METALS USA INC
Form 8-K
November 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported): November 10, 2005

METALS USA, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware (State or Other Jurisdiction of Incorporation)	**1-13123** (Commission File Number)	**76-0533626** (IRS Employer Identification No.)
One Riverway, Suite 1100 **Houston, Texas** (Address of Principal Executive Offices)		**77056** (Zip Code)

Registrant s telephone number, including area code: **(713) 965-0990**

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure

This current report on Form 8-K contains forward-looking statements within the meaning of the federal securities laws, which involve risks and uncertainties. You can identify forward-looking statements because they contain words such as believes, expects, may, should, seeks, approximately, intends, plans, estimates, or anticipates or similar expressions that relate to our strategy, plans or intentions. All statements w make relating to the closing of the merger described in this current report or to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this current report.

Important factors that could cause actual results to differ materially from our expectations (cautionary statements) are disclosed under Risk Factors. All forward-looking information in this current report and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

As provided in General Instruction B.2 of Form 8-K, the information in this Form 8-K shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing. Furnishing this information, we make no admission as to the materiality of any information in this report that is required to be disclosed solely by reason of Regulation FD.

The Company is hereby furnishing the following information regarding its business:

Our Company

Overview

As one of the largest metal service center businesses in the United States, we are a leading provider and distributor of value-added processed carbon steel, stainless steel, aluminum, red metals and manufactured metal components. We are an important intermediary between primary metal producers that produce and sell large volumes of metals in a limited number of sizes and configurations and end-users, such as contractors and OEMs that require smaller quantities of more customized products delivered on a just-in-time basis. We earn a margin over the cost of metal based upon value-added processing enhancements, which adds stability to our financial results and significantly reduces our earnings volatility relative to metal producers. In addition to our metal service center and distribution activities, we have a growing building products business, which supplies a range of products to the residential remodeling market. We serve more than 30,000 customers annually from 77 operating locations throughout the United States. For the LTM Period, we generated net sales of $1,644.9 million, Adjusted EBITDA (as defined) of $117.4 million and operating income of $110.6 million.

We have three segments, which are identified by their product groups the Plates and Shapes, Flat Rolled and Building Products Groups. Each of our segments purchases metal from primary producers who generally focus on large volume sales of unprocessed metals in standard configurations and sizes.

Our Plates and Shapes and Flat Rolled Groups perform customized, value-added processing services to unimproved steel and other metals required to meet specifications provided by our customers, as well as offering inventory management and just-in-time delivery services. These services enable our customers to reduce material costs, decrease capital required for raw materials inventory and processing equipment and save time, labor, warehouse space and other expenses. The customers of our Plates and Shapes and Flat Rolled Groups are in businesses such as the machining, furniture, transportation equipment, power and process equipment, industrial/commercial construction/fabrication, consumer durables and electrical equipment industries, as well as machinery and equipment manufacturers. Our Building Products Group manufactures higher-value finished building products for distributors and contractors engaged in residential and commercial building products.

Competitive Strengths

Margin Over Metal Creates Financial Stability. Our metal service centers are an integral intermediary between large metal producers and smaller end-users, which allows us to utilize a cost plus business model. Through our cost plus business model, we earn a margin over the cost of metal which varies according to the extent of value-added processing enhancements we add to our products. As a result, over time, we are able to pass along changes in metal prices to our customers. Given that metal costs typically represent approximately 75% of our net sales, our ability to pass through changes in pricing and our cost plus business model significantly reduce the volatility of our earnings and free cash flow relative to metal producers.

Skilled Inventory Management. We manage our inventory to minimize our investment in working capital while maintaining sufficient stock to respond quickly to customer orders. We tailor our inventory and processing services at each service center location to the needs of that particular market with branch management teams responsible for determining the inventory mix at each of our locations. All of our groups utilize management information systems and computer-aided manufacturing technology, which enable us to track and allocate inventory among all of our locations on a real-time basis, providing our salespeople and operating employees with visibility into in-process orders and allowing us to provide just-in-time delivery. We believe that the combination of our decentralized inventory management and the monitoring by our senior management with their global market insights has allowed us to react more quickly than many of our competitors to changing metals prices and customer needs, and to optimize our use of working capital. Also, due to the countercyclical nature of cash flows in our business, by proactively managing inventory we are able to generate significant earnings during rising metal price environments and generate significant free cash flow for debt paydown in declining metal price environments. For example, from December 31, 2004 to September 30, 2005, we reduced our inventory levels from approximately 300,299 tons to approximately 245,760 tons in the Plates and Shapes Group and from approximately 220,457 tons to approximately 125,880 tons in the Flat Rolled Group. Such inventory reductions allowed us to pay down a total of approximately $146 million of debt in the second and third quarters of 2005.

Strong Relationships with Key Suppliers. In the metal service center industry, where buying right is critical to a company s success, we have established strong relationships with large domestic and international metal suppliers. We are a significant customer of our major suppliers in each of our core products, enabling us to obtain volume discounts and source materials in periods of tight supply. For instance, our strong relationships and large purchasing volumes enabled us to maintain ample access to metal when supply became constrained during 2004. Our negotiation of purchase agreements with suppliers is centralized to leverage our buying power and global market insights.

Geographically Diversified Network of Strategically Located Facilities. Our 77 operating facilities are strategically located throughout the United States, providing a number of advantages over smaller, locally-focused service centers. The majority of our service centers are located within 150-250 miles of our customers, which enables us to deliver products within one day of receiving an order. The proximity of our facilities to our customers allows us to provide critical, value-added services such as just-in-time delivery to both larger national customers with multiple locations and smaller single-site customers. Our service centers also have the ability to share inventory between facilities, which improves inventory management and customer service. The geographically diverse network of facilities provides protection against regional fluctuations in demand and prices as we are not dependent on one geographical region or customer.

Broad Product Offering with Superior Customer Service. We provide a broad range of high quality products which, together with customized valued-added services, enable us to offer one-stop shopping to our customers. We believe that our broad product offering and value-added services provide a significant competitive advantage over smaller service centers that generally stock fewer products than we do. As a result of the regular interaction between our large field sales force and our customers, we have developed strong relationships with our customers, which allows us to identify and assess their supply chain requirements in a more accurate and timely manner. This ability in turn enables us to offer just-in-time delivery and to respond to short lead time orders. Further, because our local managers have significant operational control, our service centers can react quickly to changes in local markets and customer demands. We believe the quality of our products and timeliness of service have increased the loyalty of our customers and have assisted our marketing efforts to new customers.

Diversified Customer Base and End-Markets. Our three groups supply a broad range of products to a large diversified customer base which serves a diverse set of end-markets. We serve more than 30,000 customers annually across a broad range of industries including machining, furniture, transportation equipment, power and process equipment, industrial/commercial construction/fabrication, consumer durables, electrical equipment industries and machinery and equipment manufacturers. The automotive sector, in which we sell only to Tier 1 and Tier 2 suppliers, represented less than 4% of our sales in 2004. No single customer accounted for more than 2% of our net sales in 2004, while our ten largest customers represented less than 11% of our net sales in 2004. Further, the breakdown of our 2004 net sales by industry is:

State-of-the-Art Processing Facilities. Our state-of-the-art processing facilities provide a significant advantage over smaller metal service centers that do not have the necessary capital resources to invest in such equipment, thereby limiting the range of products they offer. We recently increased our laser cutting, painting and other value-added capabilities at select locations. As a result, our facilities are capable of quickly and efficiently processing metals to precise length, width, shape and surface quality required to satisfy individual customer specifications. In addition, we provide value-added services such as applications engineering and custom machining, in order to enable our customers to reduce their total cost of manufacturing.

Experienced and Proven Management Team. Our senior management team has an average of over 20 years of experience in the metals industry, and as such has a deep understanding of the dynamics between the various levels of the supply chain. Our CEO, Lourenço Gonçalves, who was appointed in February 2003, was previously CEO of California Steel Industries, the largest U.S. steel slab re-roller, which had many of the same value chain dynamics as a service center. Since he joined us, we have implemented a number of operational improvements that have significantly improved the performance of our business.

Strategy

Increase Our Market Share of Higher Margin Products. Our management team intends to continue its focus on selling higher margin products such as non-ferrous metals as well as those products that require significant value-added processing or which are highly customized. This focus will enable us to further leverage our state-of-the-art processing facilities and provide higher margin value-added processing functions such as precision blanking, laser cutting and painting. We believe that our ability to perform these types of processing functions will also enable us to fulfill a greater proportion of our customers processing requirements, providing them with a more complete product and allowing them to achieve their objective of outsourcing a greater proportion of their processing requirements. We further believe that our ability to perform these types of processing functions will lead to an increased stability in the demand for our products.

Expand Value-Added Services Provided to Customers. We are focused on expanding the range of value-added services that we offer to enhance our strong, long-standing relationships with our existing customers and to build new customer relationships. Our customers are continually seeking new ways to operate more efficiently and generate higher returns, including the outsourcing of customized metals processing and inventory management requirements. We believe our ability to provide value-added services, such as new supply chain solutions, is attractive to customers. We also believe that there are significant opportunities to expand the range of value-added services that we offer in areas such as processing equipment, inventory management and logistics systems. We believe that our size and operating expertise enable us to better provide these value-added services and therefore, further differentiate ourselves from smaller metal service centers.

Maintain Strong Focus on Inventory Management. We will continue managing our inventory to maximize our profitability and cash flow while maintaining sufficient stock to respond quickly to customer orders. We intend to continue to manage our inventory through a combination of local management of inventory requirements at each service center location and the centralized monitoring of inventory by our senior management team to leverage our buying power and global market insights. In addition, we intend to further integrate our salespeople and operating employees into the operations of our customers to enhance our visibility into in-process orders and to allow us to continue to improve our just-in-time delivery and overall level of customer service. We expect our continued focus on inventory management to improve gross profit margins as well as further differentiate us from our smaller competitors. We believe it will also improve performance throughout the metal price cycle by ensuring that we will have ample supply to satisfy customer demand in rising price and constrained supply environments as well as enabling us to generate significant free cash flow in declining metal price environments.

Capitalize on Changing Market Dynamics and Increasing Demands. While steel producers have undergone significant consolidation, end-customer segments of the market remain highly fragmented. Therefore, while steel producers continue to seek select, long-term relationships with metal service centers that have access to numerous end-user customers, end-user customers are also seeking relationships with metal service centers that can provide a reliable source of high quality products combined with value-added services. As one of the largest metal service centers, we intend to use our significant resources to exploit the opportunities presented by this market dynamic. In addition, we believe that, in light of current economic conditions, demand for the products manufactured by our customers will continue to be robust. This increase in end-market demand will help drive increased sales of our products and, combined with the initiatives we have proactively taken to reduce our cost structure, further enhance our profitability and cash flow.

