the Middle East.

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 some Revenue from Sale of Materials by buying, processing, and selling scrap for our own account.

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.

For the six months ended June 30, 2013, 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.

For the six months ended June 30, 2013, 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 upon the sale of said raw materials.

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 loss on modification and early extinguishment of debt, equity investments, Interest Expense, Net and certain other items that we believe are not indicative of future results.

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 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.

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.

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.

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 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.

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Revenue from Sale of Materials

Raw materials procurement and logistics In our raw materials procurement business, we generally engage in two types of transactions that require different accounting treatment. We evaluate the accounting treatment for these transactions based on their individual facts and circumstances, and we categorize them into two general groupings:

(1) Transactions where we purchase raw materials from a supplier and sell the raw materials to a customer, for which we invoice the customer for the full sale price of the goods. In this first type of transaction model, it is common for us to arrange for a sale to our customer and a matching purchase from our vendor almost simultaneously. During the six months ended June 30, 2013, approximately 91% of the Company s raw material procurement activity by volume was made under this transaction model; and,

(2) Transactions where we arrange delivery of raw materials shipments to a customer directly from a supplier, for which we earn a contractually determined, volume based arranging fee. In this second type of transaction, we invoice the customer for our arranging fee (but not for the sale price of the goods, which is paid directly by the customer to the vendor). During the six months ended June 30, 2013, approximately 9% of the Company s raw material procurement activity by volume was transacted under this model.

For each individual transaction, we make a determination as to whether we should record revenue for the full value of the shipment, or alternatively should only record revenue for our contractually determined arranging fee, based on our judgment as to whether we are acting as principal or agent in the transaction based on our consideration of the criteria set forth in ASC 605-45.

We record the full value of the material shipped and invoice that amount as revenue where we determine that we are acting as a principal in the transaction. In general, we conclude that we are acting as principal in the transaction when (i) we are the primary obligor under the arrangement meaning that we are the party primarily obligated to provide the material to our customer, and that obligation is not relieved even if our supplier fails to ship the material; (ii) we have general inventory risk in the transaction, even though we may mitigate that risk by entering into a purchase and sale almost simultaneously; (iii) we have discretion in supplier selection, (iv) we have risk in physical inventory loss; and (v) we have credit risk in the transaction.

If we determine, after evaluating the above factors, that we are the principal in the transaction, we record the full invoiced value of the transaction as revenue from the sale of materials and record the full cost of the transaction as cost of raw materials shipments. If we determine that we have not met the criteria to be considered a principal in the transaction and are acting as an agent in the transaction, we will record only the contractually determined fee or margin on the transaction as revenue from the sale of materials.

We recognize revenue from raw materials procurement sales when title and risk of loss pass to the customer, which can be either F.O.B. shipping point or F.O.B. destination depending on terms of sale, or when we have the right to receive the contractual fee. Revenues from these sources are included in Revenue from Sale of Materials. During the six months ended June 30, 2013, approximately 91% of the Company s raw material procurement activity by volume was made under the transaction model where the Company purchases raw materials from a supplier and sells the material to the customer acting as a principal in the transaction. During the six months ended June 30, 2013, approximately 9% of the Company s raw material procurement activity by volume was transacted where the Company arranged for delivery of raw material for a customer directly from a vendor earning a contractually determined volume-based fee acting as an agent in the transaction. The volume-based fee is recorded as Revenue From Sale of Materials and there is no corresponding Cost of Raw Material Shipment in this transaction model.

The Company also purchases, processes and sells scrap iron and steel inventory for the Company s own account. The Company recognizes revenue from scrap sales of material when title and risk of loss pass to the customer, which can be either F.O.B. shipping point or destination depending on terms of sale. Revenues from these sources are included in Revenue from Sale of Materials.

Service Revenue

Metal recovery, slag handling, processing, and sales We generate revenue by removing slag from a furnace and processing it to separate metallic material from other slag components. The separated metallic material is generally reused in production of steel by the host mill or sold to other end users, and the remaining nonmetallic material is generally sold to third parties as aggregate. The Company recognizes revenue from slag processing and metal recovery services when it performs the services and revenue from co-product sales when title and risk of loss pass to the customer. Revenues from these sources are included in Service Revenue.

Semi finished material handling; scrap management preparation We generate revenue from receiving, processing and managing raw material inputs, primarily scrap, and handling and recording inventory of finished products where all of the production is generally completed at the customer s location. Revenues from these sources are included in Service Revenue and are recognized at the time the service is performed.

Surface conditioning We generate revenue from removing imperfections from semi-finished steel processed for use in high-end applications. The Company recognizes revenue from surface conditioning services when it performs the services. Revenues from these sources are included in Service Revenue.

Raw materials optimization Revenue from optimization fees represents income from determining, through use of its internally developed and proprietary software, the most economical combination of input materials necessary to make a customer s specified chemistry of steel. The Company recognizes income from optimization fees as the optimization service is provided. Optimization software maintenance fees are recognized in income over the contract life. Revenues from these sources are included in Service Revenue.

