METALS USA INC
Form 10-K
February 12, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Commission File Number 333-132918

FLAG INTERMEDIATE HOLDINGS CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware **(State or other jurisdiction** **of incorporation or organization)**	**20-3779375** **(I.R.S. Employer** **Identification Number)**
2400 E. Commercial Blvd., Suite 905 **Fort Lauderdale, Florida** **(Address of Principal Executive Offices)**	**33308** **(Zip Code)**

Commission File Number 1-13123

METALS USA, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	**76-0533626**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2400 E. Commercial Blvd., Suite 905 Fort Lauderdale, Florida	**33308**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

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

There is no market for the Registrant s common stock. As of February 12, 2010, 100 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this Annual Report, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements appear in a number of places, including Item 1. Business, Item 1.A Risk Factors, Item 3. Legal Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, believe, estimate, expect, forecast, may, should, plan, project and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

- *our projected operating or financial results, including anticipated cash flows from operations and asset sale proceeds for 2010;*
- *our expectations regarding capital expenditures, interest expense and other payments;*
- *our beliefs and assumptions relating to our liquidity position, including our ability to adapt to changing market conditions; and*
- *our ability to compete effectively for market share with industry participants.*

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

- *supply, demand, prices and other market conditions for steel and other commodities;*
- *the timing and extent of changes in commodity prices;*
- *the effects of competition in our business lines;*
- *the condition of the steel and metal markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions;*
- *the ability of our counterparties to satisfy their financial commitments;*
- *tariffs and other government regulations relating to our products and services;*
- *adverse developments in our relationship with both our key employees and unionized employees;*

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

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

our substantial indebtedness;

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

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

our ability to retain key employees; and

our expectations with respect to our acquisition activity.

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In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements, some of which are included elsewhere in this Form 10-K, including in Item 1A, Risk Factors, and in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements. All forward-looking statements contained in this Form 10-K are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Form 10-K, except as otherwise required by applicable law.

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PART I

Item 1. ***Business***

Overview

Metals USA, Inc. was incorporated in Delaware on July 3, 1996, and began operations upon completion of an initial public offering on July 11, 1997. On November 14, 2001, our predecessor company filed for voluntary protection from its creditors under Chapter 11 of the United States Bankruptcy laws. We emerged from bankruptcy as a public company on October 31, 2002.

On May 18, 2005, Metals USA Holdings Corp., a Delaware corporation (Metals USA Holdings), and its wholly owned subsidiary, Flag Acquisition Corporation, a Delaware corporation (Flag Acquisition), entered into an Agreement and Plan of Merger (the Merger Agreement) with Metals USA, Inc. (Metals USA). On November 30, 2005, Flag Acquisition, then a wholly owned subsidiary of Flag Intermediate Holdings Corporation (Flag Intermediate) merged with and into Metals USA (the Merger), with Metals USA being the surviving corporation. Flag Intermediate and Flag Acquisition conducted no operations during the period from May 9, 2005 (date of inception) to November 30, 2005. As a result of the Merger, all of Metals USA Inc. s issued and outstanding common stock is held indirectly by Metals USA Holdings through Flag Intermediate, its wholly owned subsidiary. Metals USA Holdings was formed by Apollo Management V L.P., (Apollo Management and together with its affiliated investment entities Apollo or Apollo V). Investment funds associated with Apollo own approximately 93% of the capital stock of Metals USA Holdings (or approximately 91% on a fully-diluted basis). The remainder of the capital stock of Metals USA Holdings is held by members of our management.

Flag Intermediate and its wholly owned subsidiary, Metals USA, are referred to collectively herein as the Company or Successor Company and Metals USA prior to the Merger is referred to as the Predecessor Company.

As one of the largest metal service center businesses in the United States, we believe that we are a leading provider of value-added processed carbon steel, stainless steel, aluminum, red metals and manufactured metal components. We believe that we serve an important function as an intermediary between primary metal producers that generally sell large volumes in limited sizes and configurations and end-users that generally require more services and smaller quantities of customized products. Operating 34 facilities comprising almost 4.6 million square feet of industrial space, our metal service center business sold more than 900 thousand tons of metal products in 2009. We sell our products and services to a diverse customer base and broad range of end markets, including the land and marine transportation, energy, aerospace, defense, electrical and appliance manufacturing, fabrication, furniture, commercial construction, and machinery and equipment industries, among several others, throughout the United States. We strive to earn a margin over the cost of metal. Management s strategy, manifested through organic growth initiatives and our acquisitions of Port City, Lynch Metals, and Philadelphia Plate, focuses on maximizing the margin we earn over the cost of metal by offering additional value-added processing services and diversifying our product mix. We believe our growth and acquisition strategy, in combination with management s demonstrated ability to manage metal purchasing and inventories to consistently meet our customers high expectations for service and reliability, serves as a foundation for future revenue growth and stable operating profit per ton through the economic cycle.

Our Plates and Shapes and Flat Rolled and Non-Ferrous Groups perform customized, value-added processing services to unimproved steel and other metals required to meet specifications provided by our customers in addition to offering inventory management and just-in-time delivery services, among others. 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 and Non-Ferrous Groups are in the electrical and appliance manufacturing, fabrication, furniture, commercial construction, machinery and equipment, land and marine transportation, and energy and aerospace industries. Our Building Products Group manufactures high-value finished building products for distributors and contractors engaged in the residential remodeling industry.

Segment Information

Our product groups are led by members of our senior management teams, who, on average, have over 27 years of experience and are supported by finance, purchasing and sales and marketing staff. 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations by Segment, Note 13 to our consolidated financial statements for the year ended December 31, 2009 included elsewhere in this report.

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

Overview. Companies operating in the metals industry can generally be characterized as primary metal producers, metal processors/metal service centers or end-users. Our Plates and Shapes and Flat Rolled and Non-Ferrous Groups are metals processors/metal service centers. As such, we purchase carbon steel, stainless 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 increasingly seek to have their metals processing and inventory management requirement met by value-added oriented metals processors/metal service centers like us.

Metal service centers function as key intermediaries between the primary metals producers that produce and sell larger volumes of metals in a limited number of sizes and configurations and end-users, such as fabricators, 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.

In our Plates and Shapes and Flat Rolled and Non-Ferrous Groups, we engage in pre-production processing of carbon steel, stainless steel, red metals and aluminum. 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 and Non-Ferrous Groups contributed approximately 92% of our 2009 net sales.

Plates and Shapes Group. The Plates and Shapes Group processes and sells steel plates and structural beams, bars, angles and tubes. We believe we are one of the largest distributors of steel plates and structural beams in the United States. In 2009, we sold approximately 485 thousand tons of products through 20 metal service centers located primarily in the southern and eastern regions of the United States. Our metal service centers are generally equipped to provide additional value-added processing, and a substantial portion of our volume is processed prior to being delivered to the end-user. These processing services include burning, blasting and painting (the process of cleaning steel plate by shot-blasting, then immediately applying a paint or primer), 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), leveling (the flattening of metals to uniform tolerances for proper machining), cutting, sawing, punching, drilling, beveling, surface grinding, braking (bending), shearing and cutting-to-length (the cutting of metals into pieces and along the width of a coil to create sheets or plates). We sell our products to a diversified customer base, including a large number of small customers who purchase products in small order sizes. We generally earn additional margin from our customers by providing services such as product marking, item sequencing, just-in-time delivery and kitting. The customers who require these products and services are primarily in the fabrication, commercial construction, machinery and equipment, land and marine transportation, and energy industries. Because our metal service centers are generally located in close proximity to our metal suppliers and our customers, we are able to meet our customers product and service needs reliably and consistently. In May 2006, we completed the acquisition of Port City, a higher value-added plate facility located in Tulsa, Oklahoma, which has bolstered our presence in the construction and oil-field services sectors. More recently in February 2009, we acquired substantially all of the operating assets of VR Laser, a metal processor of carbon plate products located in Philadelphia, PA, which has expanded our presence in the northeast region of the United States and augmented our presence in the marine and defense sectors.

Flat Rolled and Non-Ferrous Group. The Flat Rolled and Non-Ferrous Group processes and sells flat rolled carbon and stainless steel, aluminum, brass and copper in a number of alloy grades and sizes through 14 metal service centers located primarily in the mid-western and southern regions of the United States. We sold approximately 435 thousand tons of these products in 2009 split approximately 60% and 40% between ferrous products and non-ferrous products, respectively. Substantially all of the products from this group that are sold undergo value-added processing prior to shipment to our customers. These processing services include precision blanking (the process in which metal is cut into precise two-dimensional shapes), slitting (the cutting of coiled metals to specified widths along the length of the coil), shearing and cutting-to-length, punching and leveling. We sell our products and services to customers in the electrical and appliance manufacturing, fabrication, furniture, machinery and equipment, transportation and aerospace industries. Many of our large customers purchase through pricing arrangements or contractual agreements that specify the margin over the cost of metal and we generally earn additional margin from these customers by providing services such as product marking and labeling, just-in-time delivery and kitting. We are able to provide these services reliably because our metal service centers are generally located in close proximity to our metal suppliers and our customers. In July 2007, we acquired Lynch Metals, a metal service center business that provides additional value-added, specialized aluminum products to customers who are predominantly manufacturers of air/heat transfer products specifically focused on aerospace, industrial and automotive applications.

Industry Overview. Metal service centers and processors purchase approximately 35% of all the metals used in the U.S. and Canada and play an important intermediary role between the production mills and the end-users. Over the last several years primary metal producers have consolidated and focused on optimizing throughput and operating efficiencies of their production facilities. This has expanded the demand for metal service centers and processors to perform value-added services for end-users. As a result of the industry consolidation, most end-users cannot obtain processed products directly from primary metals producers, and therefore, over 300,000 OEMs, contractors and fabricators nationwide rely on metal service centers for their primary supply of metal products and services. End-users generally buy metal products and services from metal service centers on a margin over the base cost of the metal. When customers require additional processing or specific services, value-added metal service centers, including ours, earn an additional premium margin for the value-added processing elements they perform on base metal prior to delivering it to end-users.

OEMs and other end-users have also recognized the economic advantages associated with outsourcing their customized metals processing needs, which include (1) permitting end-users to reduce total production costs by shifting the responsibility of pre-production processing to metal service centers and (2) allowing OEMs and end-users to reduce inventories and focus on realizing value from additional inventory management measures. These supply-chain services, which are not normally provided by primary metals producers, enable end-users to reduce input costs, decrease inventory and equipment capital requirements and save time, labor and other expenses.

We believe that long-term growth opportunities for metal service centers will continue to expand as both primary metal producers and end-users increasingly seek to have their metal processing and inventory management requirements met by value-added metal service centers. Although the service center industry

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remains fragmented with approximately 1,200 companies competing in North America, we believe larger and financially flexible companies, like ours, enjoy significant advantages over smaller companies such as obtaining higher discounts associated with volume purchases, servicing customers with operations in multiple locations, offering a broader range of products and services and utilizing more sophisticated information systems.

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

United States steel production has remained relatively constant from 2003 through 2008, averaging approximately 106 million tons annually. The global financial crisis that started during the second half of 2008 has caused a significant reduction in the consumption of steel world-wide (excluding China). In the United States, domestic steel production has declined by almost half to approximately 64 million tons in 2009. Similar volume declines occurred in virtually all developed economies. Service centers, distributors, and the rest of the supply chain have responded by aggressively reducing inventories. By August 2009, service center industry-based inventory metrics reported lowest-ever inventory levels during the 32 years that this data has been collected. Since then, inventories have remained low. Consequently, domestic steel producers reported operating levels below 50 percent capacity utilization during 2009.

Steel pricing dropped during the first six months of 2009 as steel producers continually reduced prices in the face of shrinking order backlogs. Since late June 2009, prices have been trending upwards as signs indicated an increase in global demand for steel and raw material inputs (however, there can be no guarantee this trend will continue). Domestic demand also benefited from the government s Cash for Clunkers program. We believe we have seen a modestly improving trend in our order inquiry activity during the latter half of 2009 and it appears, with the exception of non-residential construction, that steel demand may be entering a slow recovery stage (however, there can be no guarantee that it is entering a slow recovery stage). Even in a historically low demand environment, we believe rising price trends are sustainable if producers generate product commensurate with demand. The impact from federal stimulus legislation has not yet had a meaningful impact on the industry as actual spending continues to work through governmental channels. We believe that stimulus spending should have a meaningful impact on 2010 steel consumption and, in combination with basic economic recovery, domestic steel consumption should experience a year over year increase.

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 times, multiple daily deliveries, staged deliveries, or deliveries timed for immediate production. These just-in-time deliveries are defined by our customers and are generally intended to minimize their inventory investment and handling requirements.

While we ship products throughout the United States, 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. Eighteen of our 34 metal service center facilities have International Standards Organization, or ISO , 9002 certification.

