

TMS International Corp.
Form 10-Q
August 09, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

or

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

For the transition period from to .

TMS INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Edgar Filing: TMS International Corp. - Form 10-Q

001-35128
(Commission

Delaware
(State or other jurisdiction of

20-5899976
(I.R.S. Employer

File Number)

incorporation or organization)
12 Monongahela Avenue

Identification No.)

P.O. Box 2000

Glassport, PA 15045

(412) 678-6141

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

14,494,646 shares of Class A Common Stock, \$0.001 par value per share, and 24,782,795 shares of Class B Common Stock, \$0.001 par value per share, were outstanding as of the close of business on August 2, 2012.

Table of Contents

Table of Contents

PART I Financial Information

Item 1.	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Statements of Operations</u>	1
	<u>Statements of Consolidated Comprehensive Income (Loss)</u>	2
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Consolidated Statements of Changes in Stockholders' Equity (Deficit)</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3.	<u>Quantitative and Qualitative Disclosure about Market Risks</u>	36
Item 4.	<u>Controls and Procedures</u>	36

PART II Other Information

Item 1A.	<u>Risk Factors</u>	38
Item 5.	<u>Other Information</u>	50
Item 6.	<u>Exhibits</u>	39
	<u>Signatures</u>	40

Table of Contents

Explanatory Note

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

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

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

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

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

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

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

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

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

	Second quarter ended June 30,		Six months ended June 30,	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
Revenue:				
Revenue from Sale of Materials	\$ 533,034	\$ 552,781	\$ 1,145,693	\$ 1,104,736
Service Revenue	136,320	117,970	270,620	229,975
Total Revenue	669,354	670,751	1,416,313	1,334,711
Costs and Expenses:				
Cost of Raw Materials Shipments	515,776	533,732	1,106,836	1,062,458
Site Operating Costs	100,017	89,633	201,862	174,197
Selling, General and Administrative Expenses	15,714	13,936	32,975	30,001
Share based compensation associated with initial public offering		1,304		1,304
Depreciation	13,688	11,769	26,854	23,568
Amortization	3,051	3,072	6,104	6,134
Total Costs and Expenses	648,246	653,446	1,374,631	1,297,662
Income from Operations	21,108	17,305	41,682	37,049
Interest Expense, Net	(5,923)	(7,907)	(14,024)	(16,584)
Loss on early extinguishment of debt			(12,300)	
Income Before Income Taxes	15,185	9,398	15,358	20,465
Income Tax Expense	(5,475)	(3,697)	(5,536)	(8,547)
Net Income	9,710	5,701	9,822	11,918
Net loss attributable to noncontrolling interests	74	60	372	60
Accretion on preferred stock		(1,261)		(7,156)
Net income attributable to TMS International Corp. common stock	\$ 9,784	\$ 4,500	\$ 10,194	\$ 4,822
Net Income per Share:				
Basic	\$ 0.25	\$ 0.13	\$ 0.26	\$ 0.25
Diluted	\$ 0.25	\$ 0.13	\$ 0.26	\$ 0.25
Average Common Shares Outstanding:				
Basic	39,255,973	34,058,877	39,255,973	19,663,184
Diluted	39,257,265	34,069,238	39,256,619	19,668,422

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

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

	TMS International		Noncontrolling Interests		Total	
	Second quarter ended		Second quarter ended		Second quarter ended	
	June 30		June 30		June 30	
	2012	2011	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 9,784	\$ 5,761	\$ (74)	\$ (60)	\$ 9,710	\$ 5,701
Other comprehensive income (loss), net of tax:						
Changes in foreign currency translation	(5,803)	703	(86)	(35)	(5,889)	668
Net unrecognized gains on derivatives		195				195
Total other comprehensive income (losses), net of tax	(5,803)	898	(86)	(35)	(5,889)	863
Comprehensive income (loss)	\$ 3,981	\$ 6,659	\$ (160)	\$ (95)	\$ 3,821	\$ 6,564

	TMS International		Noncontrolling Interests		Total	
	Six months ended		Six months ended		Six months ended	
	June 30		June 30		June 30	
	2012	2011	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 10,194	\$ 11,978	\$ (372)	\$ (60)	\$ 9,822	\$ 11,918
Other comprehensive income (loss), net of tax:						
Changes in foreign currency translation	(1,444)	5,867	16	(35)	(1,428)	5,832
Net unrecognized gains on derivatives	240	390			240	390
Total other comprehensive income (losses), net of tax	(1,204)	6,257	16	(35)	(1,188)	6,222
Comprehensive income (loss)	\$ 8,990	\$ 18,235	\$ (356)	\$ (95)	\$ 8,634	\$ 18,140