Other revenues We generate from various additional services, including dust and debris management, equipment rental services, mobile equipment maintenance, refractory removal, vacuumation, as well as revenues from services to customers outside of the normal contractual agreement. The Company recognizes revenue as the service is provided. Machine shop service revenues are recognized as work is performed. Revenues from these sources are included in Service Revenue.

In certain instances, we have contracts under which we provide multiple services at a single mill site, but each type of service is detailed in a separate scope of work and subject to a separate fee structure within the contract. In those instances, each service that we provide is also provided individually to other customers and other mill sites, providing evidence that the individual services have stand alone value under ASC 605-25-5(a). We allocate revenue to each individual service based on the specific fee structure laid out in the contract as such fees fall within a consistent range of similar fees charged where we provide the service as a single service at a mill site. We believe the contractual pricing structure and its relationship to pricing for similar services offered to other customer provides objective evidence of the prices of the services we provide and, accordingly, our allocation is consistent with the relative selling price method prescribed in ASC 605-25-30-2.

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 is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. Indefinite life intangibles are evaluated for potential impairment whenever events or changes in 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.

During 2012, we did not record any impairment charge related to goodwill. We tested for impairment on October 1, 2012, the annual test date. There were no events that triggered any additional impairment tests during 2012 or the first six months of 2013. In testing for impairment, we estimate the fair values of our reporting units under the income and market approach.

The income approach was based upon projected future cash flows discounted to present value using factors that consider the timing and risk associated with the future cash flows. Fair value for each reporting unit was estimated using future cash flow projections based on management s long range estimates of market conditions over a multiple year horizon. A 4% perpetual growth rate was used to arrive at the estimated future terminal value. A discount rate of 10% was used for the Mill Services Group reporting unit and a discount rate of 12% was used for the Raw Material and Optimization Group reporting unit which were based upon the cost of capital of other comparable companies adjusted for company specific risks.

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The market approach was based upon an analysis of valuation metrics for companies comparable to our reporting units and the pricing range for the company s publicly traded shares. The fair value of the business enterprise value for both reporting units was estimated using a range of EBITDA multiples of market participants. We determined the fair value estimate during its testing using the income approach and used the market approach to corroborate the value as determined by the income approach.

In May 2009, the continuing economic downturn and a change in our forecast related to certain customers and sites triggered a goodwill impairment evaluation in advance of our annual impairment evaluation. In performing the first step of the evaluation, we determined that the estimated fair value of our Raw Material and Optimization Group exceeded its carrying value and that the second step of the evaluation was not necessary for that segment; however, we determined that the estimated fair value of the Mill Services Group was less than its carrying amount and proceeded to the second step of the evaluation for that segment. In the second step of the impairment evaluation, we determined that the carrying amount of goodwill allocated to our Mill Services Group exceeded its estimated implied fair value of goodwill and, accordingly, recorded a $55.0 million impairment loss.

In the May 2009 impairment analysis, the income approach was based upon projected future cash flows discounted to present value using factors that consider the timing and risk associated with the future cash flows. Fair value for each reporting unit was estimated using future cash flow projections based on management s long range estimates of market conditions over a multiple year horizon. A 3% perpetual growth rate was used to arrive at the estimated future terminal value. An after-tax discount rate of 14.6% was used to discount the projected cash flows for both reporting units which was based upon the cost of capital of other market participants adjusted for company specific risks. The market approach, which was based upon an analysis of valuation metrics for comparable companies, was used in the May 2009 impairment test to corroborate the value as determined by the income approach.

As of June 30, 2013, the Mill Services Group and the Raw Material and Optimization Group had $161.3 million and $80.1 million of goodwill, respectively. The 2012 annual goodwill impairment test, as of October 1, 2012, indicated that the estimated fair value of our Mill Services Group and our Raw Material and Optimization Group exceeded their carrying values by approximately 86% and 153%, respectively. The estimates of fair value of a reporting unit under the income approach are based on a discounted cash flow analysis which requires us to make various judgmental assumptions, including assumptions about the timing and amount of future cash flows, growth rates and discount rates. If business conditions change or other factors have an adverse effect on our estimates of discounted future cash flows, assumed growth rates or discount rates, future tests of goodwill impairment may result in additional impairment charges.

Equity Investment. We account for investments in entities where we exert significant influence, but do not control the entity, using the equity method of accounting under ASC 323-10. We record our initial investment at cost and record a proportional share of net income of the entity in our consolidated statement of operations.

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 Asset*s. 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 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. During 2012, we substantially liquidated the assets of one of our foreign subsidiaries. ASC 830-30-40-1 requires that upon substantial liquidation, amounts that had previously been charged to the cumulative translation adjustment be reported in current earnings. Accordingly, we recorded a $0.4 million charge in the fourth quarter of 2012.

Grants from Government Agencies. We recognize receivables for grants from government agencies when we are reasonably assured that the amounts will be received and when the conditions necessary to receive that grant have been fully achieved. We recognize the benefit of government grants in our statement of operations on a systematic and rational basis over the periods of consumption or commitment as applicable. In 2012, we received direct notice from the Department of

Trade and Industry of the Republic of South Africa that we have met the conditions and will receive grants totaling approximately $5.2 million. The grant was for a combination of asset investment and job creation and saving and because there were multiple conditions to receiving the grant, we determined the appropriate treatment for the grant is to record the amount as deferred revenue and recognize it in revenue ratably over the life of our service contracts. For the six months ended June 30, 2013, we recognized $1.7 million and in the fourth quarter of 2012, we recognized $0.7 million related to the first year of our seven year contracts.