Building Products Group

Overview. The Building Products Group manufactures and sells roofing and patio products. We generally sell these products through a network of independent distributors and home improvement contractors. Our roofing products business manufactures and sells a high performance roofing product consisting of a pressed and stone-coated steel panel that mimics the appearance of traditional shake and tile roofing. Our roofing product is well suited for all areas subject to threats of high winds, fires and hail storms. In May 2006, we acquired Duraloc Roofing Systems, Ltd., a Canadian-based competitor which we have re-branded as Allmet Roofing Products. This acquisition provided us with manufacturing capabilities on both the east and west coasts of North America. Our patio products business manufactures and sells building components used primarily for the erection of residential shade structures such as patio covers and enclosures. With facilities located throughout the southern and western regions of the United States, we believe we are one of only a few suppliers of patio products with national scale.

Notwithstanding recent conditions in the United States housing sector, we believe some signs, such as increases in sales of new and existing homes, indicate an improving outlook for the housing sector. Moreover, we believe that factors including an historically low interest rate environment and an aging American housing stock are generating significant pent-up demand for remodeling that should manifest itself when the housing sector rebounds (however, there can be no guarantee that demand for remodeling will increase or the timing of any such rebound). We believe that these factors support a strong long-term outlook for residential remodeling as a cost-effective alternative to new housing construction.

Raw Materials and Supply

In recent years, steel, aluminum, copper and other metals production in the United States 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 metals from domestic suppliers, which include Nucor Corp., Arcelor Mittal, AK Steel, North American Stainless, Steel Dynamics, and Gerdau Ameristeel. 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 free-on-board and the transportation of metals is a significant cost factor, we generally seek to purchase metals, to the extent possible, from the nearest mill.

Steel producers have been undergoing rapid consolidation over the past five years. U.S. Steel, Nucor Corp. and Arcelor Mittal have acquired several of their domestic competitors, and international integrated producers have merged and consolidated operations. The result of this trend will be fewer integrated producers from which we can purchase our raw materials. We believe that global consolidation of the metals industry is beneficial to the metals industry as a whole by enhancing efficiency.

Sales and Marketing; Customers

We employ a sales force consisting of internal and external salespeople. Internal salespeople are primarily responsible for maintaining customer relationships, receiving and soliciting individual orders and responding to service and other inquiries by customers. Our external sales force is primarily responsible for identifying potential customers and calling on them to explain our services. We believe that our 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

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we submit a bid on each product. We have a diverse customer base, with no single customer accounting for more than 4% of our net sales in each of the last three years. Our ten largest customers represented less than 14% of our net sales in 2009.

Competition

We are engaged in a highly fragmented and competitive industry. The United States and Canadian metal service center industry generated approximately $153 billion in 2008 revenues from approximately 1,200 different companies. Based on 2008 revenues the top 100 competitors represent approximately 47% of industry revenue. Metals USA is ranked ninth among this group based on 2008 revenues.

Markets are generally oriented on a regional and local basis. We have numerous competitors in each of our product lines and geographic locations. In every market we service we compete with various combinations of other large, value-added oriented metals processor/metal service centers some of which may have greater financial resources than we have, smaller metals processors/metal service centers and, to a much lesser extent, with primary metals producers, who typically sell to very large customers requiring regular shipments of large volumes of metals.

We compete with other companies on price, service, quality and availability of products. Our sales and services decisions are decentralized, providing local management the flexibility to quickly address local market conditions. Historically, we believe we have been able to compete effectively because of our high levels of service, broad-based inventory, knowledgeable and trained sales force, integrated computer systems, modern equipment, numerous locations, geographic dispersion, operational economies of scale and combined purchasing volume. 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; and 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.

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 requirements. However, some of the properties we own or lease are located in areas with a history of heavy industrial use, and are 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. The costs of clean-ups to date 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 and Non-Ferrous Group metal service centers use a system marketed and distributed specifically for the metal service center industry. During 2003, we completed a similar common-platform initiative in the Building Products Group. Some of our subsidiaries currently use electronic data interchange, 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 metals processing, 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

As of December 31, 2009, we employed approximately 1,700 persons. As of December 31, 2009, approximately 166, or approximately 10% of our employees, 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; and the International Brotherhood of Teamsters. Our relationship with these unions generally has been satisfactory. Within the last five years, we have not experienced any work stoppages at any of our facilities. We are currently a party to seven collective-bargaining agreements. Five expire in 2010, one expires in 2011, and one expires in 2013. Presently, we do not anticipate any problems or issues with respect to renewing these agreements upon acceptable terms. Historically, we have succeeded in negotiating new collective bargaining agreements without a strike and we expect to succeed in negotiating new collective bargaining agreements with respect to the agreements that expire in 2010.

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. We believe that our relations with our employees are satisfactory.

See Risk Factors Our ability to retain our key employees is critical to the success of our business, and failure to do so may adversely affect our revenues and as a result could materially adversely affect our business, financial condition, results of operations and cash flows and Risk Factors Adverse developments in our relationship with our unionized employees could adversely affect our business.

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. Our safety program includes regular weekly or monthly field safety meetings and training sessions to teach proper safety procedures. A comprehensive best practices safety program which has been implemented throughout our operations ensures 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. We have experienced improvements in our safety record in four of the last five years. Furthermore, our annual bonus plan for our Chief Executive Officer, officers and managers is tied directly in part to our 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations by Segment and Note 13 to our consolidated financial statements for the year ended December 31, 2009.

Patents, Trademarks and Other Intellectual Property Rights

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 have any material long-term assets or customer relationships outside of the United States. We have no material 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.

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Communication with the Company

The Company s required Securities and Exchange Act filings such as annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the Company s website, http://www.metalsusa.com., as soon as reasonably practicable after they have been filed with or furnished to the Securities and Exchange Commission (the SEC). All of these materials are located at the Investor Relations link. They can also be obtained free of charge upon request to the Company s principal address: Metals USA Holdings Corp., 2400 E. Commercial Blvd., Suite 905, Fort Lauderdale, Florida 33308.

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Item 1A. ***Risk Factors***

In addition to the factors discussed elsewhere in this report and in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, the following are some of the potential risk factors that could cause our actual results to differ materially from those projected in any forward-looking statements. You should carefully consider the risk factors set forth below, as well as other information contained in this document, when evaluating your investments in our securities. Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

Our business, financial condition, results of operations and cash flows are heavily affected by changing metal prices (which we believe are currently increasing but which may not continue).

Metals costs typically represent approximately 75% of our net sales. Metals costs 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. Our metal service centers maintain substantial inventories of metal to accommodate the short lead-times and just-in-time delivery requirements of our customers. Accordingly, using information derived from customers, market conditions, historic usage and industry research, 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. 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 the price increase on to our 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. There have been historical periods of rapid and significant movements in the prices of metal 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, results of operations or cash flows.

Changes in metal prices (which we believe are currently increasing but which may not continue) 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 the ABL 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. 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.

Our operating results and liquidity could be negatively affected during economic downturns (which we believe we are currently experiencing) because the demand for our products is cyclical. We believe demand for our products is currently in the lower end of the cycle, although conditions have steadily improved throughout the latter half of 2009.

Many of our products are used in businesses that 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 for our products. The recent economic downturn and uncertainty about current global economic conditions pose risks as businesses in one or more of the markets that we serve, or consumers in one or more of the end-markets that our customers serve, may postpone purchases in response to tighter credit, negative financial news and/or declines in asset values, which could have a material adverse effect on the demand for our products and services and on our financial condition, results of operations or cash flows. 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.

More recently, the decline in steel prices resulting from weakened demand and an oversupply of steel throughout the supply chain during the latter half of 2008 and first half of 2009 have contributed to a significant decline in steel product shipments from metals service centers in the U.S in year-over-year comparisons. Reduced demand in a number of our markets combined with the foreign relocation of some of our customers could have an adverse effect on our business, financial condition, results of operations or cash flows.

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. These conditions and factors include enhanced imbalances in the world s iron ore, coal and steel industries, a downturn in world economies, increases in interest rates, unfavorable currency fluctuations or a slowdown in the key industries served by our customers. In addition, demand for the products of our Building Products Group has been and is expected to continue to be adversely affected if the current state of the housing market continues to contract, since the results of that group depend on a strong residential remodeling industry, which in turn has been historically driven by an expansion in the broader housing market and 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 and termination of one or more of our relationships with any of them could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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 December 31, 2009, our top three metals suppliers represent a significant portion of our total metal purchasing cost. Termination of our relationship with either of these suppliers could have a material adverse effect on our business, financial condition, results of operations or cash flows if we were unable to obtain metal from other sources in a timely manner.

In addition, the domestic metals production industry has experienced consolidation in recent years. 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, results of operations or cash flows. 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, results of operations or cash flows if we were not able to pass these price increases on to our customers.

Intense competition in our fragmented industry could adversely affect our profitability.

We are engaged in a highly fragmented and competitive industry. We compete with a large number of other value-added oriented metals processor/metal service centers on a regional and local basis, some of which may have greater financial resources than we have. The United States and Canadian metal service center industry generated $153 billion in sales from approximately 1,200 participants in 2008. Based on 2008 revenues the top 100 competitors represent approximately 47% of industry revenue. Metals USA is ranked ninth among this group based on 2008 revenues. 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. Because price, particularly in the ferrous flat rolled business, is a competitive factor we may be required in the future to reduce sales volumes to maintain our level of profitability. Increased competition in any of our businesses could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our ability to retain our key employees is critical to the success of our business, and failure to do so may adversely affect our revenues and as a result could materially adversely affect our business, financial condition, results of operations and cash flows.

We are dependent on the services of our Chief Executive Officer and other members of our senior management team to remain competitive in our industry. We may not be able to retain or replace one or more of these key employees, we may suffer an extended interruption in one or more of their services or we may lose the services of one or more of these key employees entirely. Our current key employees are subject to employment conditions or arrangements that permit the employees to terminate their employment without notice. See Management Management Agreements with Metals USA and Related Stock Option Grants from Metals USA Holdings. Other than a life insurance policy maintained by us on our Chief Executive Officer, for which we are the beneficiary, we do not maintain any life insurance policies for our key employees. If any of our key employees were not able to dedicate adequate time to our business, due to personal or other factors, if we lose or suffer an extended interruption in the services of any of our key employees or if any of our key employees were to terminate their employment it could have a material adverse effect on our business, financial condition, results of operations or cash flows. In addition, the market for qualified individuals may be highly competitive and we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management or other key employees, should the need arise.

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, results of operations or cash flows.

We are subject to litigation that could strain our resources and distract management.

From time to time, we are involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. These suits concern issues including product liability, contract disputes, employee-related matters and personal injury matters. It is not feasible to predict the outcome of all pending suits and claims, and the ultimate resolution of these matters as well as future lawsuits could have a material adverse effect on our business, financial condition, results of operations or cash flows or reputation.

Environmental costs could decrease our net cash flow and adversely affect our profitability.

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. Some of the properties we own or lease are located in areas with a history of heavy industrial use, and are near sites listed for clean up under the Comprehensive Environmental Response, Compensation, and Liability Act, which we refer to as CERCLA. See Business Government Regulation and Environmental Matters. CERCLA established 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. The costs of clean-ups to date have not been material. It is possible that we could be notified of such claims in the future. See Business Government Regulation and Environmental Matters. It is also possible that we could be identified by the Environmental

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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 costs related to such claims, which could decrease our net cash flows and adversely affect our profitability.

Adverse developments in our relationship with our unionized employees could adversely affect our business.

As of December 31, 2009, approximately 166 of our employees (approximately 10%) at various sites were members of unions. We are currently a party to seven collective-bargaining agreements. Five expire in 2010, one expires in 2011 and one expires in 2013. Presently we do not anticipate any problems or issues with respect to renewing these agreements upon acceptable terms. 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, results of operations or cash flows. See Business Employees for a discussion of our previous negotiations of collective-bargaining agreements.

Our historical financial information is not comparable to our current financial condition, results of operations and cash flows because of our use of purchase accounting in connection with the Merger (which resulted in a new valuation for the assets and liabilities of Metals USA to their fair values) and the acquisitions of Port City, Lynch Metals and Allmet.

It may be difficult for you to compare both our historical and future results to our results for the fiscal year ended December 31, 2009. The Merger was accounted for utilizing purchase accounting, which resulted in a new valuation for the assets and liabilities of Metals USA to their fair values. This new basis of accounting began on November 30, 2005. In addition, the acquisition of Port City and Dura-loc Roofing Systems Limited, subsequently renamed Allmet, which we refer to as Allmet (collectively, which we refer to as the 2006 Acquisitions), and the acquisition of Lynch Metals were, and we expect future acquisitions will be, also accounted for using purchase accounting and, therefore, similar limitations regarding comparability of historical and subsequent results could arise. Under the purchase method of accounting, the operating results of each of the acquired businesses, including the 2006 Acquisitions and Lynch Metals, are included in our financial statements only from the date of the acquisitions. As a result, amounts presented in the consolidated financial statements and footnotes may not be comparable with those of prior periods.