Continue to Focus on Improving the Performance of Our Building Products Group. In August 2004, we appointed a new President of the Building Products Group and subsequently undertook a major restructuring of the business to focus the group on the steadily growing residential remodeling market. In addition, we closed 11 underperforming sales locations, expanded our production capabilities and reduced the operating cost structure of the group. Since this time, the financial performance of the group has improved significantly and we expect it to become an increasingly larger part of our business in the future as we continue to capitalize on the benefits resulting from the restructuring and take advantage of the attractive fundamentals of the residential remodeling industry.

Segment Information

Each of our product groups is led by an experienced executive and is supported by a professional staff in finance, purchasing and sales and marketing. This product-oriented organizational structure facilitates the efficient advancement of our goals and objectives to achieve operational synergies and focused capital investment. For additional industry segment information, see the Segment Results discussions in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Metal Processing/Service Center Businesses: Plates and Shapes and Flat Rolled Groups

Business Overview. Companies operating in the metals industry can generally be characterized as primary metals producers, metals processors/service centers or end-users. Our Plates and Shapes and Flat Rolled Groups are metals processor/service centers. As such, we purchase steel, aluminum, brass, copper and other metals from producing mills and then sell our metal processing services and the metal to our customers, who are generally end-users. We believe that both primary metals producers and end-users are increasingly seeking to have their metals processing and inventory management requirements met by value-added metals processors/service centers like us.

Primary metals producers, which manufacture and sell large volumes of metals in standard sizes and configurations, generally sell only to those large end-users and metals processors/service centers who do not require processing of the products and who can tolerate relatively long lead times. Metal processors/service centers offer services ranging from precision value-added pre-production processing, in accordance with specific customer specifications, to storage and distribution of unprocessed metal products. Generally service centers function as intermediaries between end-users and primary metals producers. End-users, such as contractors and OEMs incorporate the processed metal into a finished product, in some cases with little further modification.

In our Plates and Shapes and Flat Rolled Groups, we engage in pre-production processing of steel, stainless steel, red metals and aluminum and act as an intermediary between primary metals producers and end-users. We purchase metals from primary producers, maintain an inventory of various metals to allow rapid fulfillment of customer orders and perform customized processing services to the specifications provided by end-users and other customers. By providing these services, as well as offering inventory management and just-in-time delivery services, we enable our customers to reduce overall production costs and decrease capital required for raw materials inventory and metals processing equipment. The Plates and Shapes and Flat Rolled Groups contributed approximately 88% of our 2004 net sales and the substantial majority of our 2004 net income.

Industry Overview. Metal service centers function as key intermediaries between the primary metals producers that produce and sell large volumes of metals in a limited number of sizes and configurations and end-users, such as contractors and OEMs, that require smaller quantities of more customized products delivered on a just-in-time basis. End-users incorporate processed metals into finished products, in some cases with little further modification.

The service center industry is highly fragmented, with as many as 5,000 participants throughout North America, generating in excess of $80 billion in net sales in 2004. The industry includes both general line distributors that handle a wide range of metal products and specialty distributors that specialize in particular categories of metal products. We are a general line distributor. Metal service centers accounted for approximately one quarter or more of U.S. steel shipments in 2004 based on volume, a market share which has been relatively constant for the last 15 years.

We believe that both primary metals producers and end-users are increasingly seeking to have their metals processing and inventory management requirements met by value-added service centers. During the past two decades, primary metals producers have been focusing on their core competency of high-volume production of a limited number of standardized metal products. As primary metal producers have consolidated, they increasingly require service centers and processors to perform value-added services for end customers. As a result, most end-users can no longer obtain processed products directly from primary metals producers and therefore over 300,000 OEMs, contractors and fabricators nationwide rely on service centers. End-users have also recognized the economic advantages associated with outsourcing their customized metals processing and inventory management requirements. Outsourcing permits end-users to reduce total production costs by shifting the responsibility for pre-production processing to service centers, whose higher efficiencies in performing these processing services make the ownership and operation of the necessary equipment more financially feasible.

Value-added service centers, including ourselves, have also benefited from growing customer demand for inventory management and just-in-time delivery services. These supply-chain services, which are normally not provided by primary metals producers, enable end-users to reduce input costs, decrease capital required for inventory and equipment and save time, labor and other expenses. Some value-added service centers, including us, have installed EDI between their computer systems and those of their customers to facilitate order entry, inventory management, just-in-time delivery and billing.

In addition, manufacturers in general appear to be reducing their operating costs by limiting the number of suppliers with which they do business, often eliminating suppliers offering limited ranges of products and services. Customers are increasingly seeking suppliers capable of providing sophisticated processing services, such as marine coatings and precision laser cutting. These trends have placed small, owner-operated businesses at a competitive disadvantage because they have limited access to the capital resources necessary to increase their capabilities, or they may be unwilling to justify the investment in equipment. As a result, smaller metal service centers are finding it increasingly difficult to compete with larger service centers.

The industry has been consolidating due to the economies of scale and other advantages that the larger metal service centers enjoy. According to industry sources, the number of metal processor and service center locations in the U.S. has been reduced significantly. We believe the larger and more sophisticated companies, like us, enjoy significant advantages over smaller companies in areas such as obtaining higher discounts associated with volume purchases, the ability to service customers with operations in multiple locations and the use of more sophisticated information systems.

Plates and Shapes Group. We believe we are one of the largest distributors of metal plates and shapes in the United States. We sell products such as wide-flange beams, plate, tubing, angles, bars and other structural shapes in a number of alloy grades and sizes. A substantial number of our products undergo additional processing prior to being delivered to our customers, such as blasting and painting, tee-splitting, cambering/leveling, cutting, sawing, punching, drilling, beveling, surface grinding, bending, shearing and cutting-to-length. We sell our products to a fragmented customer base that consists of a large number of small customers who purchase products in small order sizes and require just-in-time delivery. The customers of our Plates and Shapes Group are primarily in the fabrication, construction, machinery and equipment, transportation and energy industries. We serve our customers, who generally operate in a limited geographic region, from 21 metal service centers located primarily in the eastern half of the United States.

Each metal service center is located in close proximity to our metal suppliers and our customers.

Flat Rolled Group. The Flat Rolled Group sells a number of products, including carbon and stainless steel, aluminum, brass and copper in a number of alloy grades and sizes. As relatively few end-user customers can handle carbon steel in the form generally shipped by steel mills (sizes less than a quarter of an inch in thickness in continuous coils that typically weigh 40,000 to 60,000 pounds each), substantially all of the carbon steel material, as well as the nonferrous materials sold by our Flat Rolled Group, undergo additional processing prior to delivery to the customer. We provide a broad range of value-added processing services including precision blanking, slitting, shearing, cutting-to-length, punching, bending and leveling. Our customers are in the electrical manufacturing, fabrication, furniture, appliance manufacturing, machinery and equipment and transportation industries and include many larger customers who value the high quality products that we provide together with our customer service and reliability. A number of our large customers purchase through pricing arrangements or contractual agreements. We serve our customers from 12 metal service centers in the midwestern and southern regions of the United States. Each metal service center is located in close proximity to our metal suppliers and our customers.

Products and Services. We purchase our raw materials in anticipation of projected customer requirements based on interaction with and feedback from customers, market conditions, historical usage and industry research. Primary producers typically find it more cost effective to focus on large volume production and sale of metals in standard sizes and configurations to large volume purchasers. We process the metals to the precise length, width, shape and surface quality specified by our customers. Our value-added processes include:

Precision blanking the process in which metal is cut into precise two-dimensional shapes.

Flame cutting the cutting of metals to produce various shapes according to customer-supplied drawings.

Laser and plasma cutting the cutting of metals to produce shapes under strict tolerance requirements.

Slitting the cutting of coiled metals to specified widths along the length of the coil.

Blasting and Painting the process of cleaning steel plate by shot-blasting, then immediately applying a paint or primer.

Plate forming and rolling the forming and bending of plates to cylindrical or required specifications.

Shearing and cutting to length the cutting of metals into pieces and along the width of a coil to create sheets or plates.

Tee-splitting the cutting of metal beams along the length to form separate pieces.

Cambering the bending of structural shapes to improve load-bearing capabilities.

Sawing the cutting to length of bars, tubular goods and beams.

Leveling the flattening of metals to uniform tolerances for proper machining.

Edge trimming a process that removes a specified portion of the outside edges of coiled metal to produce uniform width and round or smooth edges.

Metallurgy the analysis and testing of the physical and chemical composition of metals.

Our additional capabilities include applications engineering and other value-added processes such as custom machining. Using these capabilities, we use processed metals to manufacture higher-value components.

Once we receive an order, we select the appropriate inventory and schedule it for processing in accordance with the customer s requirements and specified delivery date. Orders are monitored by our computer systems, including, in certain locations, the use of bar coding to aid in and reduce the cost of tracking material. We record the source of all metal shipped to customers. This enables us to identify the source of any metal which may later be shown to not meet industry standards or that fails during or after manufacture. This capability is important to our customers as it allows them to assign responsibility for non-conforming or defective metal to the mill that produced the metal. Many of the products and services we provide can be ordered and tracked through a web-based electronic network that directly connects our computer system to those of our customers.

We cooperate with our customers and tailor our deliveries to support their needs, which in many instances consist of short lead-time and just-in-time delivery requirements. This is accomplished through our inventory management programs, which permit us to deliver processed metals from a sufficient inventory of raw materials to meet the requirements of our customers, which in many instances results in orders filled within 24-48 hours.

While we ship products throughout the U.S., most of our customers are located within a 250-mile radius of our facilities, thus enabling an efficient delivery system capable of handling a large number of short lead-time orders. We transport most of our products directly to our customers either with our own trucks for short-distance and/or multi-stop deliveries or through common or contract trucking companies.

We have quality control systems to ensure product quality and traceability throughout processing. Quality controls include periodic supplier audits, customer approved quality standards, inspection criteria and metals source traceability. A total of 20 of our metal processing/service center facilities have International Standards Organization, or ISO, 9002 certification. In addition to our metal processing/service center facilities that are ISO certified, one location in our Building Products Group is ISO certified.

Building Products Group

Business Overview. The Building Products Group provides diversification to our overall business as both its operations and the end-markets that it serves are significantly different from those of our metal service center business. The Building Products Group manufactures and sells sunrooms, roofing products, awnings and solariums for use in residential applications and large area covered canopies, awnings and covered walkways for use in commercial applications. Approximately 95% of our Building Products Group sales are attributable to the residential remodeling market with the remaining sales attributable to commercial applications. Because our building products business is primarily focused on the residential remodeling market, its sales are not correlated to housing starts or interest rates, nor are they subject to fluctuations in the demand or price of metal. The customers of our Building Products Group are predominantly in the construction, wholesale trade and building material industries. We primarily distribute our products through a network of independent distributors and home improvement contractors. We believe we are the only supplier within our market segment with national scale.