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. To date, we have not seen a material financial impact as a result of these Acts. However, we are continuing to evaluate the impact of this comprehensive legislation on our self-insured health plans and our business, financial condition and results of operations as additional provisions of the Acts become effective over time.

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. We account for share based payments under the plan at the fair value of the award on the date of grant or the date of modification of a grant. For grants that are subject to time-based vesting only, we recognize expense over the vesting period. For grants that are subject to time based vesting and a market condition, we recognize expense over the estimate 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. In June 2013, we issued 16,260 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.

Results of Operations

Quarter ended June 30, 2013 compared to Quarter ended June 30, 2012

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)	Quarter ended June 30, 2013	2012	Variances $	%
	(unaudited)			
Statement of Operations Data:				
Revenue:				
Revenue from Sale of Materials	$ 493,812	$ 533,034	$ (39,222)	-7.4%
Service Revenue	137,609	136,320	1,289	0.9%
Total Revenue	631,421	669,354	(37,933)	-5.7%
Costs and expenses:				
Cost of Raw Materials Shipments	478,273	515,776	(37,503)	-7.3%
Site Operating Costs	100,480	100,017	463	0.5%
Selling, General and Administrative Expenses	16,522	15,714	808	5.1%
Depreciation and Amortization	19,657	16,739	2,918	17.4%

Total costs and expenses	614,932	648,246	(33,314)	-5.1%
Income from Operations	16,489	21,108	(4,619)	-21.9%
Loss on equity investment	(61)		(61)	
Interest Expense, Net	(5,362)	(5,923)	561	9.5%

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(dollars in thousands)	Quarter ended June 30, 2013	2012	Variances $	%
	(unaudited)			
Income Before Income Taxes	11,066	15,185	(4,119)	-27.1%
Income Tax Expense	(2,841)	(5,475)	2,634	48.1%
Net Income	$ 8,225	$ 9,710	$ (1,485)	-15.3%
Other Financial Data:				
Revenue After Raw Materials Costs:				
Consolidated:				
Total Revenue	$ 631,421	$ 669,354	$ (37,933)	
Cost of Raw Materials Shipments	(478,273)	(515,776)	(37,503)	
Revenue After Raw Materials Costs	$ 153,148	$ 153,578	$ (430)	-0.3%
Mill Services Group:				
Total Revenue	$ 171,377	$ 182,597	$ (11,220)	
Cost of Raw Materials Shipments	(34,572)	(45,468)	10,896	
Revenue After Raw Materials Costs	$ 136,805	$ 137,129	$ (324)	-0.2%
Raw Material and Optimization Group:				
Total Revenue	$ 460,121	$ 486,744	$ (26,623)	
Cost of Raw Materials Shipments	(443,704)	(470,309)	26,605	
Revenue After Raw Materials Costs	$ 16,417	$ 16,435	$ (18)	-0.1%
Administrative:				
Total Revenue	$ (77)	$ 13	$ (90)	
Cost of Raw Materials Shipments	3	1	2	
Revenue After Raw Materials Costs	$ (74)	$ 14	(88)	
Adjusted EBITDA:				
Net Income	$ 8,225	$ 9,710	$ (1,485)	
Income Tax Expense	2,841	5,475	(2,634)	
Interest Expense, Net	5,362	5,923	(561)	
Depreciation and Amortization	19,657	16,739	2,918	
Adjusted EBITDA	$ 36,085	$ 37,847	$ (1,763)	-4.7%
Adjusted EBITDA by Operating Segment:				
Mill Services Group	$ 34,477	$ 35,440	$ (963)	-2.7%
Raw Material and Optimization Group	11,049	11,645	(596)	-5.1%
Administrative	(9,441)	(9,238)	(204)	-2.2%
	$ 36,085	$ 37,847	$ (1,763)	-4.7%
Adjusted EBITDA Margin	23.6%	24.6%	-1.0%	

Revenue from Sale of Materials. Revenue from Sale of Materials was $631.4 million for the second quarter of 2013 compared to $669.4 million for the second quarter of 2012. Revenue from Sale of Materials is primarily generated from raw material procurement activities, which produced $458.5 million or 93% of the Revenue from Sale of Materials in the second quarter of 2013, and $484.9 million or 91% in the second quarter of 2012. The remaining Revenue from Sale of Materials of $35.3 million in the second quarter of 2013 and $48.1 million in the second quarter of 2012 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 7.4% and the cost to procure the materials decreased by 7.3% in the second quarter of 2013 compared to the second quarter of 2012. The total volume of material we procured, arranged or managed declined 17%, however, when we exclude the internally generated scrap we handle for our customers, the total volume we procured or arranged in the second quarter of 2013 was approximately 5% lower than in the second quarter of 2012. The decrease in volume was accompanied by a decrease in the price of materials we procured for our customer which drove both the decline in Revenue from the Sale of Materials and the decrease in Cost of Scrap Shipments. The price of #1 Heavy Melt, an indicative grade of scrap, decreased approximately 12% year-over-year.