We may not successfully implement our acquisition strategy, and acquisitions that we pursue may present unforeseen integration obstacles and costs, increase our leverage and negatively impact our performance.

We intend to continue to pursue our acquisition strategy, and we generally target one to two bolt-on acquisitions per year that will enhance our metal service center strategy. We may not be able to identify suitable acquisition candidates, and if we do identify suitable candidates, they may be larger than our historical targets. The expense incurred in consummating acquisitions of related businesses, or our failure to integrate such businesses successfully into our existing businesses, could affect our growth or result in our incurring unanticipated expenses and losses. Furthermore, we may not be able to realize any anticipated benefits from acquisitions. We regularly evaluate potential acquisitions and may complete one or more significant acquisitions in the future. To finance an acquisition, we may incur debt or issue equity, both of which could be materially greater amounts than in connection with prior acquisitions. The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with our acquisition strategy, which could have an adverse effect on our business, financial condition, results of operations and cash flows, include:

- potential disruption of our ongoing business and distraction of management;
- unexpected loss of key employees or customers of the acquired company;
- conforming the acquired company s standards, processes, procedures and controls with our operations;

- coordinating new product and process development;
- hiring additional management and other critical personnel;
- encountering unknown contingent liabilities that could be material; and
- increasing the scope, geographic diversity and complexity of our operations.

As a result of the foregoing, our acquisition strategy may not be successfully received by customers, and we may not realize any anticipated benefits from acquisitions.

Our parent company, Metals USA Holdings, is a holding company and relies on dividends and other payments, advances and transfers of funds from us to meet its dividend and other obligations. Metals USA Holdings ability to repay its $300.0 million initial aggregate principal amount of Senior Floating Rate Toggle Notes due 2012 (the 2007 Notes) depends upon the performance of its subsidiaries and their ability to make distributions.

Metals USA Holdings has no direct operations and derives all of its cash flow from its subsidiaries. Because Metals USA Holdings conducts its operations through its subsidiaries, Metals USA Holdings depends on those entities for dividends and other payments to generate the funds necessary to meet its financial obligations, and to pay any dividends with respect to its common stock. However, none of Metals USA Holdings subsidiaries is obligated to make funds available to it for payment on the 2007 Notes. Legal and contractual restrictions in the ABL facility, the indenture governing the November 2005 issuance of $275.0 million aggregate principal amount of our 11 $^{1}/8$% senior secured notes due 2015 (the Metals USA Notes), and other agreements governing current and future indebtedness of Flag Intermediate and Metals USA, as well as the financial condition and operating requirements of Flag Intermediate and Metals USA, currently limit and may, in the future, limit Metals USA Holdings ability to obtain cash from its subsidiaries.

We may not be able to retain or expand our customer base if the North American manufacturing industry continues to erode through moving offshore or through acquisition and merger or consolidation activity in our customers industries.

Our customer base, including our Flat Rolled and Non-Ferrous Group s customer base, primarily includes manufacturing and industrial firms. Some of these customers operate in industries that are undergoing consolidation through acquisition and merger activity; some are considering or have considered relocating production operations overseas or outsourcing particular functions overseas; and some customers have closed as they were unable to compete successfully with overseas competitors. Our facilities are predominately located in the mid-western and southern United States. To the extent that these customers cease U.S. operations, relocate or move operations overseas to regions in which we do not have a presence, we could lose their business. In addition, acquirers of manufacturing and industrial firms may have suppliers of choice that do not include us, which could affect our customer base and sales.

We may face product liability claims that are costly and create adverse publicity.

If any of the products that we sell cause harm to any of our customers, we could be exposed to product liability lawsuits. If we were found liable under product liability claims, we could be required to pay substantial monetary damages. Further, even if we successfully defended ourselves against this type of claim, we could be forced to spend a substantial amount of money in litigation expenses, our management could be required to spend valuable time to defend against these claims and our reputation could suffer, any of which could harm our business.

We may not be able to generate sufficient cash to service all of our indebtedness.

Our ability to make payments on our indebtedness depends on our ability to generate cash in the future. The Metals USA Notes, the ABL facility and our other outstanding indebtedness are expected to account for significant cash interest expenses in fiscal 2010 and subsequent years. Accordingly, we will have to generate significant cash flows from operations to meet our debt service requirements. If we do not generate sufficient cash flow to meet our debt service and working capital requirements, we may need to seek additional financing; however, this insufficient cash flow may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all. Furthermore, Apollo has no obligation to provide us with debt or equity financing and we therefore may be unable to generate sufficient cash to service all of our indebtedness.

Our substantial leverage exposes us to interest rate risk and 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 and prevent us from meeting our obligations under our indebtedness.

We are highly leveraged. As of December 31, 2009, our total indebtedness was $307.2 million. We also had an additional $122.9 million available for borrowing under the ABL facility as of that date, but because our fixed charge coverage ratio (which is a measure of financial performance used to determine covenant compliance as defined by our debt agreements) (the FCCR) was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million. As of December 31, 2009, we had $307.0 million of indebtedness outstanding under the ABL facility, the Metals USA Notes, and an Industrial Revenue Bond, which we refer to as IRB, and $0.2 million of junior indebtedness outstanding.

Our substantial indebtedness could have important consequences for you, including:

- it may limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow money, dispose of assets 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;
- we may 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; and
- there would be a material adverse effect on our business, financial condition, results of operations or cash flows if we were unable to service our indebtedness or obtain additional financing, as needed.

Our debt agreements impose significant operating and financial restrictions, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. We are currently not able to satisfy certain negative covenants in our debt agreements that place a limitation on the incurrence of additional indebtedness.

The ABL facility and the indenture governing the Metals USA Notes contain various covenants that limit or prohibit our ability, among other things, to:

- incur or guarantee additional indebtedness or issue certain preferred shares;
- pay dividends on our capital stock or redeem, repurchase, retire or make distributions in respect of our capital stock or subordinated indebtedness or make other restricted payments;
- make certain loans, acquisitions, capital expenditures or investments;

- sell certain assets, including stock of our subsidiaries;
- enter into sale and leaseback transactions;
- create or incur liens;
- consolidate, merge, sell, transfer or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

The indenture governing the Metals USA Notes contains covenants that restrict our ability to take certain actions, such as incurring additional debt, if we are unable to meet defined adjusted EBITDA to fixed charges

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and consolidated total debt ratios (each, as defined by the applicable indenture). The covenants in the indentures require us to have an adjusted EBITDA to fixed charge ratio (measured on a trailing four-quarter basis and calculated differently from the FCCR as defined by the ABL facility) of 2.0 to 1.0 to incur ratio indebtedness and a consolidated total debt ratio of no greater than 4.75 to 1.0 to incur ratio indebtedness in connection with acquisitions. Based on the calculations for the trailing four quarters, we are not able to satisfy these covenants and incur additional indebtedness under these ratios, including for acquisition purposes, under our indentures.

As of December 31, 2009, our FCCR was 0.42. As of December 31, 2009 we had $122.9 million of additional borrowing capacity under the ABL facility, but because the FCCR was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million. Failure to comply with the FCCR covenant of the ABL facility can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. Should borrowing availability under the ABL facility fall below $45.0 million, we must maintain an FCCR of at least 1.0 to 1.0, measured on a trailing four-quarter basis.

The interest rate in respect of borrowings under the ABL facility is determined in reference to the FCCR calculated for the three immediately preceding months. Our FCCR as of December 31, 2009, as calculated for the purpose of determining the marginal rates related to borrowings under the ABL facility, will result in a higher marginal rate on a portion of our future borrowings under the ABL facility, although the impact on the weighted average facility rate will not be material.

Our inability to satisfy the terms of the negative covenants in our debt agreements do not, by themselves, constitute covenant violations or events of default. Rather, they are event-related restrictions that limit or prohibit the Company from taking certain corporate actions. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Covenant Compliance.

The restrictions contained in the agreements that govern the terms of our debt could:

- limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans;
- adversely affect our ability to finance our operations, to enter into strategic acquisitions, investments or other capital needs or to engage in other business activities that would be in our interest; and
- limit our access to the cash generated by our subsidiaries.

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, results of operations or cash flows. In addition, we may not have sufficient assets to repay the Metals USA Notes upon acceleration.

For a more detailed description on the limitations on our ability to incur additional indebtedness, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Financing Activities and Description of Certain Indebtedness.

Despite our substantial indebtedness, we may still be able to incur significantly more indebtedness which could have a material adverse effect on our business, financial condition or results of operations.

The terms of the Metals USA Notes indenture and the ABL facility contain restrictions on our 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 December 31, 2009, we had approximately $122.9 million available for additional borrowing under the ABL facility, including the subfacility for letters of credit, and the covenants under our debt agreements would allow us to borrow a significant amount of additional indebtedness. However, because the FCCR was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million. In addition, the Metals USA Notes indenture does not limit the amount of indebtedness that may be incurred by Flag Intermediate. Additional leverage could have a material adverse effect on our business, financial condition or results of operations and could increase the risks described in Our substantial leverage exposes us to interest rate risk and 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 and prevent us from meeting our obligations under our indebtedness, Our debt agreements impose significant operating and financial restrictions, which could have a material adverse effect on our business, financial condition, results of operations or cash flows and Because a substantial portion of our indebtedness bears interest at rates that fluctuate with changes in certain prevailing short-term interest rates, we are vulnerable to interest rate increases.

Because a substantial portion of our indebtedness bears interest at rates that fluctuate with changes in certain prevailing short-term interest rates, we are vulnerable to interest rate increases.

A substantial portion of our indebtedness bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates. As of December 31, 2009, we had approximately $80.7 million of floating rate debt under the ABL facility and the IRB. We also had an additional $122.9 million available for borrowing under the ABL facility as of December 31, 2009, but because the FCCR was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million. Assuming a consistent level of debt, a 100 basis point change in the interest rate on our floating rate debt effective from the beginning of the year would increase or decrease our fiscal 2009 interest expense under the ABL facility and the IRB by approximately $0.8 million. We use derivative financial instruments to manage a portion of the potential impact of our interest rate risk. As of December 31, 2009, we had $75.0 million of outstanding advances on the ABL facility, which represented approximately 24% of our total indebtedness, that were hedged under interest rate swap agreements. To some extent, derivative financial instruments can protect against increases in interest rates, but they do not provide complete protection over the longer term. If interest rates increase dramatically, we could be unable to service our debt which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We are controlled by Apollo and its affiliates, and their interests as equity holders may conflict with yours.

We are an affiliate of, and are controlled by, Apollo and its affiliates. The interests of Apollo and its affiliates may not always be aligned with yours. For example, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though these transactions might involve risks to the holders of our debt if the transactions resulted in our being more highly leveraged or significantly changed the nature of our business operations or strategy. In addition, if we encounter financial difficulties, or if we are unable to pay our debts as they mature, the interests of our equity holders might conflict with those of the holders of our debt. In that situation, for example, the holders of our debt might want us to raise additional equity to reduce our leverage and pay our debts, while our equity holders might not want to increase their investment in us or have their ownership diluted and instead choose to take other actions, such as selling our assets. Furthermore, Apollo and its affiliates have no continuing obligation to provide us with debt or equity financing. Additionally, Apollo and certain of its affiliates are in the business of making investments in businesses engaged in the metals service industry that complement or directly or indirectly compete with certain portions of our business.

Further, if they pursue such acquisitions in the metals service industry, those acquisition opportunities may not be available to us. So long as Apollo and its affiliates continue to indirectly own a significant amount of our equity, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control our business decisions.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

Properties

As of December 31, 2009, we operated 20 metal service centers in the Plates and Shapes Group and 14 facilities in the Flat Rolled and Non-Ferrous Group. These facilities use various metals processing and materials handling machinery and equipment. As of the same date, our Building Products Group operated four manufacturing plants where we process metals into various building products and 20 sales centers.