Building Products had net sales of $183.0 million in 2004 and currently has 18 operating locations and 26 sales and distribution centers throughout the southeast, southwest and western regions of the U.S. The Building Products Group contributed approximately 12% of our 2004 net sales.

Industry Overview. The residential remodeling industry has experienced significant growth over the last 10 years and is poised for continued growth in the future. The Home Improvement Research Institute estimates that homeowners and rental property owners spend approximately $256.0 billion annually on remodeling their homes which accounts for over 40% of all residential construction and improvement spending. Over the last decade, the industry has experienced accelerated growth due to a number of different macroeconomic and demographic factors including strong existing-home sales, rising disposable incomes, increased rates of home ownership and aging American houses. Existing-home sales impact the remodeling market as owners improve their homes in preparation for sale and new-home buyers often undertake significant renovations and remodeling projects within the first few months of ownership. The increase in disposable incomes has been a factor in the rise in homeownership to over 68% in 2004 from under 64% in 1993. The aging of the domestic home supply is also expected to bolster remodeling sales as the average home in the U.S. is now over 30 years old. As Americans look to improve and upgrade their homes, we believe that an increasing number will turn to remodeling as a cost-effective alternative to new housing construction. Among the most popular remodeling projects are backyard living items, such as pool enclosures, lattices and patio covers, as well as sunrooms and roofing, all of which we manufacture and distribute.

Sources of Supply

In recent years, steel, aluminum, copper and other metals production in the U.S. has fluctuated from period to period as mills attempt to match production to projected demand. Periodically, this has resulted in shortages of, or increased ordering lead times for, some products, as well as fluctuations in price. Typically, metals producers announce price changes with sufficient advance notice to allow us to order additional products prior to the effective date of a price increase, or to defer purchases until a price decrease becomes effective. Our purchasing decisions are based on our forecast of the availability of metal products, ordering lead times and pricing, as well as our prediction of customer demand for specific products.

We obtain the overwhelming majority of our raw materials from domestic suppliers, which include Nucor Corp., U.S. Steel, AK Steel, Gerdau Ameristeel, International Steel Group, Alcoa Inc., Bayou Steel, Chaparral Steel and IPSCO Steel. Although we have historically purchased approximately 10% to 15% of our raw material supplies from foreign producers, domestic suppliers have always been and we believe will continue to be our principal source of raw material.

Although most forms of steel and aluminum produced by mills can be obtained from a number of integrated mills or mini-mills, both domestically and internationally, there are a few products that are available from only a limited number of producers. Since most metals are shipped freight-on-board and the transportation of metals is a significant cost factor, we seek to purchase metals, to the extent possible, from the nearest mill, but will use a more distant mill when it offers a lower delivered price.

Ferrous metal producers have been undergoing rapid consolidation over the past three years. U.S. Steel, Nucor Corp. and International Steel Group have acquired several of their domestic competitors, and international integrated producers have merged and consolidated operations. Furthermore, Mittal Steel purchased International Steel Group, creating the largest steel producer in the world. The result of this trend will be fewer integrated producers from which we can purchase our raw materials. While we believe that global consolidation of the steel industry is beneficial to the steel industry as a whole, we are unable to predict what impact this consolidation may have on our operations.

Sales and Marketing; Customers

We employ a sales force consisting of inside and outside salespeople. Inside salespeople are primarily responsible for maintaining customer relationships, receiving and soliciting individual orders and responding to service and other inquiries by customers. Our outside sales force is primarily responsible for identifying potential customers and calling on them to explain our services. The sales force is trained and knowledgeable about the characteristics and applications of various metals, as well as the manufacturing methods employed by our customers.

Our sales and marketing focus is on the identification of OEMs and other metals end-users that could achieve significant cost savings through the use of our inventory management, value-added processing, just-in-time delivery and other services. We use a variety of methods to identify potential customers, including the use of databases, direct mail and participation in manufacturers trade shows. Customer referrals and the knowledge of our sales force about regional end-users also result in the identification of potential customers. Once a potential customer is identified, our outside salespeople assume responsibility for visiting the appropriate contact, typically the purchasing manager or manager of operations.

Nearly all sales are on a negotiated price basis. In some cases, sales are the result of a competitive bid process where a customer provides a list of products, along with requirements, to us and several competitors and we submit a bid on each product. We have a diverse customer base, with no single customer accounting for more than 2% of our net sales in 2004 and 2003, and 1% in 2002. Less than 4% of our sales are to the automotive industry and we do not sell directly to the Big Three automobile manufacturers.

Competition

We are engaged in a highly fragmented and competitive industry. Competition is based on price, product quality, service, and timeliness of delivery and geographic proximity. We compete with a large number of other metals processors/service centers on a national, regional and local basis, some of which may have greater financial resources. We also compete to a lesser extent with primary metals producers, who typically sell directly to very large customers requiring regular shipments of large volumes of metals. Numerous smaller metals processors/service centers compete with us locally.

Historically, we believe that we have been able to compete effectively because of our significant number of locations, geographic dispersion, knowledgeable and trained sales force, integrated computer systems, modern equipment, broad-based inventory, combined purchasing volume and operational economies of scale. Furthermore, we believe our liquidity and overall financial position affords us a good platform with which to compete with our peers in the industry.

Government Regulation and Environmental Matters

Our operations are subject to a number of federal, state and local regulations relating to the protection of the environment and to workplace health and safety. In particular, our operations are subject to extensive federal, state and local laws and regulations governing waste disposal, air and water emissions, the handling of hazardous substances, environmental protection, remediation, workplace exposure and other matters. Hazardous materials we use in our operations include general commercial lubricants and cleaning solvents. Among the more significant regulated activities that occur at some of our facilities are: the accumulation of scrap metal, which is sold for recycling; the generation of plant trash and other solid wastes and wastewaters, such as water from burning tables operated at some of our facilities, which wastes are disposed of in accordance with the Federal Water Pollution Control Act and the Resource Conservation and Recovery Act using third party commercial waste handlers; the storage, handling, and use of lubricating and cutting oils and small quantities of maintenance-related products and chemicals, the health hazards of which are communicated to employees pursuant to Occupational Safety and Health Act-prescribed hazard communication efforts and the disposal or recycling of which are performed pursuant to the Resource Conservation and Recovery Act.

Generally speaking, our facilities   operations do not involve the types of emissions of air pollutants, discharges of pollutants to land or surface water, or treatment, storage, or disposal of hazardous waste which would ordinarily require federal or state environmental permits. Some of our facilities possess authorizations for air emissions from paints and coatings, hazardous materials permits under local fire codes or ordinances for the storage and use of small quantities of combustible materials such as oils or paints, and state or local permits for on-site septic systems. Our cost of obtaining and complying with such permits has not been and is not anticipated to be material. Our operations are such that environmental regulations typically have not required us to make significant capital expenditures for environmental compliance activities, and ongoing operational costs relating to environmental compliance are limited.

We believe that we are in substantial compliance with all applicable environmental and workplace health and safety laws and do not currently anticipate that we will be required to expend any substantial amounts in the foreseeable future in order to meet such current requirements. However, some of the properties we own or lease are located in areas with a history of heavy industrial use, and are on or near sites listed on the CERCLA National Priority List. CERCLA establishes joint and several responsibility for clean-up without regard to fault for persons who have arranged for disposal of hazardous substances at sites that have become contaminated and for persons who own or operate contaminated facilities. We have a number of properties located in or near industrial or light industrial use areas; accordingly, these properties may have been contaminated by pollutants which would have migrated from neighboring facilities or have been deposited by prior occupants. Some of our properties are affected by contamination from leaks and drips of cutting oils and similar materials used in our business and we have removed such and restored such known impacted soils pursuant to applicable environmental laws. The costs of such clean-ups have not been material. We are not currently subject to any claims or notices with respect to clean-up or remediation under CERCLA or similar laws for contamination at our leased or owned properties or at any off-site location. However, we cannot rule out the possibility that we could be notified of such claims in the future. It is also possible that we could be identified by the Environmental Protection Agency, a state agency or one or more third parties as a potentially responsible party under CERCLA or under analogous state laws.

Management Information Systems

Both the Plates and Shapes Group and Flat Rolled Group service centers use a system marketed and distributed specifically for the service center industry. During 2003, we completed a similar common-platform initiative in the Building Products Group. Some of our subsidiaries currently use EDI, through which they offer customers a paperless process with respect to order entry, shipment tracking, billing, remittance processing and other routine activities. Additionally, several of our subsidiaries also use computer-aided drafting systems to directly interface with computer-controlled metal processing equipment, resulting in more efficient use of material and time.

We believe investment in uniform management information systems and computer-aided manufacturing technology permits us to respond quickly and proactively to our customers needs and service expectations. These systems are able to share data regarding inventory status, order backlog, and other critical operational information on a real-time basis.

Employees

We employ approximately 2,500 persons. As of September 30, 2005, approximately 300 employees (12%) at various sites were members of unions: the United Steelworkers of America; the Sheet Metals Workers Union; the International Association of Bridge, Structural, and Ornamental Ironworkers of America; the International Brotherhood of Teamsters; and the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers. Our relationship with these unions generally has been satisfactory, but occasional work stoppages have occurred. Within the last five years, one work stoppage occurred at one facility, which involved approximately 30 employees and lasted approximately 30 days. We are currently a party to 9 collective bargaining agreements, which expire at various times. Collective bargaining agreements for all of our union employees expire in each of the next three years. Historically, we have succeeded in negotiating new collective bargaining agreements without a strike. The largest collective bargaining agreement, which is at the Northbrook site and covers approximately one-third of our unionized employees, was recently renewed for another three years.

From time to time, there are shortages of qualified operators of metals processing equipment. See Risk Factors Risks Related to Our Business Adverse developments in our relationship with our employees and future shortages of employees could adversely affect our business. In addition, during periods of low unemployment, turnover among less-skilled workers can be relatively high. We believe that our relations with our employees are satisfactory.

Vehicles

We operate a fleet of owned or leased trucks and trailers, as well as forklifts and support vehicles. We believe these vehicles are generally well maintained and adequate for our current operations.

Risk Management and Insurance

The primary risks in our operations are bodily injury, property damage and vehicle liability. We maintain general and vehicle liability insurance and liability insurance for bodily injury and property damage and workers compensation coverage, which we consider sufficient to protect us against a catastrophic loss due to claims associated with these risks.