Service Revenue. Service Revenue was $137.6 million in the second quarter of 2013 compared to $136.3 million in the second quarter of 2012, an increase of 0.9%. Service Revenue is primarily generated by our Mill Services Group which produced $135.9 million and $134.6 million in the second quarter of 2013 and 2012, 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 0.9% year-over-year despite a 4% decrease in same-site steel production at our customers locations. The increase in our Service Revenue was driven by $8.5 million in revenue from new sites and services, partially offset by a $2.1 million decrease from sites where we were no longer providing services due to shutdowns or contract non-renewals. Additionally, in the second quarter of 2012 we recorded $3.4 million of revenue from a customer that filed for bankruptcy protection in late May 2012 which did not recur in 2013 resulting in a year-over-year decline. That $3.4 million total included $3.0 million related to an arbitration award settlement stemming from the shutdown of operations at a previous customer site prior to the end of our service contract (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 7.4% decrease in Revenue from the Sale of Materials, the Cost of Raw Materials Shipments decreased 7.3% due to a decrease in the price of materials we procured for and sold to our customers and a market driven volume decrease.

Revenue After Raw Materials Costs. Revenue After Raw Materials Costs for our Mill Services Group decreased $0.3 million, or 0.2%, to $136.8 million in the second quarter of 2013 compared to the second quarter of 2012. Year-over-year Revenue After Raw Materials Costs increased due to new sites and services which contributed $8.5 million of incremental revenue, $2.6 million of which was generated from new international sites and services. This increase was offset by a $0.8 million decrease in revenue related to two contracts in the United States and Canada that were not renewed and a $0.3 million decrease from the cancellation of a contract in Serbia after our customer sold the mill to the Serbian government. The idling of steel making at two customer mills in the United States and Canada resulted in a $1.1 million year-over-year decrease in revenue. Additionally, in the second quarter of 2012 we recorded $3.4 million of revenue from a customer that filed for bankruptcy protection in late May 2012 which did not recur in 2013 resulting in a year-over-year decline. That $3.4 million total included $3.0 million related to the Arbitration Award Settlement. The remaining decline of $3.2 million was partially the result of a decrease in our customers steel production volume of approximately 4% on a same site basis.

The Revenue After Raw Materials Costs for our Raw Material and Optimization Group in the second quarter of 2013 of $16.4 million was consistent with the same period in 2012. The total volume we procured, arranged or managed declined 17%, while the volume of material we procured for and sold to our customers was down about 5%, an increase in the per ton margin on those shipments across most of our channels of business offset the volume decrease.

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 $0.5 million year-over-year, or 0.5%. New sites and contracts contributed $5.1 million of additional site operating costs in the second quarter of 2013 compared to the second quarter of 2012. Site operating costs related to other sites and contracts decreased $4.6 million, or approximately 5%, which was substantially driven by a decrease in our customers steel production volumes.

Selling, General and Administrative Expenses. Selling, General and Administrative Expenses for the second quarter of 2013 were $16.6 million, compared to $15.7 million in the second quarter of 2012, an increase of $0.9 million. The second quarter of 2012 benefited from a $0.6 million recovery of value added tax which did not recur in 2013, a $0.6 million increase in selling general and administrative expenses associated with our procurement activities, a $0.3 million increase in share based compensation costs and a $0.2 million increase in professional fees. These increases were partially offset by a $0.9 million decrease in accrual for incentive compensation.

Adjusted EBITDA. Adjusted EBITDA for the second quarter of 2013 was $36.1 million compared to $37.8 million for the second quarter of 2012, a decrease of 4.7%.

Our Mill Services Group s Adjusted EBITDA decreased $1.0 million, or 2.7%, to $34.5 million. The decrease was driven by a $2.4 million year-over-year decrease related to the Arbitration Award Settlement where we recognized adjusted EBITDA in the second quarter of 2012. A decrease in production by our mill services customers contributed to a same site decrease of approximately $1.4 million year-over-year. Additionally, the Mill Services Group adjusted EBITDA was negatively impacted by $1.0 million year-over-year by contracts that were not renewed, contracts that were renewed on slightly less favorable terms and customers sites experiencing longer term production outages. These decreases were partially offset by the favorable impact of new sites and contracts which contributed $3.8 million of additional EBITDA year over year.

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Our Raw Material and Optimization Group s Adjusted EBITDA increased by $0.6 million, or 5.1%. While the Revenue after Raw Material Cost generated by our Raw Material and Optimization Group was consistent year-over-year, costs increased $0.6 million primarily due to additional payroll associated with hiring new traders.

Our Administrative net expenses increased $0.2 million, or 2.2%, in the second quarter of 2013 compared to the second quarter of 2012. The increase in expense was largely due the unfavorable year-over-year impact of a $0.6 million favorable value added tax adjustment in the second quarter 2012 for which there was no corresponding amount in the second quarter of 2013. Additionally, administrative professional fees increased $0.2 million year-over-year and share based compensation costs increased $0.4 million year-over-year. These unfavorable year-over-year variances were partially offset by a $1.0 million decrease in our accrual for incentive compensation.