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 metal service center facilities, Building Products sales centers and manufacturing plants, and administrative offices are located and described as follows:

OPERATING FACILITIES AS OF DECEMBER 31, 2009

	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	81,000	Owned
	Langhorne, Pennsylvania	235,000	Leased
	Philadelphia, Pennsylvania	85,000	Owned
	Philadelphia, Pennsylvania	109,000	Leased
	York, Pennsylvania	109,000	Owned
South Central Plates and Shapes	Enid, Oklahoma	112,000	Owned
	Tulsa, Oklahoma	533,000	Leased
	Muskogee, Oklahoma(1)	229,000	Owned
	Cedar Hill, Texas	150,000	Owned
Mid-Atlantic Plates and Shapes	Oakwood, Georgia	206,000	Owned
	Greensboro, North Carolina	180,000	Owned
Ohio Valley Plates and Shapes	Canton, Ohio	110,000	Owned
	Ambridge, Pennsylvania	200,000	Leased
Southeast Plates and Shapes	Mobile, Alabama	246,000	Owned
	Jacksonville, Florida	60,000	Owned
	Waggaman, Louisiana	371,000	Owned
	Columbus, Mississippi	45,000	Owned
Southwest Plates and Shapes	Hayward, California	64,000	Leased
Flat Rolled and Non-Ferrous Group:			
	Anaheim, California	22,000	Leased
	Madison, Illinois	100,000	Owned
	Northbrook, Illinois	187,000	Owned
	Jeffersonville, Indiana	90,000	Owned
	Wichita, Kansas	43,000	Leased
	Walker, Michigan	50,000	Owned
	Liberty, Missouri	117,000	Leased
	Union, New Jersey	39,000	Leased
	Randleman, North Carolina	154,000	Owned
	Springfield, Ohio	105,000	Owned
	Wooster, Ohio	140,000	Owned
	Mesquite, Texas	55,000	Leased
	Germantown, Wisconsin	102,000	Owned
	Horicon, Wisconsin	120,000	Leased

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	Location	Square Footage	Owned/ Leased
Building Products Group:			
Sales Centers	Birmingham, Alabama	12,000	Leased
	Phoenix, Arizona	111,000	Leased
	Hayward, California	24,000	Leased
	Ontario, California	28,000	Leased
	Jacksonville, Florida	24,000	Leased
	Leesburg, Florida	61,000	Leased
	Pensacola, Florida	48,000	Leased
	Stone Mountain, Georgia	14,000	Leased
	Louisville, Kentucky	22,000	Leased
	Kansas City, Missouri	16,000	Leased
	Las Vegas, Nevada	133,000	Leased
	Oklahoma City, Oklahoma	40,000	Leased
	Irmo, South Carolina	38,000	Leased
	Nashville, Tennessee	44,000	Leased
	Houston, Texas	155,000	Leased
	Longview, Texas	15,000	Leased
	Mesquite, Texas	55,000	Leased
	Weslaco, Texas	21,000	Leased
	Salt Lake City, Utah	23,000	Leased
	Kent, Washington	57,000	Leased
Manufacturing Plants	Brea, California	43,000	Leased
	Buena Park, California	168,000	Leased
	Groveland, Florida	247,000	Leased
	Courtland, Ontario	32,000	Owned
Administrative Locations:			
Corporate Headquarters	Fort Lauderdale, Florida	4,500	Leased
Corporate Administration	Houston, Texas	13,000	Leased
Building Products Group	Houston, Texas	13,000	Leased
i-Solutions	Ft. Washington, Pennsylvania	4,000	Leased

(1) This facility is subject to liens with respect to specific debt obligations, including IRBs.

Item 3. ***Legal Proceedings***

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

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

None.

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PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

As a result of the Merger, all of Metals USA Inc. s issued and outstanding common stock is held indirectly by Metals USA Holdings through Flag Intermediate, its wholly owned subsidiary. Investment funds associated with Apollo own approximately 93% of the capital stock of Metals USA Holdings (or approximately 91% on a fully-diluted basis). The remainder of the capital stock of Metals USA Holdings is held by members of our management. Accordingly, the Company s common stock is not traded on any stock exchange and has no established public trading market.

Dividends

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

Metals USA Holdings is not a guarantor of the Metals USA Notes. There is a limitation on the amount of funds which can be transferred by the Guarantors to Metals USA Holdings in the form of dividends. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of December 31, 2009. In addition, under the most restrictive covenants of the loan and security agreement governing the ABL facility, the maximum amount of dividends that could be paid at December 31, 2009 was $68.2 million (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 9 to the Consolidated Financial Statements). No dividends were paid from Flag Intermediate to Metals USA Holdings during 2009. In 2008, Flag Intermediate paid dividends to Metals USA Holdings aggregating $87.5 million. In 2007, Flag Intermediate paid dividends to Metals USA Holdings aggregating $18.1 million. In 2006, Flag Intermediate paid dividends to Metals USA Holdings aggregating $25.0 million.

In addition, Flag Intermediate intends to provide funds to its parent company sufficient to enable Metals USA Holdings to satisfy its obligations arising from the 2007 Notes issued in July 2007. Metals USA Holdings must make an election regarding whether interest payments on the 2007 Notes will be made in cash or through PIK Interest prior to the start of the applicable interest period. Metals USA Holdings may elect to pay (1) interest entirely in cash or (2) PIK Interest, or (3) Partial PIK Interest. Cash interest on the 2007 Notes will accrue at a rate per annum, reset quarterly, equal to LIBOR plus a spread of 6.00%, which increases by 0.25% to 6.25% in the second year of the issuance of the 2007 Notes, by 0.50% to 6.50% in the third year of the issuance of the 2007 Notes, and by 0.75% to 6.75% in the fourth year of the issuance of the 2007 Notes. In the event PIK Interest is paid on the 2007 Notes after the first four interest periods, the then-applicable margin over LIBOR on the 2007 Notes would increase by 0.75% for each period in which PIK Interest is paid. If Metals USA Holdings elects to pay any PIK Interest, Metals USA Holdings will increase the principal amount on the 2007 Notes or issue new 2007 Notes in an amount equal to the amount of PIK Interest for the applicable interest payment period to holders of the 2007 Notes on the relevant record date. Interest is payable quarterly in arrears on January 1, April 1, July 1 and October 1.

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Although the 2007 Notes are not recorded on the Company s balance sheet, Flag Intermediate plans to provide funds to service the 2007 Notes to Metals USA Holdings as reflected in the following table. Estimated interest was calculated using a 3-month LIBOR forward curve, with the initial spread and increases to the initial spread for the applicable periods as discussed above.

For the Year Ending	Estimated Cash Interest Expense	Estimated PIK Interest Expense
2010	$ 11.6	$ 12.9
2011	$ 13.7	$ 14.9
2012	$ 11.8	$ 12.7

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

On September 26, 2008, Metals USA Holdings made a permitted election under the indenture governing the 2007 Notes to pay all interest that is due on January 1, 2009, for the interest period beginning on October 1, 2008, and ending on December 31, 2008, entirely through PIK Interest. The January 1, 2009 PIK Interest payment amounted to $8.2 million. Metals USA Holdings has continued to make PIK Interest payments subsequent to January 1, 2009. The April 1, 2009 PIK Interest payment amounted to $5.6 million, the July 1, 2009 PIK Interest payment amounted to $3.8 million, the October 1, 2009 PIK Interest payment amounted to $3.5 million and the January 1, 2010 PIK Interest payment amounted to $3.1 million. Metals USA Holdings must make an election regarding whether subsequent interest payments will be made in cash, through PIK Interest, or Partial PIK Interest, prior to the start of the applicable interest period. In the absence of such an election for any interest period, interest on the 2007 Notes will be payable according to the election for the previous interest period. As a result, the PIK Interest election is now the default election for future interest periods unless Metals USA Holdings elects otherwise not later than the commencement of an interest period.

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Item 6. ***Selected Financial Data***

On May 18, 2005, Metals USA Holdings and its wholly owned subsidiary, Flag Acquisition, entered into an Agreement and Plan of Merger with Metals USA. On November 30, 2005, Flag Acquisition, then a wholly owned subsidiary of Flag Intermediate, merged with and into Metals USA, with Metals USA being the surviving corporation. Metals USA Holdings, Flag Intermediate and Flag Acquisition conducted no operations during the period May 9, 2005 (date of inception) to November 30, 2005.

We applied purchase accounting on the closing date of the Merger and, as a result, the merger consideration was allocated to the respective values of the assets acquired and liabilities assumed from the Predecessor Company. As a result of the application of purchase accounting, the Successor Company balances and amounts presented in the consolidated financial statements and footnotes are not comparable with those of the Predecessor Company.

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The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The selected historical consolidated financial data for the year ended December 31, 2007, and as of December 31, 2008 and for the year ended December 31, 2008, and as of December 31, 2009, and for the year then ended December 31, 2009, for the Successor Company have been derived from our audited consolidated financial statements and related notes included in this Form 10-K. The Successor Company had no assets and conducted no operations from May 9, 2005 (date of inception) to November 30, 2005. The selected historical consolidated financial data for the period from January 1, 2005 to November 30, 2005 for the Predecessor Company, and as of December 31, 2005, and for the period from May 9, 2005 to December 31, 2005, and as of December 31, 2006 for the Successor Company presented in this table have been derived from our Predecessor Company s and Successor Company s audited consolidated financial statements not included in this Form 10-K. The historical results set forth below do not necessarily indicate results expected for any future period, and should be read in conjunction with, and are qualified by reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included elsewhere in this Form 10-K.

	Predecessor Company	Successor Company				
			Years Ended December 31,			
	Period from January 1, 2005 through November 30, 2005	Period from May 9, 2005 (date of inception) through December 31, 2005	2006	2007	2008	2009
			(in millions)			
Statements of Operations Data:						
Net Sales	$ 1,522.1	$ 116.9	$ 1,802.9	$ 1,845.3	$ 2,156.2	$ 1,098.7
Cost of sales (exclusive of operating and delivery, and depreciation and amortization included in Operating Expenses below)	1,189.3	92.5	1,371.8	1,418.8	1,612.9	890.1
Operating expenses(1)(2)	250.7	23.5	312.1	313.0	336.3	230.7
Operating income (loss)	82.1	0.9	119.0	113.5	207.0	(22.1)
Interest expense	12.0	4.1	54.1	57.6	54.5	44.9
Gain on extinguishment of debt						(13.6)
Other (income) expense, net	(0.1)		(0.5)		(0.2)	0.3
Income (loss) before income taxes	70.2	(3.2)	65.4	55.9	152.7	(53.7)
Provision (benefit) for income taxes	26.7	(1.2)	25.9	19.3	59.3	(18.0)
Net income (loss)	$ 43.5	$ (2.0)	$ 39.5	$ 36.6	$ 93.4	$ (35.7)

	Years Ended December 31,				
	2005(3)	2006	2007	2008	2009
	(in millions)				
Balance Sheet Data:					
Working Capital	$ 453.3	$ 572.9	$ 511.9	$ 635.3	$ 276.3
Total assets	795.3	981.9	951.1	1,010.9	619.2
Long-term debt, less current portion	472.9	610.1	563.1	648.9	307.1
Stockholder s equity	132.0	147.6	167.6	175.4	141.1

(1) For the one-month period ended December 31, 2005, the Successor Company s operating expenses increased by $5.2 million ($4.1 million for cost of sales and $1.1 million of additional depreciation and amortization) as the inventory was sold and additional depreciation and

amortization was recorded. For the

year ended December 31, 2006, the Successor Company s operating expenses increased by $23.9 million ($10.8 million in the first quarter of 2006 for cost of sales as the inventory was sold and $13.1 million of additional depreciation and amortization). As a result of the application of purchase accounting, the Successor Company balances and amounts presented in the consolidated financial statements are not comparable with those of the Predecessor Company.

(2) We incurred certain non-recurring costs related to the Merger that were charged to the Predecessor Company s selling, general and administrative expense during the period from January 1, 2005 to November 30, 2005. Such expenses of $15.8 million included $14.6 million paid by us on the closing date of the Merger to holders of 1,081,270 vested in-the-money options and holders of 45,437 restricted stock grant awards related to the long-term incentive compensation plan of the Predecessor Company. Additionally, we recorded expenses of $0.8 million related to severance costs and $0.4 million for other costs associated with the Merger.

(3) The Merger was accounted for as a purchase, with the Successor Company applying purchase accounting on the closing date of the Merger. As a result, the merger consideration was allocated to the respective fair values of the assets acquired and liabilities assumed from the Predecessor Company. The fair value of inventories, property and equipment and intangibles (customer lists) were increased by $14.9 million, $118.6 million, and $22.2 million, respectively.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This section contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See disclosure presented on the inside of the front cover of this report for cautionary information with respect to such forward-looking statements. Readers should refer to Item 1.A Risk Factors for risk factors that may affect future performance. The following discussion should be read in conjunction with Item 6. Selected Financial Data and Item 8. Financial Statements and Supplementary Data.

Overview

On November 30, 2005, Flag Acquisition, a wholly-owned subsidiary of Flag Intermediate, merged with and into Metals USA, with Metals USA being the surviving corporation. The Merger was consummated pursuant to an agreement and plan of merger by and among Metals USA, Metals USA Holdings and Flag Acquisition. As a result of the Merger, all of the issued and outstanding capital stock of Metals USA is held indirectly by Metals USA Holdings through Flag Intermediate, its wholly owned subsidiary. Flag Intermediate has no assets other than its investment in Metals USA, conducts no operations and is a guarantor of both the ABL facility and the Metals USA Notes. Immediately prior to the closing date of the Merger, all outstanding shares of our common stock were cancelled in exchange for a cash payment of $22.00 per share of such common stock. Investment funds associated with Apollo V own approximately 93% of the capital stock of Metals USA Holdings (or approximately 91% on a fully-diluted basis). The remainder of the capital stock of Metals USA Holdings is held by members of our management.