Safety

Our goal is to provide an accident-free workplace. We are committed to continuing and improving upon each facility s focus and emphasis on safety in the workplace. We currently have a number of safety programs in place, which include regular weekly or monthly field safety meetings and training sessions to teach proper safe work procedures. We have developed a comprehensive best practices safety program to be implemented throughout our operations to ensure that all employees comply with our safety standards, as well as those established by our insurance carriers, and federal, state and local laws and regulations. This program is led by the corporate office, with the assistance of each of our product group presidents, executive officers and industry consultants with expertise in workplace safety. Furthermore, we pay bonuses based on an employee s or a team s safety record.

Financial Information about Segments

For information regarding revenues from external customers, measures of profit or loss and total assets for the last three years for each segment, see the Segment Results discussions in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Patents and Trademarks

We own several U.S. patents, trademarks, service marks and copyrights. Certain of the trademarks and patents are registered with the U.S. Patent and Trademark Office, and, in some cases, with trademark offices of foreign countries. We consider other information owned by us to be trade secrets. We protect our trade secrets by, among other things, entering into confidentiality agreements with our employees and implementing security measures to restrict access to such information. We believe that our safeguards provide adequate protection to our proprietary rights. While we consider all of our intellectual property to be important, we do not consider any single intellectual property right to be essential to our operations as a whole.

Seasonal Aspects, Renegotiation and Backlog

There is a slight decrease in our business during the winter months because of inclement weather conditions and the impact on the construction industry. No material portion of our business is subject to renegotiation of profits or termination of contracts at the election of the government. Because of the just-in-time delivery policy and the short lead-time nature of our business, we do not believe the information on backlog of orders is material to an understanding of our business.

Foreign Operations

We do not derive any material revenue from foreign countries and do not have long-term assets or customer relationships outside of the U.S. We have no foreign operations or subsidiaries.

Research and Development

We do not incur material expenses in research and development activities but do participate in various research and development programs. We address research and development requirements and product enhancement by maintaining a staff of technical support, quality assurance and engineering personnel.

Legal Proceedings

We are involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. We believe the resolution of these matters and the incurrence of their related costs and expenses should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. See Risk Factors Risks Related to Our Business We are subject to litigation.

Manufacturing and Facilities

Properties

As of September 30, 2005, we operated 21 metals processing facilities in the Plates and Shapes Group and 12 facilities in the Flat Rolled Group. These facilities are used to receive, warehouse, process and ship metals. These facilities use various metals processing and materials handling machinery and equipment. Our Building Products Group operates 18 facilities where we process metals into various building products and 26 sales and distribution centers. During 2004, nine Building Products locations were closed and two locations were merged. We continue to serve the marketing areas of the closed facilities with our existing sales force by expanding the responsible territories of our other facilities, and through the use of common carrier for product delivery.

Many of our facilities are capable of being used at higher capacities, if necessary. We believe that our facilities will be adequate for the expected needs of our existing businesses over the next several years. Our facilities, sales and distribution centers and administrative offices are located and described as follows, as of September 30, 2005:

	Location	Square Footage	Owned/Leased
Plates and Shapes Group:			
Northeast Plates and Shapes	Baltimore, Maryland	65,000	Leased
	Seekonk, Massachusetts	115,000	Owned
	Newark, New Jersey(1)	81,000	Leased
	Langhorne, Pennsylvania	235,000	Leased
	Philadelphia, Pennsylvania	85,000	Owned
	York, Pennsylvania	109,000	Owned
South Central Plates and Shapes	Enid, Oklahoma	112,000	Leased
	Muskogee, Oklahoma(2)	229,000	Owned
	Cedar Hill, Texas	104,000	Owned
Mid-Atlantic Plates and Shapes	Ambridge, Pennsylvania	200,000	Leased
	Canton, Ohio	110,000	Owned
	Greenville, Kentucky	56,000	Owned
	Greensboro, North Carolina	115,000	Owned
	Leetsdale, Pennsylvania	114,000	Leased
	Wilmington, North Carolina	178,000	Leased
Southeast Plates and Shapes	Mobile, Alabama	246,000	Owned
	Jacksonville, Florida	60,000	Owned
	Oakwood, Georgia	206,000	Owned
	Waggaman, Louisiana	295,000	Owned
	Columbus, Mississippi	45,000	Owned
Southwest Plates and Shapes	Hayward, California	64,000	Leased
Flat Rolled Group:			
	Madison, Illinois	150,000	Owned
	Jeffersonville, Indiana	90,000	Owned
	Randleman, North Carolina	150,000	Owned
	Springfield, Ohio	110,000	Owned
	Wooster, Ohio	140,000	Owned
	Chattanooga, Tennessee	60,000	Owned
	Germantown, Wisconsin	90,000	Owned
	Horicon, Wisconsin	120,000	Leased
	Wichita, Kansas	40,000	Leased
	Liberty, Missouri	84,000	Leased
	Northbrook, Illinois	187,000	Owned
	Walker, Michigan	50,000	Owned
Building Products Group:			
Service Centers	Phoenix, Arizona	111,000	Leased
	Brea, California	44,000	Leased
	Buena Park, California	73,000	Leased
	Corona, California	38,000	Leased
	Ontario, California	29,000	Leased
	Rancho Cordova, California	41,000	Leased
	Groveland, Florida	247,000	Leased

Location	Square Footage	Owned/Leased
Leesburg, Florida	61,000	Leased
Pensacola, Florida	48,000	Leased
Stone Mountain, Georgia	60,000	Leased
Kansas City, Missouri	58,000	Leased
Las Vegas, Nevada	133,000	Leased
Irmo, South Carolina	38,000	Leased
Houston, Texas	285,000	Owned
Houston, Texas	220,000	Leased
Mesquite, Texas	200,000	Leased

	Mesquite, Texas	55,000	Leased
	Kent, Washington	57,000	Leased
Sales and Distribution Centers	Birmingham, Alabama	12,000	Leased
	Tucson, Arizona	9,000	Leased
	Cerritos, California	20,000	Leased
	Hayward, California	25,000	Leased
	San Diego, California	8,000	Leased
	Clearwater, Florida	20,000	Leased
	Fort Myers, Florida	18,000	Leased
	Holly Hill, Florida	10,000	Leased
	Jacksonville, Florida	17,000	Leased
	Lakeland, Florida	24,000	Leased
	West Melbourne, Florida	18,000	Leased
	Duluth, Georgia	5,000	Leased
	Louisville, Kentucky	11,000	Leased
	Jackson, Mississippi	25,000	Leased
	Overland, Missouri	14,000	Leased
	Greensboro, North Carolina	15,000	Leased
	Oklahoma City, Oklahoma	40,000	Leased
	Harrisburg, Pennsylvania	12,000	Leased
	Memphis, Tennessee	20,000	Leased
	Nashville, Tennessee	15,000	Leased
	Dallas, Texas	36,000	Leased
	Longview, Texas	15,000	Leased
	San Antonio, Texas	20,000	Leased
	Weslaco, Texas	21,000	Leased
	Salt Lake City, Utah	23,000	Leased
	Virginia Beach, Virginia	10,000	Leased
Administrative Locations:			
Corporate Headquarters	Houston, Texas	13,200	Leased
Southeast Plates and Shapes	Mobile, Alabama	16,000	Owned
i-Solutions	Ft. Washington, Pennsylvania	4,300	Leased

(1) We are negotiating to purchase this facility.

(2) This facility is subject to liens with respect to specific debt obligations, including Industrial Revenue Bonds.

DESCRIPTION OF THE TRANSACTIONS

On May 18, 2005, Flag Acquisition, Flag Holdings and Metals USA entered into the Merger Agreement, pursuant to which the parties agreed, subject to the terms and conditions therein, to the Merger, with Metals USA as the surviving company in the Merger. At the effective time of the Merger, each share of our common stock outstanding immediately prior to the Merger (other than shares held in treasury, shares held by Flag Holdings or any of our or their respective subsidiaries or shares as to which a stockholder has properly exercised appraisal rights) will be cancelled and converted into the right to receive $22.00 in cash. As described below and in Management Equity Investment in Flag Holdings by Messrs. Gonçalves, Hageman, McPherson and Krohn and Certain Relationships and Related Party Transactions Management Agreements, one of our directors and certain of our employees have entered into agreements with Flag Holdings and/or Flag Acquisition, pursuant to which they have agreed, among other things, to participate in the equity of Flag Holdings or the surviving company in the Merger in connection with the Transactions. In connection with the Transactions, we also expect other of our employees to participate in the equity of Flag Holdings or the surviving company in the Merger through option ownership, direct investment or other means. We expect that the aggregate value of the equity participation by the management participants will be approximately $3.9 million. Investment funds associated with Apollo will invest approximately $136.1 million in equity securities of Flag Holdings as part of the Transactions. The Merger was approved at the Metals USA special stockholders meeting held on October 19, 2005 by stockholders holding at least a majority of our outstanding common stock.

The Merger will be financed by the issuance of the notes, borrowings under the ABL facility, the equity investment and participation described above and cash on hand.

Ownership and Corporate Structure

As set forth in the diagram below, following consummation of the Transactions, all of our issued and outstanding capital stock will be held indirectly by Flag Holdings through Flag Intermediate, its wholly-owned subsidiary. Investment funds associated with Apollo will own approximately 97% of the capital stock of Flag Holdings (or approximately 92% on a fully-diluted basis). The remainder of the capital stock of Flag Holdings will be held by the management participants. See Description of the Transactions and Principal Stockholders. This structure will be achieved through a series of equity contributions to be made by investment funds associated with Apollo and by the management participants in connection with the Merger.

(1) Consists of approximately $136.1 million of cash equity contributed by investment funds associated with Apollo, plus approximately $3.9 million of equity from management participants. Transaction fees of $6.0 million paid to Apollo will be accounted for as a reduction in paid-in capital.

(2) The notes will be guaranteed on a senior secured basis by the guarantors. The notes and the related guarantees will be secured on a first-priority lien basis by substantially all of the assets (other than accounts, inventory, cash and proceeds and products of the foregoing and certain assets related thereto) of Metals USA and the guarantors and on a second-priority lien basis by the accounts, inventory, cash and proceeds and products of the foregoing and certain assets related thereto of Metals USA and the guarantors. Flag Holdings, Flag Intermediate and Flag Acquisition each currently have no assets and conduct no operations.

(3) The ABL facility will provide for up to $450.0 million of senior secured revolving credit borrowings and letters of credit, subject to a borrowing base determined primarily by the value of our eligible receivables and eligible inventory, subject to certain reserves. Our borrowing base under the ABL facility is estimated to be approximately $407 million on the closing date. We expect that $218.5 million will be drawn under the ABL facility on the closing date of the Transactions (exclusive of approximately $20 million of letters of credit that we expect to be issued or rolled over on the closing date).

(4) Consists of an Industrial Revenue Bond (IRB) with $5.7 million principal amount outstanding as of September 30, 2005, which is payable on May 1, 2016 in one lump sum payment and $1.6 million in vendor financing and purchase money notes.