Adjusted EBITDA Margin. Adjusted EBITDA margin in the second quarter of 2013 was 23.6% compared to 24.6% in the second quarter of 2012. A variety of factors impact our Adjusted EBITDA margin including the relative contributions of the Mill Services Group and Raw Materials and Optimization Group, which have different margin characteristics, and the relationship of the Administrative Segment expenses to consolidated Revenue After Raw Materials Costs. The year-over-year decrease was largely driven by the impact of the Arbitration Award Settlement which had an unfavorable Adjusted EBITDA margin impact of about 1.0% year-over-year .

Depreciation and Amortization. Depreciation and amortization expense during the second quarter of 2013 was $19.7 million compared to $16.7 million in the second quarter of 2012, an increase of approximately 17.4%. The increase was driven by the depreciation expense associated with higher capital expenditures in 2012 and 2013. Much of that capital was expended at new sites in contracts where we began operations in 2012 and the first half of 2013.

Interest Expense, Net. Interest Expense, Net for the second quarter of 2013 was $5.4 million, compared to $5.9 million in the second quarter of 2012, a decrease of $0.5 million. This decrease is due to a reduction in rate on our senior secured term loan which was re-priced via an amendment in March 2013. The re-pricing had the impact of reducing our interest on the debt by approximately $3.0 million per year.

Income Tax Expense. Income Tax Expense for the second quarter of 2013 was $2.8 million, or 26% of our pre-tax income, compared to a $5.5 million expense, or 36% of our pre-tax income, in the second quarter of 2012. The Income Tax Expense for the second quarter of 2013 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 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 and other items. The effective rate for 2013 is lower than that for 2012 due principally to the impact of our forecasted income from lower tax jurisdictions.

Results of Operations

Six months ended June 30, 2013 compared to six months ended June 30, 2012

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.

	Six months ended June 30,		Variances	
(dollars in thousands)	**2013**	**2012**	**$**	**%**
	(unaudited)			
Statement of Operations Data:				
Revenue:				
Revenue from Sale of Materials	$ 947,442	$ 1,145,693	$ (198,251)	-17.3%
Service Revenue	273,574	270,620	2,954	1.1%
Total Revenue	1,221,016	1,416,313	(195,297)	-13.8%
Costs and expenses:				
Cost of Raw Materials Shipments	912,064	1,106,836	(194,772)	-17.6%
Site Operating Costs	202,148	201,862	286	0.1%
Selling, General and Administrative Expenses	32,343	32,975	(632)	-1.9%

Depreciation and Amortization	38,536	32,958	5,578	16.9%
Total costs and expenses	1,185,091	1,374,631	(189,540)	-13.8%

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(dollars in thousands)	Six months ended June 30, 2013	2012	Variances $	%
	(unaudited)			
Income from Operations	35,925	41,682	(5,757)	-13.8%
Interest Expense, Net	(11,335)	(14,024)	2,689	19.2%
Loss on equity investment	(104)		(104)	
Loss on early extinguishment of debt	(1,102)	(12,300)	11,198	
Income Before Income Taxes	23,384	15,358	8,026	52.2%
Income Tax Expense	(7,102)	(5,536)	(1,566)	28.3%
Net Income	$ 16,282	$ 9,822	$ 6,460	65.8%
Other Financial Data:				
Revenue After Raw Materials Costs:				
Consolidated:				
Total Revenue	$ 1,221,016	$ 1,416,313	$ (195,297)	
Cost of Raw Materials Shipments	(912,064)	(1,106,836)	(194,772)	
Revenue After Raw Materials Costs	$ 308,952	$ 309,477	$ (525)	-0.2%
Mill Services Group:				
Total Revenue	$ 343,728	$ 362,668	$ (18,940)	
Cost of Raw Materials Shipments	(69,961)	(89,179)	19,218	
Revenue After Raw Materials Costs	$ 273,767	$ 273,489	$ 278	0.1%
Raw Material and Optimization Group:				
Total Revenue	$ 877,311	$ 1,053,615	$ (176,304)	
Cost of Raw Materials Shipments	(842,098)	(1,017,647)	175,549	
Revenue After Raw Materials Costs	$ 35,213	$ 35,968	$ (755)	-2.1%
Administrative:				
Total Revenue	$ (23)	$ 30	$ (53)	
Cost of Raw Materials Shipments	(5)	(10)	5	
Revenue After Raw Materials Costs	$ (28)	$ 20	$ (48)	
Adjusted EBITDA:				
Net Income	$ 16,282	$ 9,822	$ 6,460	
Income Tax Expense	7,102	5,536	1,566	
Interest Expense, Net	11,335	14,024	(2,689)	
Loss on early extinguishment of debt	1,102	12,300	(11,198)	
Depreciation and Amortization	38,536	32,958	5,578	
Adjusted EBITDA	$ 74,357	$ 74,640	$ (283)	-0.4%
Adjusted EBITDA by Operating Segment:				
Mill Services Group	$ 67,227	$ 67,857	$ (630)	-0.9%
Raw Material and Optimization Group	24,818	26,260	(1,442)	-5.5%
Administrative	(17,688)	(19,477)	1,789	9.2%
	$ 74,357	$ 74,640	$ (283)	-0.4%