We believe that we are a leading provider of value-added processed carbon steel, stainless steel, aluminum and specialty metals, as well as manufactured metal components. For the year ended December 31, 2009, approximately 92% of our revenue was derived from our metals service center and processing activities, which are segmented into two groups: Flat Rolled and Non-Ferrous Group and Plates and Shapes Group. The remaining portion of our revenue was derived from our Building Products Group, which principally manufactures and sells aluminum products related to the residential remodeling industry. We purchase metal from primary producers that generally focus on large volume sales of unprocessed metals in standard configurations and sizes. In most cases, we perform the customized, value-added processing services required to meet the specifications provided by end-use customers. Our Plates and Shapes Group and Flat Rolled and Non-Ferrous Group customers are in the land and marine transportation, energy, aerospace, defense, electrical and appliance manufacturing, fabrication, furniture, commercial construction, and machinery and equipment industries. Our Building Products Group customers are primarily distributors and contractors engaged in the residential remodeling industry.

Selected Operational Information

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

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

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

Selling, general and administrative expenses. Selling, general and administrative expenses include sales and marketing expenses, executive officers compensation, office and administrative salaries, insurance, accounting, legal, computer systems, and professional services and costs not directly associated with the processing, manufacturing, operating or delivery costs of our products. Amounts included within this caption may not be comparable to similarly titled captions reported by other companies.

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

Industry Trends

Metals Service Centers

United States steel production has remained relatively constant from 2003 through 2008, averaging approximately 106 million tons annually. The global financial crisis that started during the second half of 2008 has caused a significant reduction in the consumption of steel world-wide (excluding China). In the United States, domestic steel production has declined by almost half to approximately 64 million tons in 2009. Similar volume declines occurred in virtually all developed economies. Service centers, distributors, and the rest of the supply chain have responded by aggressively reducing inventories. By August 2009, service center industry-based inventory metrics reported lowest-ever inventory levels during the 32 years that this data has been collected. Since then, inventories have remained low. Consequently, domestic steel producers reported operating levels below 50 percent capacity utilization during 2009.

Steel pricing dropped during the first six months of 2009 as steel producers continually reduced prices in the face of shrinking order backlogs. Since late June 2009, prices have been trending upwards as signs indicated an increase in global demand for steel and raw material inputs (however, there can be no guarantee this trend will continue). Domestic demand also benefited from the government s Cash for Clunkers program. We believe we have seen a modestly improving trend in our order inquiry activity during the latter half of 2009 and it appears, with the exception of non-residential construction, that steel demand may be entering a slow recovery stage (however, there can be no guarantee that it is entering a slow recovery stage). Even in a historically low demand environment, we believe rising price trends are sustainable if producers generate product commensurate with demand. The impact from federal stimulus legislation has not yet had a meaningful impact on the industry as actual spending continues to work through governmental channels. We believe that stimulus spending should have a meaningful impact on 2010 steel consumption and, in combination with basic economic recovery, domestic steel consumption should experience a year over year increase. The timing of the effect that further price trends will have on the domestic steel market is difficult to predict, and any number of political or general economic factors could cause prices to decline.

Building Products

The current state of the housing and mortgage markets continues to cause contraction in the home improvement remodeling industry. Research indicates that remodeling activity is pro-cyclical with both new residential construction and the broader economy, but remodeling lags homebuilding by several quarters. The

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high cyclicality of remodeling activity appears to be driven by discretionary improvements, similar to the products sold by our building products business, which are quite volatile. Improvement spending is expected to be much more cyclical and more sensitive to upturns and downturns in the general economy, whereas maintenance and repair spending is expected to be fairly stable over time.

While the pace of the decline in homeowner remodeling projects appears to be moderating, increased remodeling activity does not seem likely to materialize until further signs of recovery emerge in the broader housing market. Although lower financing costs are reducing the cost of financing home improvement projects, weak home prices and decreased cost recovery for most types of remodeling projects continue to discourage owners from pursuing upper-end improvements.

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

Consolidated Results of Operations

The following financial information reflects our historical financial statements.

	Fiscal Years Ended December 31,					
	2009	**%**	**2008**	**%**	**2007**	**%**
	(in millions, except percentages)					
Net sales	$ 1,098.7	*100.0%*	$ 2,156.2	*100.0%*	$ 1,845.3	*100.0%*
Cost of sales	890.1	*81.0%*	1,612.9	*74.8%*	1,418.8	*76.9%*
Operating and delivery	126.7	*11.5%*	186.1	*8.6%*	178.4	*9.7%*
Selling, general and administrative	85.1	*7.7%*	126.2	*5.9%*	112.2	*6.1%*
Depreciation and amortization	18.9	*1.7%*	21.3	*1.0%*	22.1	*1.2%*
(Gain) loss on sale of property and equipment			(2.4)	*-0.1%*	0.1	*0.0%*
Impairment of assets			5.1	*0.2%*	0.2	*0.0%*
Operating income (loss)	(22.1)	*-2.0%*	207.0	*9.6%*	113.5	*6.2%*
Interest expense	44.9	*4.1%*	54.5	*2.5%*	57.6	*3.1%*
(Gain) loss on debt extinguishment	(13.6)	*-1.2%*				
Other (income) expense, net	0.3	*0.0%*	(0.2)	*0.0%*		
Income (loss) before income taxes	$ (53.7)	*-4.9%*	$ 152.7	*7.1%*	$ 55.9	*3.0%*

Results of Operations Year Ended December 31, 2009 Compared to 2008

Net sales. Net sales decreased $1,057.5 million, or 49.0%, from $2,156.2 million for the year ended December 31, 2008 to $1,098.7 million for the year ended December 31, 2009. The decrease was primarily attributable to a 36.1% decrease in volumes for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, in addition to a 22.5% decrease in average realized prices. The decrease in volumes for our metal service center businesses was due to an abrupt slowdown in demand in our end-use markets, as the global recession significantly reduced shipment levels to virtually all of the sectors that we serve. Weak demand caused prices for many grades of steel to fall substantially, as steel producers in North America reduced prices and cut production to adjust to the lower order levels. During the year ended December 31, 2009, steel product shipments from metals service centers in the U.S. declined approximately 36% in year-over-year comparisons, according to data from the Metals Service Center Institute. Net sales decreased $32.8 million for our Building Products Group, driven by continued weakness in residential remodeling and the overall housing markets.

Cost of sales. Cost of sales decreased $722.8 million, or 44.8%, from $1,612.9 million for the year ended December 31, 2008, to $890.1 million for the year ended December 31, 2009. The decrease was primarily attributable to a 36.1% decrease in volumes for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, in addition to a 15.1% decrease in the average cost per ton for our metals service center businesses. Cost of sales decreased $28.0 million for our Building Products Group. We recorded $53.4 million of write-downs during the year ended December 31, 2009, as compared to $6.8 million of write-downs during the year ended December 31, 2008, for inventory lower of cost or market adjustments in our metal service center businesses as a result of price decreases and weak demand for steel products discussed above. Inventory tonnage on hand as of December 31, 2009 was 33.9% less than at December 31, 2008. Cost of sales as a percentage of net sales increased from 74.8% for the year ended December 31, 2008 to 81.0% for the year ended December 31, 2009. Steel prices have generally increased modestly during the latter half of 2009, and we expect this trend to continue as the overall economy improves (however, there can be no guarantee that this trend will continue).

Operating and delivery. Operating and delivery expenses decreased $59.4 million, or 31.9%, from $186.1 million for the year ended December 31, 2008 to $126.7 million for the year ended December 31, 2009. The decrease was a result of lower variable costs associated with decreased shipments. As a percentage of net sales, operating and delivery expenses increased from 8.6% for the year ended December 31, 2008 to 11.5% for the year ended December 31, 2009.

Selling, general and administrative. Selling, general and administrative expenses decreased $41.1 million, or 32.6%, from $126.2 million for the year ended December 31, 2008 to $85.1 million for the year ended December 31, 2009. Lower variable costs of $21.1 million associated with decreased incentive compensation, in addition to lower salaries of $8.6 million achieved in connection with cost reduction initiatives, were the primary contributors to the period-over-period decrease. As a percentage of net sales, selling, general and administrative expenses increased from 5.9% for the year ended December 31, 2008 to 7.7% for the year ended December 31, 2009.

Depreciation and amortization. Depreciation and amortization expense decreased $2.4 million, or 11.3%, from $21.3 million for the year ended December 31, 2008 to $18.9 million for the year ended December 31, 2009. The decrease was primarily due to lower amortization of customer list intangible assets (which is recognized on an accelerated basis and decreases over the life of the assets) recorded in connection with the acquisitions completed in May 2006, the acquisition of Lynch Metals in July 2007, and the Merger.

Operating income (loss). Operating income (loss) decreased $229.1 million, or 110.7%, from operating income of $207.0 million for the year ended December 31, 2008 to an operating loss of $22.1 million for the year ended December 31, 2009. The decrease was primarily a result of the decrease in net sales discussed above. As a percentage of net sales, operating income (loss) decreased from 9.6% for the year ended December 31, 2008 to (2.0%) for the year ended December 31, 2009.

Interest expense. Interest expense decreased $9.6 million, or 17.6%, from $54.5 million for the year ended December 31, 2008 to $44.9 million for the year ended December 31, 2009. The decrease was primarily a function of reduced borrowings, in addition to lower average interest rates on our ABL facility, as well as debt extinguishments on the Metals USA Notes. The weighted average outstanding balance on our ABL facility decreased from $384.1 million for the year ended December 31, 2008 to $180.1 million for the same period of 2009. The weighted average facility rate decreased from 4.31% for the year ended December 31, 2008 to 2.95% for the year ended December 31, 2009. In addition, we repurchased $48.7 million face value of the Metals USA Notes in the open market during the year ended December 31, 2009.

Gain on debt extinguishment. During the year ended December 31, 2009, we purchased $48.7 principal amount of the Metals USA Notes in the open market, resulting in a pretax gain of $13.6 (net of unamortized deferred financing costs) on debt extinguishment.

Results of Operations Year Ended December 31, 2008 Compared to 2007

Net sales. Net sales increased $310.9 million, or 16.8%, from $1,845.3 million for the year ended December 31, 2007 to $2,156.2 million for the year ended December 31, 2008. Results of operations for Lynch

Metals, which closed in July 2007, were included for the entire year ended December 31, 2008, and as a result, accounted for $17.2 million of increased sales for the year. The remaining increase of $293.7 million was primarily attributable to an 19.3% increase in average realized prices for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, partially offset by a net sales decrease of $26.4 million for our Building Products Group. In early 2008 global steel prices were at record highs, which contributed to the increase in average realized prices for our metal service center businesses in 2008 compared to 2007. Average selling prices began to decrease during the fourth quarter of 2008 due to lower customer demand and significant mill price reductions.

Cost of sales. Cost of sales increased $194.1 million, or 13.7%, from $1,418.8 million for the year ended December 31, 2007, to $1,612.9 million for the year ended December 31, 2008. The Lynch Metals acquisition accounted for $10.6 million of additional cost of sales for the year. The remaining increase of $183.5 million was primarily attributable to a 15.4% increase in the average cost per ton for our Flat Rolled and Non-Ferrous and Plates and Shapes Groups, partially offset by a decrease of $13.4 million in cost of sales for our Building Products Group. In addition, we recorded a $6.8 million write-down for inventory lower of cost or market adjustments during the fourth quarter of 2008 in our metal service center businesses as a result of volatility in steel prices during the latter half of the year. As a result of the rapid price decrease and an overall decline in demand, we elected to reduce inventory tonnage on hand, which resulted in the replacement cost of certain inventory items declining below their carrying cost as of December 31, 2008. Cost of sales as a percentage of net sales decreased from 76.9% for the year ended December 31, 2007 to 74.8% for the year ended December 31, 2008.

Operating and delivery. Operating and delivery expenses increased $7.7 million, or 4.3%, from $178.4 million for the year ended December 31, 2007 to $186.1 million for the year ended December 31, 2008. The acquisition of Lynch Metals accounted for $0.8 million of additional operating and delivery expenses for the year. The remaining increase was a result of higher variable costs of $6.9 million, which were primarily attributable to higher fuel and freight costs. As a percentage of net sales, operating and delivery expenses decreased from 9.7% for the year ended December 31, 2007 to 8.6% for the year ended December 31, 2008.