Certain of the management participants have entered into agreements with Flag Acquisition and/or Flag Holdings effective as of the effective time of the Merger. These agreements provide, among other things, that these management participants will participate in the equity of Flag Holdings or the surviving company in the Merger and will be entitled to participate in the option plans of Flag Holdings. See Management Management Agreements. In connection with the Transactions, we also expect other of our managers to participate in the equity of Flag Holdings or the surviving company in the Merger through option ownership, direct investment or other means.

We will continue to own the same operating assets after the Transactions.

The Merger Agreement contains various covenants and customary representations and warranties of the parties thereto that are subject, in some cases, to specified exceptions and qualifications, including the occurrence of a material adverse effect. In addition to customary covenants for an agreement of this nature, Metals USA has provided certain non-solicitation covenants in favor of Flag Acquisition and Flag Holdings whereby Metals USA has agreed not to take certain actions with respect to a competing acquisition proposal.

Flag Holdings, Flag Acquisition and Metals USA have agreed to use (and to cause their respective subsidiaries to use) reasonable best efforts to take all actions and to do all things necessary to consummate and make effective as soon as reasonably practicable, the Merger, including working together to ensure a smooth transition with respect to, and to maintain existing relationships with, employees, customers and suppliers of the company and its subsidiaries.

The obligations of Flag Holdings, Flag Acquisition and Metals USA to complete the Merger are subject to the satisfaction or waiver of certain customary conditions set forth in the Merger Agreement. These conditions include the receipt of shareholder approval and the receipt of approval from the Antitrust Division of the Department of Justice and the Federal Trade Commission. On June 3, 2005, the company and Flag Acquisition each filed a Notification and Report Form with the Antitrust Division and the Federal Trade Commission and requested an early termination of the waiting period, which early termination was granted by the Federal Trade Commission on June 17, 2005. On October 19, 2005, the Merger was approved by stockholders holding a majority of our outstanding common stock.

The Merger Agreement may be terminated under certain circumstances. Flag Holdings and Metals USA have each agreed to reimburse the other party for certain transaction expenses incurred in connection with the transaction and Metals USA has agreed to pay Flag Holdings a termination fee, in each case if the Merger Agreement is terminated under certain circumstances set forth in the Merger Agreement.

Immediately prior to the effective time of the Merger, all outstanding options to acquire our common stock will become fully vested and immediately exercisable. All such options not exercised (other than certain options held by Messrs. Gonçalves, Hageman, McPherson and Krohn and the other management participants) will, immediately following such conversion, be cancelled in exchange for the excess of $22.00 over the exercise price per share of common stock subject to such option multiplied by the number of shares subject to such option. At the effective time of the Merger, all of the outstanding warrants to acquire our common stock will represent the right to receive, upon surrender of the warrant by the holder thereof and the payment by the holder thereof to the surviving company of the $18.50 exercise price thereunder, a cash payment, without interest, equal to $22.00 for each share of our common stock underlying such warrants. If any warrants remain unexercised at the effective time of the Merger then, at the effective time of the Merger, Metals USA will deliver notice to the warrant agent and the holders of unexercised warrants notifying them that we have elected to accelerate the expiration of the warrants to the 60th day following the effective time of the Merger and, upon surrender of the warrant by the holder thereof and the payment by the holder thereof to the surviving company of the exercise price thereunder, such holders will be entitled to receive the $22.00 cash payment on such 60th day. Any warrant that remains unexercised for more than 60 days following the expiration acceleration notice will expire. Once expired, the warrants will have no value.

In connection with the Merger, we intend (i) to enter into the ABL facility and (ii) to issue the $275.0 million aggregate principal amount of notes. The closing of the note offering and the borrowings under the ABL facility are conditioned upon the consummation of the Merger. See Description of Certain Indebtedness.

In connection with the Transactions, each of Messrs. Gonçalves, Hageman, McPherson and Krohn has agreed to participate in the Merger by making an equity investment in Flag Holdings by acquiring shares of common stock and options to acquire shares in Flag Holdings. Messrs. Gonçalves, Hageman, McPherson and Krohn will be required to make their equity investment using a portion of the proceeds they will receive from their sale of share and options in the Company to Flag Holdings. The total aggregate equity investment agreed to be made by Messrs. Gonçalves, Hageman, McPherson and Krohn is approximately $2.8 million, or approximately 2% of the shares of common stock of Flag Holdings immediately following the Merger. We expect the total aggregate equity investment of all management participants will be approximately $3.9 million, or approximately 3% of the shares of common stock of Flag Holdings immediately following the Merger. See Certain Relationships and Related Party Transactions Management Agreements.

We will continue to own the same operating assets after the Transactions.

The expected estimated sources and uses of the funds for the Transactions based on shares and options outstanding and cash as of September 30, 2005 are shown in the table below. Actual amounts will vary from estimated amounts depending on several factors, including differences from our estimate of fees and expenses and differences between the cash and debt balances at September 30, 2005 and at the closing of the Transactions. Approximately $7.3 million of our existing debt will be rolled over in the Transactions.

Sources of Funds (in millions)		
ABL facility(1)	$	218.5
Notes		275.0
Contributed equity(2)		140.0
Total Sources	$	633.5

Uses of Funds (in millions)		
Merger consideration(3)	$	473.3
Refinance existing debt		125.2
Transaction expenses(4)		35.0
Total Uses	$	633.5

(1) The ABL facility will provide for up to $450.0 million of senior secured revolving credit borrowings and letters of credit, subject to a borrowing base determined primarily by the value of our eligible receivables and eligible inventory, subject to certain reserves. Our borrowing base under the ABL facility is estimated to be approximately $407 million on the closing date. We expect that $218.5 million will be drawn under the ABL facility on the closing date of the Transactions (exclusive of approximately $20 million of letters of credit that we expect to be issued or rolled over on the closing date).

(2) Consists of approximately $136.1 million of cash equity contributed by investment funds associated with Apollo, plus approximately $3.9 million of equity from management participants.

(3) Represents payments made to or for the account of our existing equity and warrant holders, including payments with respect to previously granted employee stock options and stock awards.

(4) Includes underwriting discounts, professional fees, transaction fees and other payments made in connection with the Transactions, including $6.0 million of transaction fees paid to Apollo, which will be accounted for as a reduction in capital.

Our Equity Sponsor

Apollo was founded in 1990 and is among the most active and successful private equity investment firms in the United States in terms of both number of investment transactions completed and aggregate dollars invested. Since its inception, Apollo has managed the investment of an aggregate of more than $12.0 billion in capital in corporate transactions in a wide variety of industries, both domestically and internationally. Companies owned or controlled by Apollo or in which Apollo has a significant equity investment include, among others, Educate, Inc., Goodman Global Holdings, Hexion Specialty Chemicals, Inc., Nalco Company and United Agri Products.

Summary Historical and Pro Forma Consolidated Financial Data

We emerged from bankruptcy on October 31, 2002. Upon our emergence from bankruptcy, we adopted Fresh-Start Reporting accounting as contained in the American Institute of Certified Public Accountant s Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, or SOP 90-7. See Management s Discussion and Analysis of Financial Condition and Results of Operations Predecessor Company Chapter 11 Proceedings and Reorganization.

Our consolidated financial statements after emergence are those of our successor company and are not comparable to the financial statements of our predecessor company. The principal differences relate to the exchange of shares of new common stock for pre-petition liabilities subject to compromise, issuance of warrants in exchange for the extinguished old common stock, adjustments to reflect the fresh-start impact on the carrying value of certain non-current assets and elimination of the retained deficit.

Set forth below is summary historical consolidated financial data and summary unaudited pro forma consolidated financial data of our business, as of the dates and for the periods indicated. The summary historical consolidated financial data as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004 have been derived from our and our predecessor company s audited consolidated financial statements and related notes. The summary historical consolidated financial data as of December 31, 2002 presented in this table have been derived from our audited consolidated financial statements. The summary historical financial data as of September 30, 2004 and 2005 and for the nine-month periods ended September 30, 2004 and 2005 have been derived from our unaudited consolidated financial statements, which have been prepared on a basis consistent with our annual audited consolidated financial statements. The statement of operations for the LTM Period has been derived by adding the statement of operations data for the year ended December 31, 2004 to the statement of operations data for the nine months ended September 30, 2005 and subtracting the statement of operations data for the nine months ended September 30, 2004. In the opinion of management, such unaudited financial data include all adjustments of a normal recurring nature which are necessary to present fairly information as of and for the periods indicated. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

The summary unaudited pro forma condensed consolidated statements of operations and other financial data give effect to the Transactions as if they had occurred on January 1, 2004. The summary unaudited pro forma condensed consolidated balance sheet gives effect to the Transactions as if they had occurred on September 30, 2005. The unaudited pro forma condensed consolidated statement of operations for the LTM Period has been derived by adding the pro forma statement of operations data for the year ended December 31, 2004 to the pro forma statement of operations data for the nine months ended September 30, 2005 and subtracting the pro forma statement of operations data for the nine months ended September 30, 2004. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable.

The summary unaudited pro forma condensed consolidated financial data are for informational purposes only and do not purport to represent what our results of operations or financial position actually would have been if the Transactions had occurred at any date, and such data do not purport to project the results of operations for any future period.

The Merger will be accounted for using purchase accounting. The pro forma information presented, including allocations of purchase price, is based on preliminary estimates of the fair values of assets acquired and liabilities assumed, available information and assumptions and will be revised as additional information becomes available. The actual adjustments to our consolidated financial statements upon the closing of the Transactions will depend on a number of factors, including additional information available and our net assets on the closing date of the Transactions. Therefore, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

The summary historical and unaudited pro forma consolidated financial data should be read in conjunction with Unaudited Pro Forma Condensed Consolidated Financial Information, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and our and our predecessor s consolidated financial statements and related notes.