Adjusted EBITDA Margin	24.1%	24.1%

Revenue from Sale of Materials. Revenue from Sale of Materials was $947.4 million for the six-month period ending June 30, 2013 compared to $1,145.7 million for the six-month period ending June 30, 2012. Revenue from Sale of Materials is primarily generated from raw material procurement activities, which produced $874.0 million, or 92%, of the Revenue from Sale of Materials in the six-month period ending June 30, 2012, and $1,049.6 million, or 92%, in the six-month period ending June 30, 2012. The remaining Revenue from Sale of Materials of $73.4 million in the six-month period ending June 30, 2013 and $96.1 million in the six-month period ending June 30, 2012 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 17.3% in the six-month period ending June 30, 2013 compared to the six-month period ending June 30, 2012. The total volume of material we procured or arranged for our customers in the first six months of 2013 decreased approximately 5% compared to the first six months of 2012. 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 4%. The decrease in Revenue from the Sale of Materials from the decrease in procured volume was accompanied by a decrease in the market price of scrap and other raw materials. The composite price of #1 Heavy Melt, an indicative grade of scrap, decreased approximately 13% year-over-year.

Service Revenue. Service Revenue was $273.6 million in the six-month period ending June 30, 2013, compared to $270.6 million in the six-month period ending June 30, 2012. Service Revenue is primarily generated by our Mill Services Group which produced $270.0 million and $267.0 million in the six-month periods ending June 30, 2013 and June 30, 2012, 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 1.1% year-over-year despite a 5% same-site decrease in steel production at our customers locations. The increase in our service revenue was driven by $15.2 million in revenue from new sites and services, partially offset by a $3.8 million decrease from sites where we no longer provide services due to shutdowns or contract non-renewals and by a decrease of $6.7 million from a customer that filed for bankruptcy protection in late May 2012. That $6.7 million total included $5.1 million related to the Arbitration Award Settlement that was recognized in the first half of 2012. 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 17.3% decrease in Revenue from the Sale of Materials, the Cost of Raw Materials Shipments decreased 17.6% due to a decrease in the price of materials we procured for our customers and a market driven volume decrease.

Revenue After Raw Materials Costs. Revenue After Raw Materials Costs for our Mill Services Group increased $0.3 million, or 0.1%, to $273.8 million in the six-month period ending June 30, 2013 compared to the six-month period ending June 30, 2012. Year-over-year Revenue After Raw Materials Costs increase due to new sites and services which contributed $15.2 million of incremental revenue, $3.3 million of which was generated from new international sites and services. This increase was offset by a $1.9 million decrease in revenue related to three contracts in the United States and Canada that were not renewed and $0.7 million decrease from the cancellation of a contract in Serbia after our customer sold the mill to the Serbian government. The idling of steel making at two North American customer mills resulted in a $1.1 million year-over-year decrease in revenue. Additionally, in the first half of 2012 we recorded $6.7 million of revenue from a customer that filed for bankruptcy protection in late May 2012 which did not recur in 2013 resulting in a year-over-year decline. That $6.7 million total included $5.1 million related to the Arbitration Award Settlement. The remaining decline of $4.5 million was primarily the result of a decrease in our customers steel production volume of approximately 5% on a same-site basis.

Revenue After Raw Materials Costs for our Raw Material and Optimization Group decreased 0.8 million, or 2.1%, to $35.2 million. While the volume of material we procured for and sold to our customers was down about 5%, an increase in the per ton margin across most of our channels of business offset the volume decrease. Including a $1.1 million favorable non-recurring true-up adjustment for certain accrued costs, our per ton margin increased approximately 12%. Excluding that adjustment, our per ton margin would have increased approximately 8%.

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 $0.3 million, 0.1%, year-over-year. New sites and contracts contributed $8.9 million of additional site operating costs in the six-month period ended June 30, 2013 as compared to the six-month period ended June 30, 2012. Site operating costs related to other sites and contracts decreased by $8.6 million, or approximately 4% which was substantially driven by a decrease in our customers steel production.

Selling, General and Administrative Expenses. Selling, General and Administrative Expenses for the six-month period ending June 30, 2013 were $32.3 million, compared to $33.0 million in the six-month period ending June 30, 2012, a decrease of 1.9%. The decrease was driven by a $2.0 million year-over-year decrease in our accrual for incentive compensation and a non-recurring benefit of $0.9 million related to insurance recoveries on legacy workers compensations costs. Those decreases in administrative expense was partially offset by the $0.6 million unfavorable year-over-year effect of a 2012 benefit related to a value added tax recovery, a $0.8 million increase in our selling, general and administrative expenses associated with our procurement activities, a $0.4 million increase in share based compensation cost and a $0.6 million increase in administrative professional fees.

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Adjusted EBITDA. Adjusted EBITDA for the six-month period ending June 30, 2013 was $74.4 million compared to $74.6 million for the six-month period ending June 30, 2012, a decrease of $0.3 million or 0.4%.