Selling, general and administrative. Selling, general and administrative expenses increased $14.0 million, or 12.5%, from $112.2 million for the year ended December 31, 2007 to $126.2 million for the year ended December 31, 2008. The Lynch Metals acquisition accounted for $2.0 million of the increase while increased incentive compensation accounted for an additional $9.7 million of the increased selling, general and administrative expenses for the period. These increases were partially offset by a decrease in stock-based compensation expense of $3.5 million, $3.0 million of which was recognized in the first quarter of 2007 due to the accelerated vesting of stock options in connection with the January 2007 Dividend, and the remainder of which was recognized in the third quarter of 2007 in connection with the July 2007 Dividend. As a percentage of net sales, selling, general and administrative expenses decreased from 6.1% for the year ended December 31, 2007 to 5.9% for the year ended December 31, 2008.

Depreciation and amortization. Depreciation and amortization decreased $0.8 million, or 3.6%, from $22.1 million for the year ended December 31, 2007 to $21.3 million for the year ended December 31, 2008. The Lynch Metals acquisition accounted for $6.0 million of additional depreciation and amortization for the year. This increase was offset by a decrease of $6.8 million for the year, which resulted primarily from lower amortization of customer list intangible assets recorded in connection with the acquisitions completed in May 2006 and the Merger.

Operating income. Operating income increased $93.5 million, or 82.4%, from $113.5 million for the year ended December 31, 2007 to $207.0 million for the year ended December 31, 2008. The Lynch Metals acquisition resulted in a decrease of $2.2 million of operating income for the year. The remaining increase of $95.7 million resulted primarily from increased net sales, in addition to a $2.4 million gain we recognized on the sale of property and equipment. This increase was partially offset by a $5.1 million charge we recognized in the

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fourth quarter of 2008 related to the impairment of goodwill and customer list intangible assets associated with our building products business. As a percentage of net sales, operating income increased from 6.2% for the year ended December 31, 2007 to 9.6% for the year ended December 31, 2008.

Interest expense. Interest expense decreased $3.1 million, or 5.4%, from $57.6 million for the year ended December 31, 2007 to $54.5 million for the year ended December 31, 2008. The effect of increased debt levels on interest expense was offset by lower average interest rates on our ABL facility. While the weighted average outstanding balance on our ABL facility increased $64.8 million for the year ended December 31, 2008 versus the same period of 2007, the weighted average interest rate decreased from 7.06% for the year ended December 31, 2007 to 4.31% for the year ended December 31, 2008.

Results of Operations by Segment

	Fiscal Years Ended December 31,							
	Net Sales	%	Operating Costs and Expenses	%	Operating Income (Loss)	%	Capital Spending	Tons Shipped(1)
2009:								
Plates and Shapes	$ 523.0	47.6%	$ 537.8	48.0%	$ (14.8)	67.0%	$ 3.3	485
Flat Rolled and Non-Ferrous	490.7	44.7%	474.2	42.3%	16.5	-74.7%	0.5	435
Building Products	93.2	8.5%	97.1	8.7%	(3.9)	17.6%		
Corporate and other	(8.2)	-0.7%	11.7	1.0%	(19.9)	90.0%	0.3	(7)
Total	$ 1,098.7	100.0%	$ 1,120.8	100.0%	$ (22.1)	100.0%	$ 4.1	913
2008:								
Plates and Shapes	$ 1,161.2	53.9%	$ 990.5	50.8%	$ 170.7	82.5%	$ 8.6	837
Flat Rolled and Non-Ferrous	882.9	40.9%	804.7	41.3%	78.2	37.8%	2.2	601
Building Products	126.0	5.8%	135.1	6.9%	(9.1)	-4.4%	0.7	
Corporate and other	(13.9)	-0.6%	18.9	1.0%	(32.8)	-15.8%	0.7	(10)
Total	$ 2,156.2	100.0%	$ 1,949.2	100.0%	$ 207.0	100.0%	$ 12.2	1,428
2007:								
Plates and Shapes	$ 889.7	48.2%	$ 796.9	46.0%	$ 92.8	81.8%	$ 16.6	826
Flat Rolled and Non-Ferrous	817.7	44.3%	767.6	44.3%	50.1	44.1%	2.9	614
Building Products	152.4	8.3%	152.7	8.8%	(0.3)	-0.3%	1.6	
Corporate and other	(14.5)	-0.8%	14.6	0.8%	(29.1)	-25.6%	0.4	(11)
Total	$ 1,845.3	100.0%	$ 1,731.8	100.0%	$ 113.5	100.0%	$ 21.5	1,429

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

Segment Results Year Ended December 31, 2009 Compared to 2008

Plates and Shapes. Net sales decreased $638.2 million, or 55.0%, from $1,161.2 million for the year ended December 31, 2008 to $523.0 million for the year ended December 31, 2009. The decrease was primarily attributable to a 42.1% decrease in shipments, in addition to a 22.3% decrease in average realized prices for the year ended December 31, 2009 compared to the year ended December 31, 2008.

Operating costs and expenses decreased $452.7 million, or 45.7%, from $990.5 million for the year ended December 31, 2008 to $537.8 million for the year ended December 31, 2009. The decrease was primarily attributable to a 42.1% decrease in shipments for the year ended December 31, 2009 compared to the year ended December 31, 2008. This segment recorded a $43.9 million write-down for inventory lower of cost or market adjustments during the year ended December 31, 2009.

Operating income (loss) decreased by $185.5 million, or 108.7%, from operating income of $170.7 million for the year ended December 31, 2008 to operating loss of $14.8 million for the year ended December 31, 2009. The decrease primarily resulted from lower net sales which were driven by a decrease in shipments, in addition to the charges incurred to write-down the segment s inventories for the year ended December 31, 2009. Operating income (loss) as a percentage of net sales was (2.8%) for the year ended December 31, 2009 compared to 14.7% for the year ended December 31, 2008.

Flat Rolled and Non-Ferrous. Net sales decreased $392.2 million, or 44.4%, from $882.9 million for the year ended December 31, 2008 to $490.7 million for the year ended December 31, 2009. The decrease was primarily attributable to a 27.6% decrease in shipments, in addition to a 23.2% decrease in average realized prices, for the year ended December 31, 2009 compared to the year ended December 31, 2008. Sales of non-ferrous metals accounted for 40% of the segment s sales product mix during 2009, compared to 41% during 2008.

Operating costs and expenses decreased $330.5 million, or 41.1%, from $804.7 million for the year ended December 31, 2008 to $474.2 million for the year ended December 31, 2009. The decrease was primarily attributable to a decrease in shipments of 27.6% in addition to a decrease in the average cost per ton of 21.6%. This segment recorded a $9.5 million write-down for inventory lower of cost or market adjustments during 2009. Operating costs and expenses as a percentage of net sales increased from 91.1% for the year ended December 31, 2008 to 96.6% for the year ended December 31, 2009.

Operating income decreased by $61.7 million, or 78.9%, from $78.2 million for the year ended December 31, 2008 to $16.5 million for the year ended December 31, 2009. The decrease was primarily attributable to the decrease in sales discussed above, which were a primarily a function of lower shipments. Operating income as a percentage of net sales decreased from 8.9% for the year ended December 31, 2008 to 3.4% for the year ended December 31, 2009.

Building Products. Net sales decreased $32.8 million, or 26.0%, from $126.0 million for the year ended December 31, 2008 to $93.2 million for the year ended December 31, 2009. Softness in the residential remodeling market continued to produce period-over-period net sales decreases for our Building Products Group.

Operating costs and expenses decreased 38.0 million, or 28.1%, from $135.1 million for the year ended December 31, 2008 to $97.1 million for the year ended December 31, 2009. The decrease was primarily due to lower sales volume and a decrease in variable costs related to lower market demand, in addition to certain initiatives the segment has taken in response to the downturn in the housing and remodeling markets. Management has continued to focus on cost reduction in order to mitigate the impact of lower operating levels resulting from the market downturn. Operating costs and expenses as a percentage of net sales decreased from 107.2% for the year ended December 31, 2008 to 104.2% for the year ended December 31, 2009.

Operating loss decreased by $5.2 million, or 57.1%, from $9.1 million for the year ended December 31, 2008 to $3.9 million for the year ended December 31, 2009. The decrease was primarily attributable to lower operating costs, which decreased at a rate greater than the decline in sales discussed above. Operating loss as a percentage of net sales decreased from 7.2% for the year ended December 31, 2008 to 4.2% for the year ended December 31, 2009.

Corporate and other. This category reflects certain administrative costs and expenses management has not allocated to its industry segments. These costs include compensation for executive officers, insurance, professional fees for audit, tax and legal services and data processing expenses. The negative net sales amount represents the elimination of intercompany sales. The operating loss decreased $13.5 million, or 40.4%, from $33.4 million for the year ended December 31, 2008 to $19.9 million for the year ended December 31, 2009. Lower variable costs of $4.5 million associated with decreased incentive compensation were the primary component of the decrease. Other cost reductions included $1.4 million of lower professional and consulting fees, and $1.0 million of lower costs attributable to employee benefit modifications.

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Segment Results Year Ended December 31, 2008 Compared to 2007

Plates and Shapes. Net sales increased $271.5 million, or 30.5%, from $889.7 million for the year ended December 31, 2007 to $1,161.2 million for the year ended December 31, 2008. The increase was primarily attributable to a 28.8% increase in average realized prices, in addition to a 1.3% increase in shipments for the year ended December 31, 2008 compared to the year ended December 31, 2007.

Operating costs and expenses increased $193.6 million, or 24.3%, from $796.9 million for the year ended December 31, 2007 to $990.5 million for the year ended December 31, 2008. The increase was primarily attributable to a 25.2% increase in the average cost per ton, in addition to a 1.3% increase in shipments for the year ended December 31, 2008, compared to the year ended December 31, 2007. In addition, this segment recorded a $5.8 million write-down for inventory lower of cost or market adjustments during the fourth quarter of 2008 due to a decline in replacement costs of certain inventory items below their carrying costs as of December 31, 2008. Operating costs and expenses as a percentage of net sales decreased from 89.6% for the year ended December 31, 2007 to 85.3% for the year ended December 31, 2008.

Operating income increased by $77.9 million, or 83.9%, from $92.8 million for the year ended December 31, 2007 to $170.7 million for the year ended December 31, 2008. The increase was primarily attributable to the increase in net sales and the decrease in operating costs and expenses as a percentage of net sales, as discussed above. Operating income as a percentage of net sales increased from 10.4% for the year ended December 31, 2007 to 14.7% for the year ended December 31, 2008.

Flat Rolled and Non-Ferrous. Net sales increased $65.2 million, or 8.0%, from $817.7 million for the year ended December 31, 2007 to $882.9 million for the year ended December 31, 2008. Results of operations for the Lynch Metals acquisition, which closed in July 2007, were included for the entire year ended December 31, 2008, and as a result, contributed $17.2 million of additional net sales for the year ended December 31, 2008. The remaining increase was primarily due to an 8.7% increase in average realized prices, partially offset by a 2.5% decrease in shipments for the year ended December 31, 2008 compared to the year ended December 31, 2007. Sales of non-ferrous metals accounted for 41% of the segment s sales product mix for the year ended December 31, 2008, compared to 48% for the same period of 2007.

Operating costs and expenses increased $37.1 million, or 4.8%, from $767.6 million for the year ended December 31, 2007 to $804.7 million for the year ended December 31, 2008. The acquisition of Lynch Metals accounted for $19.4 million of additional operating costs and expenses for the year ended December 31, 2008. The remaining increase of $17.7 million was attributable to an increase in the cost of raw materials of 5.9%, partially offset by a 2.5% decrease in shipments for the year ended December 31, 2008 compared to the year ended December 31, 2007. In addition, this segment recorded a $1.0 million write-down for inventory lower of cost or market adjustments during the fourth quarter of 2008 due to a decline in replacement costs of certain inventory items below their carrying costs as of December 31, 2008. Operating costs and expenses as a percentage of net sales decreased from 93.9% for the year ended December 31, 2007 to 91.1% for the year ended December 31, 2008.

Operating income increased by $28.1 million, or 56.1%, from $50.1 million for the year ended December 31, 2007 to $78.2 million for the year ended December 31, 2008. The Lynch Metals acquisition resulted in a decrease of $2.2 million of operating income for the year. The balance of the increase was primarily attributable to the increase in net sales discussed above. Operating income as a percentage of net sales increased from 6.1% for the year ended December 31, 2007 to 8.9% for the year ended December 31, 2008.

Building Products. Net sales decreased $26.4 million, or 17.3%, from $152.4 million for the year ended December 31, 2007 to $126.0 million for the year ended December 31, 2008. Declines in the home improvement remodeling market, which were impacted by the continued downturn in the housing sector, contributed to the period-over-period net sales decrease for our Building Products Group.