	Historical							Pro Forma
	Predecessor Company	Successor Company						
	Period from January 1, 2002 through October 31, 2002(1)	Period from November 1, 2002 through December 31, 2002	Year Ended, December 31 2003	Year Ended, December 31 2004	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2005	LTM Period ended September 30, 2005	LTM Period ended September 30, 2005
	(in millions)	(in millions)						
Operations Data:								
Net sales	$ 833.3	$ 128.7	$ 963.2	$ 1,509.8	$ 1,115.4	$ 1,250.5	$ 1,644.9	$ 1,644.9
Costs and expenses:								
Cost of sales (exclusive of operating and delivery, and depreciation and amortization shown below)	639.0	98.7	731.6	1,080.1	784.7	981.9	1,277.3	1,277.3
Operating and delivery	110.1	18.3	127.7	144.4	109.7	113.8	148.5	148.5
Selling, general and administrative	79.5	12.6	87.0	109.6	79.0	74.6	105.2	106.9
Depreciation and amortization(2)	7.5		0.5	2.0	1.2	2.5	3.3	9.8
Integration credits(3)	(3.2)							
Asset impairments(4)	3.0							
Operating income (loss)	(2.6)	(0.9)	16.4	173.7	140.8	77.7	110.6	102.4
Interest expense	15.8	1.3	5.7	8.4	5.8	8.8	11.4	49.3
Other (income) expense	(1.1)	0.1	(2.0)	(2.5)	(1.6)	(0.2)	(1.1)	(1.1)
Fresh-start adjustments	109.7							
Gain on reorganization	(190.6)							
Reorganization expenses	28.3							
Income (loss) before taxes and discontinued operations	35.3	(2.3)	12.7	167.8	136.6	69.1	100.3	54.2
Provision (benefit) for income taxes	(15.4)		5.1	63.3	52.6	26.3	37.0	21.7
Net income (loss) before discontinued operations	50.7	(2.3)	7.6	104.5	84.0	42.8	63.3	32.5
Income (loss) from discontinued operations, net of taxes	0.6	(1.0)	(0.1)					
Net income (loss)	$ 51.3	$ (3.3)	$ 7.5	$ 104.5	$ 84.0	$ 42.8	$ 63.3	$ 32.5

	Historical							Pro Forma
	Predecessor Company	Successor Company						
	Period from January 1, 2002 through October 31, 2002(1)	Period from November 1, 2002 through December 31, 2002	Year Ended December 31, 2003	Year Ended December 31, 2004	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2005	LTM Period ended September 30, 2005	LTM Period ended September 30, 2005
	(dollars in millions)		(dollars in millions)					
Balance Sheet Data (at end of period):								
Cash		$ 6.3	$ 11.4	$ 12.6	$ 12.9	$ 12.4	$ 12.4	$ 12.4
Total assets		378.6	407.2	710.0	633.7	615.9	615.9	792.1
Total debt		128.7	118.7	270.6	211.3	132.5	132.5	500.8
Total liabilities		189.6	206.6	381.8	345.3	242.1	242.1	658.1
Stockholders equity		189.0	200.6	328.2	288.4	373.8	373.8	134.0
Cash Flow Data:								
Cash flows provided by (used in) operating activities	8.4	14.5	26.9	(128.6)	(74.4)	151.1	96.9	N/A
Cash flows provided by (used in) investing activities	80.2	6.4	(11.8)	(16.0)	(13.1)	(13.2)	(16.1)	N/A
Cash flows provided by (used in) financing activities	(141.9)	(33.7)	(10.0)	145.8	89.0	(138.1)	(81.3)	N/A
Capital expenditures	3.0	0.5	17.5	17.4	13.6	13.3	17.1	N/A
Other Financial Data:								
EBITDA(5)	$ 58.1	$ (1.9)	$ 16.8	$ 175.7	$ 142.0	$ 80.5	$ 114.3	$ 112.5
Adjusted EBITDA(5)	$ 4.7	$ (0.9)	$ 16.9	$ 180.7	$ 143.9	$ 80.5	$ 117.4	$ 115.6
Net Bank Debt to Adjusted EBITDA(6)		N/A	6.2x	1.4x	1.4x	1.5x	1.0x	1.8x
Total Debt to Adjusted EBITDA(6)		N/A	7.0x	1.5x	1.5x	1.6x	1.1x	4.3x
Tons shipped(7)	1,126	171	1,288	1,502	1,167	1,089	1,424	1,424

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(1) We applied Fresh-Start Reporting to our consolidated balance sheet as of October 31, 2002 in accordance with SOP 90-7. Under Fresh-Start Reporting , a new reporting entity is considered to be created and the recorded amounts of assets and liabilities are adjusted to reflect their estimated fair values at the date Fresh-Start Reporting is applied. On October 31, 2002, we emerged from bankruptcy. As a result of the application of Fresh-Start Reporting, our financial information of any date or for periods after November 1, 2002 is not comparable to our historical financial information before November 1, 2002. As a result of the emergence from bankruptcy and for the purpose of presentation, activities subsequent to October 31, 2002 relate to our successor company and activities prior to November 1, 2002 relate to our predecessor company.

(2) Excludes depreciation expense reflected in cost of sales for the Building Products Group of $0.4 for the period ending September 30, 2005.

(3) Reflects unexpended amounts associated with integration accruals made in 1999 and 2001.

(4) Represents impairment charges related to property and equipment.

(5) EBITDA represents net income (loss) before depreciation and amortization, other (income) expense, interest expense and provision (benefit) for income taxes. Adjusted EBITDA represents EBITDA as further adjusted to add back reorganization expenses, eliminate gain on reorganization, account for fresh start adjustments, account for integration credits, add back asset impairments, remove the effect of income (loss) from discontinued operations, net of taxes and account for other adjustments. Each adjustment should be evaluated and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

EBITDA and Adjusted EBITDA are not presentations made in accordance with GAAP, are not measures of financial condition, liquidity or profitability and should not be considered as an alternative to net income (loss) determined in accordance with GAAP or operating cash flows determined in accordance with GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management s discretionary use, as they do not take into account certain cash requirements such as interest payments, tax payments, debt service requirements and capital expenditures. We believe that inclusion of EBITDA and Adjusted EBITDA in this current report is appropriate to provide additional information about our operating performance relative to our peers and to provide a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. We further believe that EBITDA and Adjusted EBITDA are an appropriate supplemental measure of debt service capacity, because cash expenditures on interest are, by definition, available to pay interest, and tax expense is inversely correlated to interest expense because tax expense goes down as deductible interest expense goes up. Further, depreciation and amortization are non-cash charges. In addition, the ABL facility and the indenture governing the notes use EBITDA and Adjusted EBITDA to measure our compliance with covenants such as interest coverage and debt incurrence.

While management believes that these measures provide useful information to investors, the SEC may require that EBITDA and Adjusted EBITDA be presented differently or not at all in filings made with the SEC. In addition, because not all companies use identical calculations, these presentations of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, including companies in our industry.

Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA

	Historical							Pro Forma
	Predecessor Company	Successor Company						
	Period from January 1, 2002 through October 31, 2002	Period from November 1, 2002 through December 31, 2002	Year Ended December 31,		Nine Months Ended September 30,		LTM Period ended September 30, 2005	LTM Period ended September 30, 2005
			2003	2004	2004	2005		
	(in millions)				(in millions)			
Net income (loss)	$ 51.3	$ (3.3)	$ 7.5	$ 104.5	$ 84.0	$ 42.8	$ 63.3	$ 32.5
Depreciation and amortization	7.5		0.5	2.0	1.2	2.8	3.7	10.1
Other (income) expense	(1.1)	0.1	(2.0)	(2.5)	(1.6)	(0.2)	(1.1)	(1.1)
Interest expense	15.8	1.3	5.7	8.4	5.8	8.8	11.4	49.3
Provision (benefit) for income taxes	(15.4)		5.1	63.3	52.6	26.3	37.0	21.7
EBITDA	$ 58.1	$ (1.9)	$ 16.8	$ 175.7	$ 142.0	$ 80.5	$ 114.3	$ 112.5
Reorganization expenses(a)	28.3							
Gain on reorganization(a)	(190.6)							
Fresh start adjustments(a)	109.7							
Integration credits(a)(b)	(3.2)							
Asset impairment(a)(c)	3.0							
Income (loss) from discontinued operations, net of taxes(a)	0.6	(1.0)	(0.1)					
Other adjustments toEBITDA(a)(d)				5.0	1.9		3.1	3.1
Adjusted EBITDA	$ 4.7	$ (0.9)	$ 16.9	$ 180.7	$ 143.9	$ 80.5	$ 117.4	$ 115.6

(a) For further discussion of these adjustments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Predecessor Company Chapter 11 Proceedings and Reorganization.

(b) Reflects unexpended amounts associated with integration accruals made in 1999 and 2001.

(c) Represents impairment charges related to property and equipment.

(d) Represents $5.0 million of charges in the Building Products Group for the elimination of one layer of management and closure of eleven facilities in 2004.

The table below reconciles operating income (loss) to EBITDA for each of our segments for the time periods indicated:

Reconciliation of Operating Income (Loss) to EBITDA

	Plates and Shapes	Flat Rolled	Building Products(a) (in millions)	Corporate and Other	Total
Year Ended December 31, 2004:					
Operating income (loss)	$ 103.2	$ 81.8	$ 7.9	$ (19.2)	$ 173.7
Depreciation and amortization	0.9	0.3	0.4	0.4	2.0
EBITDA	$ 104.1	$ 82.1	$ 8.3	$ (18.8)	$ 175.7
Nine Months Ended September 30, 2004:					
Operating income (loss)	$ 80.2	$ 64.8	$ 8.7	$ (12.9)	$ 140.8
Depreciation and amortization	0.6	0.2	0.2	0.2	1.2
EBITDA	$ 80.8	$ 65.0	$ 8.9	$ (12.7)	$ 142.0
Nine Months Ended September 30, 2005:					
Operating income (loss)	$ 50.2	$ 28.0	$ 15.4	$ (15.9)	$ 77.7
Depreciation and amortization	1.2	0.3	0.4	0.9	2.8
EBITDA	$ 51.4	$ 28.3	$ 15.8	$ (15.0)	$ 80.5

(a) EBITDA for the Building Products Group includes $5.0 million and $1.9 million of charges in the year ended December 31, 2004 and the nine months ended September 30, 2004, respectively, in each case, related to the elimination of one layer of management and closure of eleven facilities in 2004.

(6) For the period from November 1, 2002 through December 31, 2002, Adjusted EBITDA was a negative number and therefore this ratio cannot be calculated for this period.

The ratio of Net Bank Debt to Adjusted EBITDA and the ratio of Total Debt to Adjusted EBITDA are ratios that are based on financial measures that are not in accordance with GAAP. These ratios are not measures of financial condition, liquidity or profitability and should not be considered as alternatives to ratios that incorporate net income (loss) determined in accordance with GAAP or operating cash flows determined in accordance with GAAP. Additionally, these ratios are based on non-GAAP measures that are subject to the limitations described in footnote (5) above. We believe that inclusion of the ratio of Net Bank Debt to Adjusted EBITDA and the ratio of Total Debt to Adjusted EBITDA in this current report is appropriate for the same reasons we include non-GAAP measures as described in footnote (5) above.

While management believes that these ratios provide useful information, the SEC may require that the ratio of Net Bank Debt to Adjusted EBITDA and the ratio of Total Debt to Adjusted EBITDA be presented differently or not at all in filings made with the SEC. In addition, because not all companies use identical calculations, these presentations of the ratio of Net Bank Debt to Adjusted EBITDA and the ratio of Total Debt to Adjusted EBITDA may not be comparable to similarly titled measures of other companies, including companies in our industry.