Our Mill Services Group s Adjusted EBITDA decreased $0.6 million, or 0.9%, to $67.2 million. The decrease in Adjusted EBITDA was driven by a $4.7 million year-over-year decrease in Adjusted EBITDA related to the customer with whom we had the Arbitration Award Settlement. A decrease in production by our mill services customers contributed to a same site decrease of approximately $2.8 million year-over-year. Additionally the mill services group adjusted EBITDA was negatively impacted by $2.2 million year-over-year by contracts that were not renewed, contracts that were renewed on less favorable terms and customers sites experiencing longer term production outages. Those decreases were partially offset by the favorable impact of new sites and contracts which contributed $6.8 million of additional EBITDA year-over-year and by a $2.2 million adjusted EBITDA increase at two international sites where we began operating on January 1, 2012, but experienced losses in the first quarter of 2012 during the ramp-up of those operations.

Our Raw Material and Optimization Group s Adjusted EBITDA decreased $1.4 million or 5.5% year-over-year, driven by a decrease in the volume of raw materials we procured for and sold to our customers of approximately 5%. Domestic steel production was down about 5% in the first half of 2013 compared to the first half of 2012 and that decline contributed to the decrease in our procurement volume. Our overall per ton margins improved, helping to partially mitigate the reduced volume. Our per ton margins benefited from a $1.1 million favorable non-recurring adjustment related to the true-up of certain accrued costs. The operating costs for the Raw Material and Optimization Group, which primarily are included in selling, general and administrative expenses, increased year-over-year driven by higher wage and benefit costs.

Our Administrative net expenses decreased $1.7 million in the six-month period ending June 30, 2013 to $17.7 million, compared to the six-month period ending June 30, 2012. The decrease was primarily the result of a $2.0 million decrease in performance-based compensation accruals and severance costs. We also benefited from a $0.9 million insurance recovery on legacy workers compensation costs that is non-recurring in nature. The first half of 2012 had benefited from a $0.6 million refund of value added tax that resulted in a negative year-over-year variance as no such benefit recurred in the first half of 2013.

Adjusted EBITDA Margin. Our Adjusted EBITDA margin for the first half of 2013 was 24.1%, consistent with the first half of 2012. A variety of factors impact our Adjusted EBITDA margin including the relative contributions of the Mill Services Group and Raw Material and Optimization Group, which have different margin characteristics, and the relationship of the Administrative Segment expenses to consolidated Revenue After Raw Material Costs.

Depreciation and Amortization. Depreciation and amortization expense during the six-month period ending June 30, 2013 was $38.5 million compared to $33.0 million in the six-month period ending June 30, 2012, an increase of 16.9%. The increase resulted from higher capital expenditures in 2012 and 2013. Much of that capital was expended at new sites in contracts where we began operation in 2012 and the first half of 2013. Depreciation expense at those sites amounted to $5.3 million in the first half of 2013 compared to the $2.7 million in the first half of 2012, an increase of $2.6 million.

Interest Expense, Net. Interest Expense, Net for the six-month period ending June 30, 2013 was $11.3 million, compared to $14.0 million for the six-month period ending June 30, 2012, a decrease of $2.6 million. The decrease resulted from lower average outstanding debt balances and lower underlying interest rates resulting from our March 20, 2012 refinancing. In that refinancing we reduced our outstanding indebtedness by $80.2 million and reduced our overall interest rate by repaying our senior secured notes which carried a fixed rate of 9 $^{3}/_{4}$%.

On March 21, 2013, we completed an amendment to re-price our term loan. The amendment reduced the applicable margin on LIBOR borrowings from 4.50% to 3.75% and reduced the LIBOR floor from 1.25% to 1.00%. We expect that the re-pricing will save approximately $3.0 million of interest expense annually, but it did not have a significant impact in the first quarter of 2013 because it occurred late in the period.

Loss on Modification and Early Extinguishments of Debt. On March 21, 2103, we completed an amendment to re-price our term loan reducing our applicable margin by 0.75% and reducing our LIBOR floor by 0.25%. In connection with the transaction, we recorded a $1.1 million Loss on the Modification and Early Extinguishment of Debt. The charge consisted of $0.7 million in fees incurred in the transaction and $0.4 million to write-off deferred debt issuance costs and original issue discount associated with individual lenders who exited the facility in connection with the transaction.

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 the $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.

Income Tax Expense. Income Tax Expense for the six-month period ending June 30, 2013 was $7.1 million, or 30.4% of our pre-tax income, compared to $5.5 million of expense, or 36.0% of our pre-tax income in the six-month period ending June 30, 2012. The Income Tax Expense for the six months of 2013 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 income tax expense for the first half of 2013 was based on an annualized effective rate of 29.3%, but is adjusted to include a $0.7 million charge associated with the immediate recognition of the anticipated cost associated with a tax law change in South Africa.

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Liquidity and Capital Resources

The eligible accounts receivable and eligible inventory that comprise the collateral under the ABL facility as of June 30, 2013 supported a gross borrowing base of approximately $274.5 million. Our excess available balance was $241.5 million as we had no borrowings outstanding and $33.0 million of outstanding letters of credit. The gross borrowing base was approximately $75.5 million below the $350.0 million limit of the ABL facility. The ABL facility also 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 $15.0 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.