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

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

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,502	\$ 108,830
Accounts receivable, net of allowance for doubtful accounts of \$2,849 and \$2,613, respectively	287,667	292,546
Inventories	61,459	56,297
Prepaid and other current assets	26,147	31,041
Deferred tax asset	7,140	7,114
Total current assets	408,915	495,828
Property, plant and equipment, net	188,044	161,017
Deferred financing costs, net of accumulated amortization of \$833 and \$9,517, respectively	10,834	10,638
Goodwill	241,304	241,771
Other intangibles, net of accumulated amortization of \$65,473 and \$59,461, respectively	146,927	153,066
Other noncurrent assets	3,792	3,675
Total assets	\$ 999,816	\$ 1,065,995
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 237,637	\$ 225,999
Accounts payable overdraft	46,502	47,817
Salaries, wages and related benefits	26,630	28,105
Accrued expenses	17,498	24,340
Revolving bank borrowings	156	159
Current portion of long-term debt	4,304	3,585
Total current liabilities	332,727	330,005
Long-term debt	298,031	379,250
Loans from noncontrolling interests	7,471	5,275
Deferred tax liability	53,321	53,791
Other noncurrent liabilities	21,937	20,833
Total liabilities	713,487	789,154
Stockholders equity (deficit):		
Class A Common Stock; 200,000,000 shares authorized, \$0.001 par value per share; 14,473,178 and 12,894,333 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively.	13	13
Class B Common Stock; 30,000,000 shares authorized, \$0.001 par value per share; 24,782,795 and 26,361,640 issued and outstanding at June 30, 2012 and December 31, 2011, respectively.	26	26
Capital in excess of par value	435,231	434,841
Accumulated deficit	(138,038)	(148,232)
Accumulated other comprehensive (loss)	(12,279)	(11,075)
Total TMS International Corp. stockholders equity	284,953	275,573
Noncontrolling interests	1,376	1,268

Edgar Filing: TMS International Corp. - Form 10-Q

Total stockholders' equity	286,329	276,841
Total liabilities and stockholders' equity	\$ 999,816	\$ 1,065,995

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

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

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

	Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)
Cash flows from operating activities:		
Net Income	\$ 9,822	\$ 11,918
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation and Amortization	32,958	29,702
Amortization of deferred financing costs and original issue discount	1,350	1,234
Deferred income tax	2,501	7,566
Provision for bad debts	206	404
Gain on the disposal of equipment	(168)	(23)
Non cash share based compensation cost	818	1,590
Loss on early extinguishment of debt	12,300	
Increase (decrease) from changes in:		
Accounts receivable	4,673	(123,657)
Inventories	(5,162)	(27,476)
Prepaid and other current assets	4,834	(2,769)
Other noncurrent assets	(210)	451
Accounts payable and cash overdraft	10,323	92,157
Accrued expenses	(8,330)	(3,825)
Other noncurrent liabilities	1,193	(419)
Other, net	(2,194)	(885)
Net cash provided by (used in) operating activities	64,914	(14,032)
Cash flows from investing activities:		
Capital Expenditures	(55,511)	(25,757)
Proceeds from sale of equipment	347	331
Acquisition		(50)
Contingent payment for acquired business	(131)	(337)
Cash flows related to IU International, net	(67)	(303)
Net cash used in investing activities	(55,362)	(26,116)
Cash flows from financing activities:		
Revolving credit facility borrowing (repayments), net	(3)	(103)
Net proceeds from initial public offering		128,782
Borrowing from noncontrolling interest	2,347	
Repayment of debt	(381,254)	(44,221)
Proceeds from debt issuance, net of original issue discount	300,703	
Contributions from noncontrolling interests	269	
Payments to acquire noncontrolling interest	(231)	
Debt issuance and termination fees	(13,711)	
Net cash (used in) provided by financing activities	(91,880)	84,458
Cash and cash equivalents:		
Net (decrease) increase in cash	(82,328)	44,310
Cash at beginning of period	108,830	49,492

Edgar Filing: TMS International Corp. - Form 10-Q

Cash at end of period	\$ 26,502	\$ 93,802
-----------------------	-----------	-----------

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

Table of Contents**TMS INTERNATIONAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)****(In thousands of dollars, except share data)****(unaudited)**