(7) Expressed in thousands of tons, for our Plates and Shapes and Flat Rolled Groups combined. Tons shipped is not an appropriate measure for our Building Products Group.

RISK FACTORS

Risks Related to our Indebtedness

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under the notes.

After completing the Transactions, we will be highly leveraged. As of September 30, 2005, after giving pro forma effect to the Transactions, our total indebtedness would have been $500.8 million, including the notes. We also would have had an additional $168.6 million available for borrowing under the ABL facility at that date. Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt depends on a range of economic, competitive and business factors, many of which are outside our control. Our business may not generate sufficient cash flow from operations to meet our debt service and other obligations, and currently anticipated operating improvements and cost efficiencies from inventory management may not be realized on schedule, or at all. If we are unable to meet our expenses and debt service obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity on commercially reasonable terms, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business, financial condition and results of operations.

Our substantial indebtedness could have important consequences, including:

it may limit our ability to borrow money or sell equity for our working capital, capital expenditures, dividend payments, debt service requirements, strategic initiatives or other purposes;

it may limit our flexibility in planning for, or reacting to, changes in our operations or business;

it may increase the amount of our interest expense, because certain of our borrowings are at variable rates of interest, which, if interest rates increase, could result in higher interest expense;

we will be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;

it may make us more vulnerable to downturns in our business or the economy;

the debt service requirements of our other indebtedness could make it more difficult for us to make payments on the notes;

a substantial portion of our cash flow from operations will be dedicated to the repayment of our indebtedness and will not be available for other purposes;

it may restrict us from making strategic acquisitions, introducing new technologies or exploring business opportunities;

it may make it more difficult for us to satisfy our obligations with respect to our existing indebtedness;

it may limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds or dispose of assets; and

there would be a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing, as needed.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in the ABL facility and the indenture governing the notes. These restrictions are subject to many significant exceptions and the amount of debt we may incur in the future could be substantial. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our pro forma cash interest expense for the LTM Period, after giving pro forma effect to the Transactions, would have been $47.5 million. As of September 30, 2005, after giving pro forma effect to the Transactions, we would have had $218.5 million of floating rate debt under the ABL facility as well as the Floating Rate Notes. A 1% increase in the interest rate on our floating rate debt would increase pro forma annual interest expense under the ABL facility by approximately $2.2 million and would further increase pro forma annual interest expense by an amount dependent upon the principal amount of the Floating Rate Notes.

Our debt agreements contain restrictions that limit our flexibility in operating our business and, in the event that we default on our obligations under our debt agreements, we may not be able to make payments on the notes.

The ABL facility and the indenture governing the notes will contain various covenants that will limit our ability to engage in specified types of transactions. Except in limited circumstances, Flag Intermediate is not subject to any of the restrictive or other covenants in the ABL facility or the indenture governing the notes. These covenants will limit our and our restricted subsidiaries ability to, among other things:

incur or guarantee additional indebtedness or issue certain preferred shares;

pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;

make certain loans, acquisitions, capital expenditures or investments;

sell certain assets and subsidiary stock;

enter into sale and leaseback transactions;

create or incur liens;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

enter into certain transactions with our affiliates.

In addition, under the ABL facility, if our borrowing availability falls below $45.0 million, we will be required to satisfy and maintain a fixed charge coverage ratio not less than 1.0 to 1.0. The fixed charge coverage ratio is determined by dividing (i) the sum of EBITDA (as defined by and adjusted in accordance with the loan and security agreement governing the ABL facility) minus income taxes paid in cash and non-financed capital expenditures by (ii) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt. Our ability to meet the required fixed charge coverage ratio can be affected by events beyond our control, and we cannot assure you that we will meet this ratio. A breach of any of these covenants could result in a default under the ABL facility.

Moreover, the ABL facility provides the lenders considerable discretion to impose reserves or availability blocks, which could materially impair the amount of borrowings that would otherwise be available to us. There can be no assurance that the lenders under the ABL facility will not impose such actions during the term of the ABL facility and further, were they to do so, the resulting impact of this action could materially and adversely impair our ability to make interest payments on the notes.

Upon the occurrence of an event of default under the ABL facility, the lenders could elect to declare all amounts outstanding under the ABL facility to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under the ABL facility could proceed against the collateral granted to them to secure the ABL facility on a first-priority lien basis. If the lenders under the ABL facility accelerate the repayment of borrowings, such acceleration could have a material adverse effect on our business, financial condition and results of operations, and, in addition, we cannot assure you that we will have sufficient assets to repay the ABL facility, or to repay the notes.

Despite our substantial indebtedness, we may still be able to incur significantly more debt. This could intensify the risks described above.

The terms of the indenture governing the notes and the ABL facility contain restrictions on us and our subsidiaries ability to incur additional indebtedness. These restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Accordingly, we or our subsidiaries could incur significant additional indebtedness in the future. As of September 30, 2005, after giving pro forma effect to the Transactions, we would have had approximately $168.6 million available for additional borrowing under the ABL facility, including the subfacility for letters of credit, and the covenants under our debt agreements, including the indenture governing the notes, would allow us to borrow a significant amount of additional indebtedness. In addition, the indenture governing the notes and the ABL facility do not limit the amount of indebtedness that may be incurred by Flag Intermediate. The more leveraged we become, the more we, and in turn our securityholders, become exposed to the risks described above under Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under the notes.

Risks Related to Our Business

Our business, financial condition and results of operations are heavily impacted by varying metals prices.

We principally use steel, aluminum and various specialty metals as feedstock. The metals industry as a whole is cyclical and at times pricing and availability of our feedstock can be volatile due to numerous factors beyond our control, including domestic and international economic conditions, labor costs, production levels, competition, import duties and tariffs and currency exchange rates. This volatility can significantly affect the availability and cost of raw materials for us, and may, therefore, adversely affect our net sales, operating margin and net income. Metal costs typically represent approximately 75% of our net sales. Our service centers maintain substantial inventories of metal to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase metal in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers, which we base on information derived from customers, market conditions, historic usage and industry research. Our commitments for metal purchases are generally at prevailing market prices in effect at the time we place our orders. We have no substantial long-term, fixed-price purchase contracts. When raw material prices rise, we may not be able to pass any portion of the price increase on to customers. When raw material prices decline, customer demands for lower prices could result in lower sale prices and, to the extent we reduce existing inventory quantities, lower margins. See We may be adversely affected by increases in the price of metals if we are unable to pass through any price increases to our customers.

Changes in metal prices also affect our liquidity because of the time difference between our payment for our raw materials and our collection of cash from our customers. We sell our products and typically collect our accounts receivable within 45 days after the sale; however, we tend to pay for replacement materials (which are more expensive when metal prices are rising) over a much shorter period, in part to benefit from early-payment discounts. As a result, when metal prices are rising, we tend to draw more on our revolving credit facility to cover the cash flow cycle from our raw material purchases to cash collection. This cash requirement for working capital is higher in periods when we are increasing inventory quantities as we did at the end of 2004. Our liquidity is thus adversely affected by rising metal prices. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Operating and Investing Activities.

We may be adversely affected by increases in the price of metals if we are unable to pass through any price increases to our customers.

There have been historical periods of rapid and significant movements in the prices of metal, particularly steel, both upward and downward. Any limitation on our ability to pass through any price increases to our customers could have a material adverse effect on our business, financial condition or results of operations.

Our operating results could be negatively affected during economic downturns.

The businesses of many of our customers are, to varying degrees, cyclical and have historically experienced periodic downturns due to economic conditions, energy prices, consumer demand and other factors beyond our control. These economic and industry downturns have been characterized by diminished product demand, excess capacity and, in some cases, lower average selling prices. Therefore, any significant downturn in one or more of the markets that we serve, one or more of the end-markets that our customers serve or in economic conditions in general could result in a reduction in demand for our products and could have a material adverse effect on our business, financial condition or results of operations. Additionally, as an increasing amount of our customers relocate their manufacturing facilities outside of the United States, we may not be able to maintain our level of sales to those customers. As a result of the depressed economic conditions and reduction in construction in the northeastern United States in the years 2000 through the middle of 2002, our customers in such geographic areas had lower demand for our products. While we supply a broad range of products to a large diversified customer base which serves a diverse set of end-markets, concurrent reduced demand in a number of these markets combined with the foreign relocation of some of our customers could have an adverse effect on our business, financial condition or results of operations.

Although we do not generally sell any of our products directly to customers abroad, a large part of our financial performance is dependent upon a healthy economy beyond the United States. Our customers sell their products abroad and some of our suppliers buy feedstock abroad. As a result, our business is affected by general economic conditions and other factors outside the United States, primarily in Europe and Asia. Our suppliers access to metal, and therefore our access to metal, is additionally affected by such conditions and factors. Similarly, the demand for our customers products, and therefore our products, is affected by such conditions and factors. We cannot assure you that events having an adverse effect on the industries in which we operate will not occur or continue, such as further increased prices of steel, enhanced imbalances in the world s iron ore, coal and steel industries, a downturn in world economies, increases in interest rates, unfavorable currency fluctuations, including the weak U.S. dollar, or a slowdown in the key industries served by our customers.

In addition, demand for the products of our Building Products Group could be adversely affected if consumer confidence falls since the results for that group depend on a strong residential remodeling market, which in turn has been partially driven by relatively high consumer confidence.

We rely on metal suppliers in our business and purchase a significant amount of metal from a limited number of suppliers. Termination of one or more of our relationships with any of those suppliers could have a material adverse effect on our business because we may be unable to obtain metal from other sources in a timely manner or at all.

We use a variety of metals in our business. Our operations depend upon obtaining adequate supplies of metal on a timely basis. We purchase most of our metal from a limited number of metal suppliers. As of September 30, 2005, the top three metals producers represented a significant portion of our total metal purchasing cost. Termination of one or more of our relationships with any of these major suppliers could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain metal from other sources in a timely manner or at all.

In addition, the domestic metals production industry has experienced consolidation in recent years. The top three metals producers together control over 60% of the domestic flat rolled steel market. Further consolidation could result in a decrease in the number of our major suppliers or a decrease in the number of alternative supply sources available to us, which could make it more likely that termination of one or more of our relationships with major suppliers would result in a material adverse effect on our business, financial condition or results of operations. Consolidation could also result in price increases for the metal that we purchase. Such price increases could have a material adverse effect on our business, financial condition or results of operations if we were not able to pass these price increases on to our customers.

We operate in a highly fragmented and competitive industry.