Cash Flow

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 six-month period ending June 30, 2013 was $52.1 million compared to $65.0 million in the six-month period ending June 30, 2012. Working capital items used $6.1 million of cash in the first six months of 2013 compared to providing $6.3 million in the first six months of 2012. 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 six-month period ending June 30, 2013 was $41.3 million, of which $15.4 million funded Growth Capital Expenditures, $20.7 million funded Maintenance Capital Expenditures and $5.4 million was spent on development and implementation of software and systems including our a new ERP system. In the six-month period ending June 30, 2012, our net cash used by investing activities consisted primarily of $38.1 million of Growth Capital Expenditures and $16.9 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 six months of 2013 was $4.0 million, mainly comprised of $5.8 million of scheduled debt repayments offset by $2.3 million in proceeds received in connection with the Amendment to TCIMS s outstanding senior secured Term Loan B credit agreement. Net cash used for financing activities in the first half of 2012 was $91.9 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. In the March 2012 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 $13.6 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 20, 2012 refinancing. The draw on the ABL was repaid prior to June 30, 2012.

Discretionary Cash Flow

During the six-month period ending June 30, 2013 we generated $53.7 million of Discretionary Cash Flow compared to $57.7 in the first six months of 2012. We define Discretionary Cash Flow as Adjusted EBITDA less Maintenance Capital Expenditures and it is calculated as follows for the periods indicated (in thousands):

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	Six months ended	
	June 30, 2013	June 30, 2012
Adjusted EBITDA	$ 74,357	$ 74,640
Maintenance Capital Expenditures	(20,665)	(16,937)
Discretionary Cash Flow	$ 53,692	$ 57,703

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

	Six months ended	
	June 30, 2013	June 30, 2012
Discretionary Cash Flow	$ 53,692	$ 57,703
Maintenance Capital Expenditures	20,665	16,937
Cash interest expense	(10,043)	(20,773)
Cash income taxes	(6,739)	(1,953)
Change in accounts receivable	11,201	4,673
Change in inventory	(212)	(5,162)
Change in account payable	(3,124)	10,323
Change in other current assets and liabilities	(13,979)	4,603
Other operating cash flows	610	(1,437)
Net cash provided by operating activities	$ 52,071	$ 64,914

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	6 months -2012	6 months -2013
Weighted average per ton price of #1 Heavy Melt Scrap	$ 209	$ 384	$ 411	$ 397	$ 344

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 six-month period ending June 30, 2013, our accounts receivable decreased $11.2 million, or 4.0% and our accounts payable decreased $3.1 million, or 1.2%. The decrease generally reflects a slight decrease in the selling price of the materials we procure for and sell to our customers.

During the six-month period ending June 30, 2012, our accounts receivable decreased $4.9 million, or 1.7%, to $287.7 million, and our inventory increased $5.2 million, or 9.2%, to $61.5 million, in each case compared to the levels present at December 31, 2011. Our accounts payable increased $10.3 million during the same period. We generally expect that movements in accounts receivable and inventory will be offset by movements in accounts payable driven by the volume and market price of the raw materials we procure for our customers. However, for the six months ending June 30, 2012 this was not the case. Our accounts receivable decreased and our accounts payable increased each generating a

positive cash flow impact. A decrease in days sales outstanding and a slight increase in days payable drove favorable cash flow from both accounts receivable and accounts payable. The increase in inventory was caused by an increase in the volume of inventory we had on hand.

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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.

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;

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;

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 June 30, 2013 and a $350 million variable rate, asset-based, revolving line of credit. At June 30, 2013, we had no outstanding asset-based revolving borrowings. Assuming no changes in variable rate borrowings from the amounts outstanding at June 30, 2013, 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.

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 six months ended June 30, 2013, we derived approximately 70.8% 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 six months ended June 30, 2013, we generated approximately $8.5 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 $1.7 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 $25.3 million in fuel and other petroleum-based supplies costs for the six months ended June 30, 2013. 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 2013 would likely change the indices used to calculate the 2014 price adjustment mechanism.

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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.

The Company is involved in a multi-year ERP project (using Microsoft Dynamics AX (AX) and SAI) to transform the Company s technology platforms and enhance its business information and transaction processing systems. An ERP system is a fully-integrated set of programs and databases that incorporate order processing, operational planning, equipment scheduling and maintenance, purchasing, billing, accounts receivables and payables, inventory management, and accounting and reporting. In the quarter ended June 30, 2013 the Company began to implement AX in parts of its North American MSG businesses and Corporate headquarters and expects the implementation to continue globally through calendar year 2014. SAI will support the RMOG business and will commence in the quarter ended December 31, 2013 in North America and globally in 2014. In connection with this project we are updating internal controls over financial reporting, as necessary, due to changes to our business processes and accounting procedures. We do not believe that these ERP system implementations will have an adverse effect on internal controls over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the six months ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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, 2012, 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, 2012. The risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2012 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

Exhibit Number	Description of Exhibit
10.1	Form of Restricted Stock Agreement dated June 5, 2013.
10.2	First Amendment to the TMS International Corp. Long-Term Incentive Plan, effective June 5, 2013.
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 August 6, 2013.

TMS International Corp. and Subsidiaries

By: /s/ Raymond S. Kalouche
Raymond S. Kalouche
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)