	TMS International Corp. Common Stock		
	Class A Shares	Class B Shares	Total Shares
Balances, December 31, 2010		4,943,992	4,943,992
Share-based compensation costs			
Issuance of primary shares and recapitalization of existing shares	12,880,000	(2,000,000)	10,880,000
Accumulating dividend on Class A preferred stock			
Conversion of preferred shares		23,384,801	23,384,801
Issuance of restricted stock associated with the IPO		47,180	47,180
Net income (loss)			
Other comprehensive income (loss)			
Balances, June 30, 2011	12,880,000	26,375,973	39,255,973

	TMS International Corp. Common Stock		
	Class A Shares	Class B Shares	Total Shares
Balances, December 31, 2011	12,894,333	26,361,640	39,255,973
Share-based compensation costs			
Conversion of shares	1,578,845	(1,578,845)	
(Acquisition of) Investment by noncontrolling interest			
Net income (loss)			
Other comprehensive income (loss)			
Balance, June 30, 2012	14,473,178	24,782,795	39,255,973

Table of Contents

	TMS International Corp.							
	Common Stock			Accumulated		Other		TMS International Noncontrolling
	Class A	Class B	Amount	Capital in Excess of Par Value	Accumulated Deficit	Comprehensive Income (Loss)	Corp. Total	Interest
Balances, December 31, 2010	\$	\$	\$		\$ (165,717)	\$ (5,502)	\$ (171,219)	\$ 266
Share-based compensation costs				1,590			1,590	
Issuance of primary shares and recapitalization of existing shares	13	3		128,153			128,169	
Accumulating dividend on Class A preferred stock				(9)	(7,147)		(7,156)	
Conversion of preferred shares		23		303,977			304,000	
Issuance of restricted stock associated with the IPO				613			613	
Net income (loss)					11,978		11,978	(60)
Other comprehensive income (loss)						6,257	6,257	(35)
Balances, June 30, 2011	\$ 13	\$ 26	\$ 434,324	\$ (160,886)	\$ 755	\$ 274,232	\$ 171	\$ 274,403

	TMS International Corp.							
	Common Stock			Accumulated		Other		TMS International Noncontrolling
	Class A	Class B	Amount	Capital in Excess of Par Value	Accumulated Deficit	Comprehensive Income (Loss)	Corp. Total	Interest
Balances, December 31, 2011	\$ 13	\$ 26	\$ 434,841	\$ (148,232)	\$ (11,075)	\$ 275,573	\$ 1,268	\$ 276,841
Share-based compensation costs				818			818	
Conversion of shares								
(Acquisition of) Investment by noncontrolling interest				(428)			(428)	464
Net income (loss)					10,194		10,194	(372)
Other comprehensive income (loss)						(1,204)	(1,204)	16
Balance, June 30, 2012	\$ 13	\$ 26	\$ 435,231	\$ (138,038)	\$ (12,279)	\$ 284,953	\$ 1,376	\$ 286,329

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

Table of Contents

Notes to Unaudited Condensed Consolidated Financial Statements.

Note 1 Nature of Operations

TMS International Corp. (the Company) through its subsidiaries, including TCIMS, is the largest provider of outsourced industrial services to steel mills in North America with a substantial international presence. The Company operates at 82 customer sites in 11 countries and has a raw materials procurement network that extends to five continents. The Company's primary services include: (i) scrap management and preparation, (ii) semi-finished and finished material handling, (iii) metal recovery and slag handling, processing and sales, (iv) surface conditioning, (v) raw materials procurement and logistics and (vi) proprietary software-based raw materials cost optimization.

Note 2 Basis of Presentation

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

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

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

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

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

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

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

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

As a result of the activity in connection with the initial public offering, as of April 19, 2011, the Company had outstanding 39,255,973 shares of common stock. As of August 2, 2012, a total of 39,277,441 shares of common stock were outstanding with 14,494,646 shares designated as Class A Common Stock and 26,782,795 shares designated as Class B Common Stock.

Offering details and proceeds

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

Edgar Filing: TMS International Corp. - Form 10-Q

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

Amendment to certificate of incorporation and stock split

On April 5, 2011, prior to its initial public offering, the Company amended and restated its certificate of incorporation creating two classes of common stock: Class A Common Stock and Class B Common Stock. The Company's previously-outstanding shares of common stock, including those issued under the Company's Restricted Stock Plan, were converted into shares of Class B Common Stock. The Company's amended and restated certificate of incorporation also provided for a stock split to occur on the date of pricing of the Company's initial public offering. The Company priced the initial public offering on April 13, 2011 at \$13.00 per share and effectuated a 207.4307-for-one stock split of the Class B Common Stock. The stock split has been retroactively reflected in the accompanying consolidated financial statements.