We are engaged in a highly fragmented and competitive industry. We compete with a large number of other value-added metals processors/service centers on a regional and local basis, some of which may have greater financial resources than us. We also compete, to a much lesser extent, with primary metals producers, who typically sell to very large customers requiring regular shipments of large volumes of metals. Increased competition could have a material adverse effect on our business, financial condition or results of operation.

Our future success depends on our ability to retain our key employees.

We are dependent on the services of our CEO, Mr. C. Lourenço Gonçalves, and other members of our senior management team to remain competitive in our industry. There is a risk that we will not be able to retain or replace these key employees. While upon closing of the Transactions all of our current key employees (other than our current CFO, Terry Freeman, who intends to resign upon the closing of the Transactions pursuant to a Severance Agreement that he entered into with Flag Acquisition) will be subject to employment conditions or arrangements that contain post-employment non-competition provisions and certain of these key employees will be investors in the company, these arrangements will permit the employees to terminate their employment without notice. In addition, these arrangements permit the company to terminate these employment arrangements for cause (which includes, among other things, the emergence of facts or developments that are reasonably likely to adversely impact (for the company or Mr. Gonçalves) a certain pending litigation filed against Mr. Gonçalves). See Management Management Agreements Mr. Gonçalves Employment Agreement. The loss of any member of our senior management team could have a material adverse effect on our business, financial condition or results of operations.

We are subject to litigation.

We are a defendant in numerous lawsuits. These suits concern issues including product liability, contract disputes, employee-related matters and personal injury matters. In addition, a certain pending litigation has been brought by an employee against us and our CEO, which may result in the termination of his employment agreement. In addition, we may not have insurance with respect to all of the lawsuits to which we are a party, including the litigation involving our CEO. See Our future success depends on our ability to retain our key employees and Management Management Agreements Mr. Gonçalves Employment Agreement. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these matters could have a material adverse effect on our business, financial condition, results of operations or reputation.

We are subject to extensive environmental regulation.

Our operations are subject to extensive regulations governing waste disposal, air and water emissions, the handling of hazardous substances, remediation, workplace exposure and other environmental matters. We believe that we are in substantial compliance with all such laws and do not currently anticipate that we will be required to expend any substantial amounts in the foreseeable future in order to meet current environmental or workplace health and safety requirements. However, some of the properties we own or lease are located in areas with a history of heavy industrial use, and are on or near sites listed on the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, National Priority List. CERCLA establishes joint and several responsibility for cleanup without regard to fault for persons who have arranged for disposal of hazardous substances at sites that have become contaminated and for persons who own or operate contaminated facilities. We have a number of properties located in or near industrial or light industrial use areas; accordingly, these properties may have been contaminated by pollutants which would have migrated from neighboring facilities or have been deposited by prior occupants. Some of our properties are affected by contamination from leaks and drips of cutting oils and similar materials used in our business and we have removed and restored such known impacted soils pursuant to applicable environmental laws. The costs of such clean-ups have not been material. We are not currently subject to any claims and have not received any notices with respect to cleanup or remediation under CERCLA or similar laws for contamination at our leased or owned properties or at any off-site location. However, we cannot rule out the possibility that we could be notified of such claims in the future. It is possible that we could be identified by the Environmental Protection Agency, a state agency or one or more third parties as a potentially responsible party under CERCLA or under analogous state laws. If so, we could incur substantial litigation costs in defense of such claims.

Adverse developments in our relationship with our employees and future shortages of employees could adversely affect our business.

Approximately 300 of our employees (12%) at various sites are members of unions. Our relationship with these unions generally has been satisfactory, but occasional work stoppages have occurred. Within the last five years, one work stoppage occurred at one facility, which involved approximately 30 employees and lasted approximately 30 days. Any work stoppages in the future could have a material adverse effect on our business, financial condition or results of operations.

We are currently a party to 9 collective bargaining agreements with such unions, which expire at various times. Collective bargaining agreements for all of our union employees expire in each of the next three years. Historically, we have succeeded in negotiating new collective bargaining agreements without a strike. However, no assurances can be given that we will succeed in negotiating new collective bargaining agreements to replace the expiring ones without a strike. Any strikes in the future could have a material adverse effect on our business, financial condition or results of operations.

From time to time, there are shortages of qualified operators of metals processing equipment. In addition, during periods of low unemployment, turnover among less-skilled workers can be relatively high. Any failure to retain a sufficient number of such employees in the future could have a material adverse effect on our business, financial condition or results of operations.

We emerged from Chapter 11 Reorganization in 2002.

Our predecessor company sought protection under Chapter 11 of the Bankruptcy Code in November 2001. Our predecessor company incurred operating losses of $2.6 million and $390.5 million during the ten-month period ended October 31, 2002 and the fiscal year ended December 31, 2001, respectively. Approximately $386 million of the 2001 net loss was attributable to write-downs associated with the carrying value of our predecessor company s goodwill and property and equipment to their then estimated recoverable values. We incurred an operating loss of $0.9

million for the two-month period ended December 31, 2002. Our predecessor company s equity ownership, board of directors and a portion of its senior management was replaced in connection with our reorganization. While our current senior management has concentrated on improving our profitability, we may not attain sustained profitability or achieve growth in our operating performance. See Management s Discussion and Analysis of Financial Condition and Results of Operations Predecessor Company Chapter 11 Proceedings and Reorganization.

Our historical financial information is not comparable to our current financial condition and results of operations.

As a result of our emergence from bankruptcy on October 31, 2002, we were subject to Fresh-Start Reporting. Accordingly, our financial information as of any date or for periods after November 1, 2002 is not comparable to our historical financial information before November 1, 2002. This is primarily because the Fresh-Start Reporting purchase price allocations required us to reduce the carrying value of the property and equipment we owned at November 1, 2002 to zero. See Management s Discussion and Analysis of Financial Condition and Results of Operations Predecessor Company Chapter 11 Proceedings and Reorganization.

CAPITALIZATION

The following table sets forth our cash and capitalization as of September 30, 2005, both on a historical basis and on a pro forma basis after giving effect to the Transactions. The information in this table should be read in conjunction with Unaudited Pro Forma Condensed Consolidated Financial Information, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of the Transactions, and our consolidated financial statements.

	As of September 30, 2005			
	Historical		Pro Forma	
	(in millions)			
Cash	$ 12.4		$ 12.4	
Total debt:				
ABL facility(1)	$		$ 218.5	
Notes			275.0	
Existing debt	132.5		7.3	(2)
Total debt	$ 132.5		$ 500.8	
Stockholders equity	373.8		134.0	(3)
Total capitalization	$ 506.3		$ 634.8	

(1) The ABL facility will provide for up to $450.0 million of senior secured revolving credit borrowings and letters of credit, subject to a borrowing base determined primarily by the value of our eligible receivables and eligible inventory, subject to certain reserves. Our borrowing base under the ABL facility is estimated to be approximately $407 million on the closing date. We expect that $218.5 million will be drawn under the ABL facility on the closing date of the Transactions (exclusive of approximately $20 million of letters of credit that we expect to be issued or rolled over on the closing date).

(2) Consists of an Industrial Revenue Bond (IRB) with $5.7 million principal amount outstanding as of September 30, 2005, which is payable on May 1, 2016 in one lump sum payment and $1.6 million in vendor financing and purchase money notes.

(3) Consists of approximately $136.1 million of cash equity contributed by investment funds associated with Apollo plus approximately $3.9 million of equity from management participants, reduced by $6.0 million of transaction fees paid to Apollo accounted for as a reduction of paid in capital.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial statements have been developed by applying pro forma adjustments to the historical audited and unaudited consolidated financial statements of Metals USA. The unaudited pro forma condensed consolidated statements of operations give effect to the Transactions as if they had occurred on January 1, 2004. The unaudited pro forma condensed consolidated balance sheet gives effect to the Transactions as if they had occurred on September 30, 2005. The unaudited pro forma condensed consolidated statement of operations for the LTM Period has been derived by adding the unaudited pro forma condensed consolidated statement of operations data for the year ended December 31, 2004 to the unaudited pro forma condensed consolidated statement of operations data for the nine months ended September 30, 2005 and subtracting the unaudited pro forma condensed consolidated statement of operations data for the nine months ended September 30, 2004. Assumptions underlying the unaudited pro forma adjustments are described in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed consolidated financial statements.

The unaudited pro forma adjustments are based upon currently available information and assumptions that we believe to be reasonable under the circumstances. Article 11 of Regulation S-X does not allow presentation of pro forma statements of operations data for periods, such as the LTM Period, that do not conform to the historical periods of the relevant reporting entity; however, management has presented pro forma statements of operations data for the LTM Period because they believe it provides meaningful additional information. Each of the unaudited pro forma adjustments and their underlying assumptions are described more fully in the notes to our unaudited pro forma condensed consolidated financial statements.

Flag Holdings, Flag Intermediate and Flag Acquisition each currently has no assets and conduct no operations, and therefore their corresponding historical financial statements have not been presented in this current report. As a result of the Transactions, Metals USA will be indirectly wholly-owned by Flag Holdings with assets, liabilities and an equity structure that will not be comparable to historical periods.

The summary unaudited pro forma condensed consolidated financial data are for informational purposes only and do not purport to represent what our results of operations or financial position actually would have been if the Transactions had occurred at any date, and such data do not purport to project the results of operations for any future period.

The Merger will be accounted for using purchase accounting. The unaudited pro forma condensed consolidated financial information presented, including allocations of purchase price, is based on preliminary estimates of the fair values of assets acquired and liabilities assumed, available information and assumptions and will be revised as additional information becomes available. A final determination of these fair appraisals will reflect our consideration of a final valuation prepared by third party appraisers. The actual adjustments to our consolidated financial statements upon the closing of the Transactions will depend on a number of factors, including additional information available and our net assets on the closing date of the Transactions. Therefore, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

The final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. As of the date of this current report, we have not completed the valuation studies necessary to estimate the fair values of the assets we will have acquired and liabilities we will have assumed and the related allocation of purchase price. Accordingly, for purposes of the unaudited pro forma condensed consolidated financial information, the excess of the purchase price over the net assets has been allocated to goodwill. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information contained in Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of the Transactions, Risk Factors and our consolidated financial statements and related notes thereto.

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Metals USA, Inc. Unaudited Pro Forma Condensed Consolidated Balance Sheet As of September 30, 2005

	Historical	Pro Forma Adjustments (in millions)	Pro Forma
Cash	$ 12.4	$	$ 12.4
Accounts receivable, net	192.6		192.6
Inventory	341.5	30.4(a)	371.9
Prepaid expenses and other	14.1	1.4(a)(d)	15.5
Total current assets	560.6	31.8	592.4
Property and equipment, net	47.3	110.0(a)	157.3
Other assets	8.0	6.0(h)	14.0
Goodwill		28.4(b)	28.4
Total assets	$ 615.9	$ 176.2	$ 792.1
Accounts payable			