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Operating costs and expenses decreased $17.6 million, or 11.5%, from $152.7 million for the year ended December 31, 2007 to $135.1 million for the year ended December 31, 2008. The decrease was due to lower operating costs and expenses associated with lower sales volumes, in addition to certain initiatives the segment has taken in response to the downturn in the housing and home improvement remodeling markets, including reductions in square footage under lease, standardization of sales center layouts, and manufacturing consolidation. Despite the decrease in sales volumes, operating costs and expenses as a percentage of net sales increased from 100.2% for the year ended December 31, 2007 to 107.2% for the year ended December 31, 2008. The increase in operating costs as a percentage of net sales is due in part to additional costs incurred during 2008 related to the closure of underperforming sales center locations and the discontinuance of certain product lines, as management has continued to focus on cost reduction in order to mitigate the impact of lower operating levels resulting from the market downturn. In July 2008, we sold our Houston, Texas manufacturing facility for $4.9 million in cash. We recognized a gain of $0.7 million in the third quarter of 2008 related to this sale. Total facility closure costs charged to operating expense during the year ended December 31, 2008, net of the gain on the sale of the Houston plant, amounted to $4.0 million.

Operating loss increased by $8.8 million from a loss of $0.3 million for the year ended December 31, 2007 to a loss of $9.1 million for the year ended December 31, 2008. The increase was primarily attributable to the decline in net sales discussed above, which exceeded the rate of decline in operating costs and expenses. Operating loss as a percentage of net sales increased from 0.2% for the year ended December 31, 2007 to 7.2% for the year ended December 31, 2008.

Corporate and other. This category reflects certain administrative costs and expenses management has not allocated to its industry segments. These costs include compensation for executive officers, insurance, professional fees for audit, tax and legal services and data processing expenses. The negative net sales amount represents the elimination of intercompany sales. The operating loss increased $3.7 million, or 12.7%, from $29.1 million for the year ended December 31, 2007 to $32.8 million for the year ended December 31, 2008. This increase was primarily attributable to a $5.1 million charge we recognized in the fourth quarter of 2008 related to the impairment of goodwill and customer list intangible assets associated with our building products business, which was recorded at the corporate segment. Goodwill and customer list intangible assets resulting from the Merger are assigned to reporting units solely for testing for impairment. Consequently, any impairment charges associated with these assets is recorded at the corporate segment. Increased incentive compensation accounted for an additional $2.4 million of selling, general and administrative expenses recorded at the corporate segment for the year.

Liquidity and Capital Resources

Our primary sources of short-term liquidity are borrowings under the ABL facility and our cash flow from operations. We believe these resources will be sufficient to meet our working capital and capital expenditure requirements for the next year. As of December 31, 2009, we had $75.0 million drawn on the ABL facility, our borrowing availability was $122.9 million of which we could only borrow $77.9 million because the FCCR was less than 1.0 to 1.0 as of December 31, 2009, and we had cash of $5.5 million. Our borrowing availability fluctuates daily with changes in eligible accounts receivables and inventory, less outstanding borrowings and letters of credit. See Financing Activities below. At February 5, 2010, we had $78.0 million drawn on the ABL facility, our borrowing availability was $125.8 million and we had cash of $5.3 million.

We generally meet long-term liquidity requirements, the repayment of debt and investment funding needs, through additional borrowings under the ABL facility and the issuance of debt securities. At December 31, 2009, our long-term debt consisted of $75.0 million of outstanding borrowings on the ABL facility, $226.3 million principal amount of the Metals USA Notes, an IRB with $5.7 million principal amount outstanding and $0.1 million in vendor financing and purchase money notes. We believe that cash flow from operations, supplemented by cash available under the ABL facility, will be sufficient to enable us to meet our debt service and operational obligations as they come due for at least the next twelve months.

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

Operating and Investing Activities

Although we do not produce any metal, our financial performance is affected by changes in metal prices. When metal prices rise, the prices at which we are able to sell our products generally increase over their historical costs; accordingly, our working capital (which consists primarily of accounts receivable and inventory) tends to increase in a rising price environment. Conversely, when metal prices fall, our working capital tends to decrease. Our working capital (current assets less current liabilities) decreased from $635.3 million at December 31, 2008 to $276.3 million at December 31, 2009.

Changes in metal prices also affect our liquidity because of the time difference between our payment for our raw materials and our collection of cash from our customers. We sell our products and typically collect our accounts receivable within 45 days after the sale; however, we tend to pay for replacement materials (which are more expensive when metal prices are rising) over a much shorter period, primarily to benefit from early- payment discounts that are substantially higher than our cost of incremental debt. As a result, when metal prices are rising, we tend to draw more on the ABL facility to cover the cash flow cycle from material purchase to cash collection. When metal prices fall, we can replace our inventory at lower cost and, thus, generally the ABL facility utilization is reduced. We believe our cash flow from operations, supplemented with the cash available under the ABL facility, will provide sufficient liquidity to meet the challenges and obligations we face during the current metal price environment. Additionally, we intend to look for value-added business opportunities that we can acquire at reasonable prices. We intend to use cash flows from operations and excess cash available under the ABL facility to fund future investments.

Cash Flows

The following discussion of the principal sources and uses of cash should be read in conjunction with our Consolidated Statements of Cash Flows which are set forth under Item 8   Financial Statements and Supplementary Data.

Year Ended December 31, 2009

During the year ended December 31, 2009, net cash provided by operating activities was $248.9 million. This amount was primarily attributable to decreases in accounts receivable and inventories. Changes in working capital during 2009 reflect the change in the business environment that began during the fourth quarter of 2008, when we began reducing inventory purchases as a result of weaker demand and declining prices. Our accounts receivable decreased due to lower sales levels in 2009.

Net cash used in investing activities was $7.8 million for the year ended December 31, 2009, and consisted of proceeds from sales of assets of $0.5 million offset by $4.1 million of capital expenditures and $4.2 million for the acquisition of VR Laser. For the year ended December 31, 2009, the most significant internal capital projects were expansion of our plate processing machinery and equipment at our Tulsa, Oklahoma and York, Pennsylvania Plates and Shapes facilities.

Net cash used in financing activities was $328.6 million for the year ended December 31, 2009, and consisted primarily of net repayments on the ABL facility of $293.0 million, in addition to repayments of other long-term debt of $35.6 million.

Year Ended December 31, 2008

During the year ended December 31, 2008, net cash provided by operating activities was $92.0 million. Through the first three quarters of 2008, we generated significant profits as global steel prices rose to record highs. Our increased profitability was the primary contributor to our cash flow from operations for 2008. During the fourth quarter of 2008, we began to decrease our inventories in response to slackening demand and decreasing prices. Our fourth quarter 2008 reduction in working capital also contributed to cash flow from operations for the year.

Net cash used in investing activities was $7.7 million for the year ended December 31, 2008, and consisted of proceeds from sales of assets of $9.5 million offset by $12.2 million of purchases of assets and $5.0 million of contingent consideration paid during 2008 in connection with the May 2006 acquisition of Port City. For the year ended December 31, 2008, the most significant internal capital project was the expansion of our New Orleans Plates and Shapes facility.

Net cash used in financing activities was $4.9 million for the year ended December 31, 2008, and consisted primarily of net borrowings on the ABL facility of $87.5 million, offset by dividends paid to Metals USA Holdings of $87.5 million, $2.4 million of repayments of long-term debt and $2.5 million of deferred financing costs.

Year Ended December 31, 2007

During the year ended December 31, 2007, net cash provided by operating activities was $126.8 million. This amount was primarily attributable to reductions in working capital in connection with our inventory management, which seeks to optimize the cost tradeoff between holding inventory and incurring shortages.

Net cash used in investing activities was $58.5 million for the year ended December 31, 2007, and consisted primarily of $21.5 million of purchases of assets and $38.2 million for the acquisition of Lynch Metals. For the year ended December 31, 2007, the most significant internal capital project was the expansion of our New Orleans Plates and Shapes facility.

Net cash used in financing activities was $68.9 million for the year ended December 31, 2007, and consisted primarily of dividends paid to Metals USA Holdings of $18.1 million, in addition to net repayments on the ABL facility of $48.5 million.

Covenant Compliance

Adjusted EBITDA

Adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility and the indenture governing the Metals USA Notes) is defined as EBITDA further adjusted to exclude certain non-cash and non-recurring items. Adjusted EBITDA is not a defined term under GAAP and should not be used as an alternative to net income as an indicator of operating performance or to cash flow as a measure of liquidity.

Fixed Charge Coverage Ratio

Under the ABL facility, the FCCR is determined on a rolling four-quarter period, often referred to as a last-twelve month period, by dividing (1) the sum of adjusted EBITDA of Metals USA minus income taxes paid in cash minus non-financed capital expenditures by (2) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt paid by Metals USA. The interest rate in respect of borrowings under the ABL facility is determined in reference to the FCCR, and should borrowing availability under the ABL facility fall below $45.0 million, we must maintain a FCCR of at least 1.0 to 1.0, measured on a trailing four-quarter basis. As of December 31, 2009, our borrowing availability under the ABL facility was

$122.9 million, but because the FCCR was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million. In addition, the FCCR also is an important measure of our liquidity and affects our ability to take certain actions, including paying dividends to stockholders and making acquisitions.

Although the indenture governing the Metals USA Notes also contains covenants that restrict our ability to incur indebtedness and pay dividends based on our FCCR, the definition and application of the FCCR contained in the indenture differ from the definition and application of the FCCR in the ABL facility in that the numerator of the FCCR as defined in the indenture does not include cash income taxes or non-financed capital expenditures and the denominator of the FCCR as defined in the indenture does not include the sum of certain distributions paid in cash and scheduled principal reductions on debt, and separate FCCRs are required under certain circumstances. See Management s Discussion and Analysis of Financial Condition and Results of Operations Financing Activities.

Because access to debt capital is currently and in the future will continue to be important to us, we believe that the inclusion of supplementary adjustments to EBITDA applied in presenting adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with the covenants in our debt agreements. Failure to comply with the FCCR covenant of the ABL facility can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. As of December 31, 2009, our FCCR was 0.42. As of December 31, 2009, we had $122.9 million of additional borrowing capacity under the ABL facility, but because the FCCR was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million.

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

Our inability to satisfy the terms of the negative covenants in our debt agreements do not, by themselves, constitute covenant violations or events of default. Rather, they are event-related restrictions that limit or prohibit the Company from taking certain corporate actions.

Limitations of Adjusted EBITDA

There are material limitations associated with making the adjustments to our earnings to calculate adjusted EBITDA and using such a non-GAAP financial measure as compared to the most directly comparable GAAP financial measures. For instance, adjusted EBITDA does not include:

- interest expense, and, because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and ability to generate revenue;
- income tax expense, and because the payment of taxes is part of our operations, tax expense is a necessary element of our costs and ability to operate; and
- depreciation and amortization expense, and, because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue.

In addition, fixed charges should not be considered an alternative to interest expense.

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Below is a reconciliation of net income to EBITDA, adjusted EBITDA and net cash provided by operating activities:

	Years Ended December 31, 2009	2008	2007
	(in millions, except ratios)		
Net income (loss)	$ (35.7)	$ 93.4	$ 36.6
Depreciation and amortization(1)	21.2	23.6	23.7
Interest expense	44.9	54.5	57.6
(Gain) loss on extinguishment of debt	(13.6)		
Provision (benefit) for income taxes	(18.0)	59.3	19.3
Other (income) expense	0.3	(0.2)	
EBITDA	(0.9)	230.6	137.2
Covenant defined adjustments:			
Stock options and grant expense(2)	0.4	1.1	4.8
Facilities closure(3)	2.1	4.0	0.7
Pension withdrawal liability(4)			2.0
Management fees and other costs(5)	1.2	1.9	1.5
Impairment of assets(6)		5.1	
Adjusted EBITDA(7)	2.8	242.7	146.2
(Gain) loss on sale of property and equipment		(2.4)	0.1
Provision for bad debts	2.9	3.1	1.7
Amortization of debt issuance costs	3.5	3.2	2.7
Deferred income taxes	4.2	(3.1)	(3.7)
Interest expense	(44.9)	(54.5)	(57.6)
Provision for income taxes	18.0	(59.3)	(19.3)
Other income (expense)	(0.3)	0.2	
Facilities closure	(2.1)	(4.0)	(0.7)
Pension withdrawal liability			(2.0)
Management fees and other costs	(1.2)	(1.9)	(1.5)
Other			0.2
Changes in assets and liabilities	266.0	(32.0)	60.7
Net cash provided by operating activities	$ 248.9	$ 92.0	$ 126.8
Fixed charge coverage ratio numerator(7)	$ 15.8	$ 197.9	$ 103.2
Fixed charge coverage ratio denominator(7)	$ 37.6	$ 68.1	$ 78.6
FCCR(7)	0.42	2.91	1.31

(1) Includes depreciation for Building Products that is included in cost of sales.
(2) Non-cash stock option and stock grant expense.
(3) This amount represents charges for the closure of nine facilities in our Building Products Group and one facility in our Plates and Shapes Group during 2009, six facilities in our Building Products Group during 2008 and three facilities in our Building Products Group during 2007.
(4) This amount represents expenses incurred in connection with the withdrawal of two of our operating facilities from a multi-employer pension fund.
(5) Primarily represents expenses related to the management agreement we have with Apollo.
(6) This amount represents non-cash impairment charges related to goodwill and customer list intangible assets associated with our Building Products Group.
(7) These amounts represent the Fixed Charge Coverage Ratio (FCCR) numerator, the FCCR denominator, and the FCCR, each as defined by the ABL facility.