Table of Contents***Restricted Stock Plan grant and accelerated vesting***

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

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

Note 3 Earnings per Share

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

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

	Second quarter ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Basic average common shares outstanding	39,255,973	34,058,877	39,255,973	19,663,184
Dilutive effect of stock options outstanding	1,292	10,361	646	5,238
Diluted average common shares outstanding	39,257,265	34,069,238	39,256,619	19,668,422

As of June 30, 2012, the Company had outstanding 879,274 options to purchase shares of Class A Common Stock. The dilutive impact of those options is calculated using the treasury stock method.

Note 4 Inventories

Inventories consisted of the following (in thousands):

	June 30, 2012 (unaudited)	December 31, 2011
Scrap iron and steel	\$ 25,878	\$ 20,447
Goods in transit	22,023	24,351
Spare parts and supplies	13,558	11,499
Total inventories	\$ 61,459	\$ 56,297

Scrap iron and steel inventories are stated at the lower of cost or net realizable value, with cost being determined using the weighted-average method. During the second quarter of 2012, due to falling market prices for scrap and scrap substitutes, the Company recorded a charge of \$1.4 million to record its scrap and steel inventories at their net realizable value.

Note 5 Income Taxes

Edgar Filing: TMS International Corp. - Form 10-Q

The income tax expense for the six months ended June 30, 2012 and 2011 reflects a year-to-date effective tax rate of 36.0% and 41.8%, respectively, and a 2012 estimated annualized effective tax rate of 35.4%. The income tax expense for the six months ended June 30, 2012, is based on an estimated annual effective rate, which requires management to make its best estimate of expected pre-tax income for the year. The estimated effective tax rates for 2012 and 2011 differ from the federal statutory rate of 35.0% due principally to state taxes, foreign taxes, permanent differences related to nondeductible marketing expenses and foreign deemed dividends.

Accounting for Uncertainty in Income Taxes

As of June 30, 2012 and December 31, 2011, the Company has recorded a \$1.4 million liability for uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The total amount of interest and penalty recognized related to uncertain tax positions as of June 30, 2012 and 2011 was not material. The tax years 2008-2011 remain open to examination by the major taxing jurisdictions where the Company conducts business.

Table of Contents**Note 6 Debt**

Debt is summarized as follows (in thousands):

	June 30, 2012 (unaudited)	December 31, 2011
ABL facility	\$ 156	\$ 159
Invoice discounting facility		159
Senior secured term loan due 2019, net of original issue discount	297,121	
Senior secured term loan due 2014		157,163
Senior subordinated notes		223,000
Loans from noncontrolling interests	7,471	5,275
Bank term loan facility	3,627	
Capital equipment leases and installment notes	1,587	2,672
Total indebtedness	\$ 309,962	\$ 388,269

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

	June 30, 2012 (unaudited)	December 31, 2011
Revolving borrowings	\$ 156	\$ 159
Current portion of long-term debt	4,304	3,585
Long-term debt	298,031	379,250
Loans from noncontrolling interests	7,471	5,275
Total indebtedness	\$ 309,962	\$ 388,269

2012 Refinancing

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

TCIMS received \$297.0 million in proceeds from the Term Loan Facility which was net of a discount of \$3.0 million, or 1%. On the Closing Date, TCIMS used the proceeds from the Term Loan Facility, combined with available cash and a draw on its revolving credit facility, to extinguish its obligations under its previous senior secured term loan due 2014, which allowed for prepayment without penalty, and to discharge and extinguish its liability under its senior subordinated notes due 2015. To extinguish its liability under the senior subordinated notes, TCIMS deposited \$233.2 million in cash with the senior notes trustee, which was used to fund the repayment of \$223.0 million in outstanding senior notes principal, a \$5.4 million redemption premium, \$3.0 million of accrued and unpaid interest through the date of discharge and \$1.8 million of additional interest payable through the redemption date. Upon depositing the funds, TCIMS was discharged from its obligations under the senior notes indenture and received notice of the discharge from the senior notes trustee. The senior notes were redeemed in full on April 19, 2012 using the previously deposited funds.

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

Asset-Based Revolving Credit Facility

Edgar Filing: TMS International Corp. - Form 10-Q

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

Table of Contents

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

As of June 30, 2012, the eligible accounts receivable and inventory that comprise the collateral under the ABL facility supported a gross borrowing base of \$208.7 million. At June 30, 2012, there was \$0.2 million in outstanding revolving borrowings and \$18.1 million letters of credit outstanding against the facility, leaving a net available balance of \$190.4 million. The ABL facility also allows for eligible equipment to provide borrowing base capacity under the facility and with the senior secured term loan due 2014 extinguished, the ABL facility has a first lien on the domestic and Canadian equipment of the Company. The Company expects to add up to approximately \$103.0 million of equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with agent for the ABL lenders. The Company believes the ABL facility and other sources of liquidity are currently adequate to fund its operations, but is carefully monitoring the global economic environment and its impact on its customers' procurement volumes, which could affect its liquidity.