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Financing Activities

The ABL Facility

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

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

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

Borrowing Base. The maximum availability under the ABL facility is based on eligible receivables and eligible inventory, subject to certain reserves. Our borrowing availability fluctuates daily with changes in eligible receivables and inventory, less outstanding borrowings and letters of credit. The borrowing base is equal to the lesser of (a) the aggregate amount of the Tranche A Commitments and the Tranche A-1 Commitments and (b) the sum of:

- 85% of the net amount of eligible accounts receivable;

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

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

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

As of December 31, 2009, we had $211.9 million of eligible collateral, $75.0 million in outstanding advances, $14.0 million in open letters of credit and $122.9 million of additional borrowing capacity, but because our FCCR was less than 1.0 to 1.0 as of December 31, 2009, we could only borrow $77.9 million. As of December 31, 2009, we had $5.5 million of cash.

At February 5, 2010, we had $217.8 million of eligible collateral, $78.0 million in outstanding advances, $14.0 million in open letters of credit and $125.8 million of additional borrowing capacity. As of February 5, 2010, we had approximately $5.3 million of cash.

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

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

The interest rates with respect to loans utilizing the Tranche A Commitments are, at our option, (i) the higher of (a) the prime rate of Credit Suisse in effect at its principal office in New York City and (b) the federal funds effective rate plus 0.5%; plus, in each case, an applicable margin ranging between -0.25% and -0.50% as determined in accordance with the loan and security agreement governing the ABL facility or (ii) the rate (as adjusted for statutory reserves) for Eurodollar deposits for one, two, three, six or, if agreed to by all lenders under the loan and security agreement, nine or twelve months, as selected by us, by reference to the British Bankers Association Interest Settlement Rates, plus an applicable margin ranging between 1.00% and 1.75% as determined in accordance with the loan and security agreement governing the ABL facility. The interest rates with respect to loans utilizing the Tranche A-1 Commitments are, at our option, (i) the higher of (a) the prime rate of Credit Suisse in effect at its principal office in New York City and (b) the federal funds effective rate plus 0.5%; in each case plus an applicable margin of 0.75% or (ii) the rate (as adjusted for statutory reserves) for Eurodollar deposits for one, two, three, six or, if agreed to by all lenders under the loan and security agreement, nine or twelve months, as selected by us, by reference to the British Bankers Association Interest Settlement Rates, plus an applicable margin of 2.75%.

A commitment fee is payable on any unused commitments under the ABL facility of 0.25% per annum. The applicable base rate and the effective LIBOR rate for the Tranche A Commitments and Tranche A-1 Commitments were 3.25% and 0.251%, respectively, as of December 31, 2009.

Certain Covenants. The ABL facility contains customary representations, warranties and covenants as a precondition to lending, including a material adverse change in the business, limitations on our ability to incur or guarantee additional debt, subject to certain exceptions, pay dividends, or make redemptions and repurchases, with respect to capital stock, repay debt, create or incur certain liens, make certain loans or investments, make acquisitions or investments, engage in mergers, acquisitions, asset sales and sale lease-back transactions, and engage in certain transactions with affiliates. In addition, the ABL facility requires a lock-box arrangement, which, as long as borrowing availability is greater or equal to $45.0 million and in the absence of default, is controlled by Metals USA. As long as our borrowing availability is greater than or equal to $45.0 million, we do not have to maintain a minimum FCCR. Should borrowing availability fall below $45.0 million, we must maintain an FCCR of at least 1.0 to 1.0. For purposes of determining covenant compliance, the FCCR is determined by dividing (i) the sum of adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility) minus income taxes paid in cash minus non-financed capital expenditures by (ii) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt, and is calculated based on such amounts for the most recent period of four consecutive fiscal quarters. As of December 31, 2009, our FCCR was 0.42.

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

The ABL facility contains events of default with respect to: default in payment of principal when due, default in the payment of interest, fees or other amounts after a specified grace period, material breach of the representations or warranties, default in the performance of specified covenants, failure to make any payment when due under any indebtedness with a principal amount in excess of a specified amount, certain bankruptcy events, certain ERISA violations, invalidity of certain security agreements or guarantees, material judgments or a change of control. In the event of default the agreement may permit the lenders to: (i) restrict the account or refuse to make revolving loans; (ii) cause customer receipts to be applied against borrowings under the ABL facility causing the Company to suffer a rapid loss of liquidity and the ability to operate on a day-to-day basis; (iii) restrict or refuse to provide letters of credit; or ultimately: (iv) terminate the commitments and the agreement; or (v) declare any or all obligations to be immediately due and payable if such default is not cured in the specified period required. Any payment default or acceleration under the ABL facility on amounts in excess of $15.0 million would also result in a default under the Metals USA Notes and the 2007 Notes that would provide the holders of the Metals USA Notes and the 2007 Notes with the right to demand immediate repayment.

Interest Rate Swaps. In February 2008, $250.0 million notional amount of outstanding borrowings under the ABL facility were swapped from a floating LIBOR-based rate to a fixed rate. The swaps entitle us to receive quarterly payments of interest at a floating rate indexed to the three-month LIBOR and pay a fixed rate that ranges from 2.686% to 2.997%, converting a portion of the outstanding borrowings on our ABL facility from a floating rate obligation to a fixed rate obligation. Pretax realized gains and losses from derivatives which were recognized in earnings during the year ended December 31, 2009 amounted to $6.8 million of additional interest expense, consisting of $4.8 million of settlements and $2.0 million of changes in the fair value of derivatives. The fair value of the Company s interest rate swaps was $5.8 million at December 31, 2009, with $4.4 million classified as accrued liabilities and $1.4 million classified as other long-term liabilities in the consolidated balance sheet.

The Metals USA Notes

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

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

The Metals USA Notes indenture contains certain customary events of default, including (subject, in some cases, to customary cure periods thresholds) defaults based on (1) the failure to make payments under the Metals USA indenture when due, (2) breach of covenants, (3) cross-defaults to other material indebtedness, (4) bankruptcy events and (5) material judgments. We were in compliance with all covenants as of December 31, 2009.

During the year ended December 31, 2009, we purchased $48.7 million principal amount of the Metals USA Notes in the open market, resulting in a pretax gain of $13.6 million (net of unamortized deferred financing costs) on debt extinguishment.

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Metals USA Holdings 2007 Notes

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

Metals USA Holdings must make an election regarding whether interest payments on the 2007 Notes will be made in cash or through PIK Interest prior to the start of the applicable interest period. Metals USA Holdings may elect to pay (1) interest entirely in cash or (2) PIK Interest, or (3) Partial PIK Interest. Cash interest on the 2007 Notes will accrue at a rate per annum, reset quarterly, equal to LIBOR plus a spread of 6.00%, which increases by 0.25% to 6.25% in the second year of the issuance of the 2007 Notes, by 0.50% to 6.50% in the third year of the issuance of the 2007 Notes, and by 0.75% to 6.75% in the fourth year of the issuance of the 2007 Notes. In the event PIK Interest is paid on the 2007 Notes after the first four interest periods, the then-applicable margin over LIBOR on the 2007 Notes would increase by 0.75% for each period in which PIK Interest is paid. If Metals USA Holdings elects to pay any PIK Interest, Metals USA Holdings will increase the principal amount on the 2007 Notes or issue new 2007 Notes in an amount equal to the amount of PIK Interest for the applicable interest payment period to holders of the 2007 Notes on the relevant record date. Interest is payable quarterly in arrears on January 1, April 1, July 1 and October 1.

Although the 2007 Notes are not recorded on the Company s balance sheet, Flag Intermediate plans to provide funds to service the 2007 Notes to Metals USA Holdings as reflected in the following table. Estimated interest was calculated using a 3-month LIBOR forward curve, with the initial spread and increases to the initial spread for the applicable periods as discussed above.

For the Year Ending	Estimated Cash Interest Expense	Estimated PIK Interest Expense
2010	$ 11.6	$ 12.9
2011	$ 13.7	$ 14.9
2012	$ 11.8	$ 12.7

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

On September 26, 2008, Metals USA Holdings made a permitted election under the indenture governing the 2007 Notes to pay all interest that is due on January 1, 2009, for the interest period beginning on October 1, 2008, and ending on December 31, 2008, entirely through PIK Interest. The January 1, 2009 PIK Interest payment amounted to $8.2 million. Metals USA Holdings has continued to make PIK Interest payments subsequent to January 1, 2009. The April 1, 2009 PIK Interest payment amounted to $5.6 million, the July 1, 2009 PIK Interest payment amounted to $3.8 million, the October 1, 2009 PIK Interest payment amounted to $3.5 million and the January 1, 2010 PIK Interest payment amounted to $3.1 million. Metals USA Holdings must make an election regarding whether subsequent interest payments will be made in cash, through PIK Interest, or Partial PIK Interest, prior to the start of the applicable interest period. In the absence of such an election for any interest period, interest on the 2007 Notes will be payable according to the election for the previous interest period. As a result, the PIK Interest election is now the default election for future interest periods unless Metals USA Holdings elects otherwise not later than the commencement of an interest period.

The terms of the ABL facility, as well as the indenture governing the Metals USA Notes, restrict Flag Intermediate and certain of its subsidiaries from making payments or transferring assets to Metals USA Holdings, including dividends, loans, or distributions. Such restrictions include prohibition of dividends in an event of default and limitations on the total amount of dividends paid to Metals USA Holdings. In the event these agreements do not permit Flag Intermediate to provide Metals USA Holdings with sufficient distributions to fund interest and principal payments on the 2007 Notes when due, Metals USA Holdings may default on the 2007 Notes unless other sources of funding are available. The amount available under the restricted payment provision contained in the loan and security agreement governing the ABL facility was $68.2 million as of December 31, 2009. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of December 31, 2009.

Restricted Payments

Both the loan and security agreement governing the ABL facility and the indentures governing the Metals USA Notes and the 2007 Notes contain restrictions as to the payment of dividends. The amount available under the restricted payment provision contained in the loan and security agreement governing the ABL facility was $68.2 million as of December 31, 2009. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of December 31, 2009. As of December 31, 2009, Flag Intermediate and its wholly-owned subsidiary, Metals USA, had $141.1 million of total stockholder s equity.

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

Off-Balance Sheet Arrangements

We were not engaged in off-balance sheet arrangements through any unconsolidated, limited purpose entities and no material guarantees of debt or other commitments to third parties existed at December 31, 2009.

Contractual Obligations

We enter into operating leases for many of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for the use of, rather than purchasing, facilities, vehicles and equipment. At the end of the lease, we have no further obligation to the lessor. We have varying amounts of open purchase orders that are subject to renegotiation/cancellation by either party as to quantity or price. Generally, the amounts outstanding relate to delivery periods of up to 12 weeks from the date of the purchase order.

Our future contractual obligations as of December 31, 2009 include the following:

		For the Fiscal Years Ended December 31,					
	Total	**2010**	**2011**	**2012**	**2013**	**2014**	**Beyond**
				(in millions)			
ABL facility(1)	$ 75.0	$	$ 75.0	$	$	$	$
Purchase Orders	99.3	99.3					
11 1/8 Senior Secured Notes Due 2015 (Metals USA Notes).	377.5	25.2	25.2	25.2	25.2	25.2	251.5
IRB(2)	5.7						5.7
Other obligations(3)	7.5	0.7	0.7	0.6	0.6	0.6	4.3
Operating lease obligations	55.1	14.9	13.0	8.0	5.5	4.3	9.4
Total	$ 620.1	$ 140.1	$ 113.9	$ 33.8	$ 31.3	$ 30.1	$ 270.9

(1) The amounts stated do not include interest costs. The ABL facility bears interest based upon a margin over reference rates established within a specific pricing grid. The marginal rates will vary with our financial

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performance as measured by the fixed charge coverage ratio. The applicable base rate and the effective LIBOR rate were 3.25% and .251%, respectively, on December 31, 2009.

(2) The amounts stated do not include interest costs. The interest rate assessed on the IRB varies from month to month based on an index of mutual bonds, which was 0.44% on December 31, 2009.

(3) Consists of junior indebtedness of approximately $0.2 million and a multiemployer pension fund withdrawal liability of approximately $7.3 million. Excludes payments for unrecognized tax benefits. Based on the contingent and uncertain nature of our liability for unrecognized tax benefits, we are unable to make an estimate of the period of potential settlement, if any, with respective taxing authorities.

Critical Accounting Policies and Estimates

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

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

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

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

Inventories. Inventories are stated at the lower of cost or market. We conduct a lower of cost or market inventory valuation annually as of December&n