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

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

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

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

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

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

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

Senior Secured Term Loan due 2019

Edgar Filing: TMS International Corp. - Form 10-Q

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

Table of Contents

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

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

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

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

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

Loans From Noncontrolling Interest

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

Bank Term Loan Facility

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

Note 7 Derivative Financial Instruments and Fair Values

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and foreign currency risk. The *Accounting for Derivative Instruments and Hedging Activities* Topic of FASB ASC required

Edgar Filing: TMS International Corp. - Form 10-Q

all companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position.

Interest Rate Risk

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

Table of Contents

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

	Notional Amount	Fixed Rate	Index Rate	Effective Date	Termination Date
Interest Rate Swap 4	\$ 40,000	2.1675%	1 month LIBOR	April 1, 2010	March 20, 2012
Interest Rate Swap 5	40,000	2.3375%	1 month LIBOR	April 1, 2010	March 20, 2012
Total/average	\$ 80,000	2.2525%			

At the dates indicated, the Company recognized the following fair value liabilities in its consolidated balance sheets related to its interest rate swap agreements designated as cash flow hedging instruments (in thousands):

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

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

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

Derivatives in SFAS 133 Cash Flow Hedging Relationship	Amount of gain (loss) recognized in OCI on derivative instruments				Location of loss reclassified from accumulated OCI into expense	Amount of loss reclassified from accumulated OCI into expense			
	Second quarter ended		Six months ended			Second quarter ended		Six months ended	
	June 30,		June 30,			June 30,		June 30,	
	(Unaudited)		(Unaudited)			(Unaudited)		(Unaudited)	
	2012	2011	2012	2011		2012	2011	2012	2011
Interest rate swaps	\$	\$ (59)	\$ (7)	\$ (108)	Interest Expense	\$	\$ 253	\$ 247	\$ 498

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

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

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

Edgar Filing: TMS International Corp. - Form 10-Q

risks, including risks related to commodity pricing, and, in the future, may use derivative instruments to mitigate those risks as well.

Note 8 Stockholders Equity (Deficit)

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

As of June 30, 2012, there were 14,473,178 shares of Class A Common Stock and 24,782,795 shares of Class B Common Stock outstanding. There were 12,894,333 shares of Class A Common Stock and 26,361,640 outstanding at December 31, 2011.

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

Table of Contents

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

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

Note 9 Stock Based Compensation

Long Term Incentive Plan

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

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

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

Table of Contents

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

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

The Company is recognizing the expense related to the time based only vesting options using the accelerated method. The Company is recognizing the expense related to the performance based options by amortizing each individual tranche over the estimated requisite service period. During the six-month period ended June 30, 2012, the Company recognized \$0.8 million in share based compensation expense related to the Long Term Incentive Plan.

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

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

Time based vesting only options	Weighted average exercise price per share	Outstanding 12/31/2011	Six months ended June 30, 2012		
			Granted	Forfeited	Outstanding 06/30/2012
Grant date					
April 13, 2012	\$ 11.18		193,250	(1,500)	191,750
April 13, 2011	\$ 13.00	253,995		(6,108)	247,887

Time based vesting + performance criteria options	Weighted average exercise price per share	Outstanding 12/31/2011	Six months ended June 30, 2012		
			Granted	Forfeited	Outstanding 06/30/2012
Grant date					
April 13, 2012	\$ 11.18		193,250	(1,500)	191,750
April 13, 2011	\$ 13.00	253,995		(6,108)	247,887
<i>Restricted Stock Plan</i>					

Effective February 28, 2007, TMS established the TMS International Corp. restricted stock plan and granted 447,228 shares of restricted stock to employees of the Company. On the grant date, 111,807 shares, 25% of the total grant, vested immediately and, so long as the recipients remain actively employed by the Company, the remaining shares were scheduled to vest in even 15% increments on each of the first five anniversary dates of the grant. The Company estimated the restricted shares had a fair value of \$0.48 per share on the grant date based on the amount paid

Edgar Filing: TMS International Corp. - Form 10-Q

for its common stock during the acquisition of us by Onex. Share based compensation costs for the restricted stock before any modification of the award for the six months ended June 30, 2012 and 2011 were not material.

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

Table of Contents

Note 10 Operating Segments

The Company has two reportable operating segments in addition to its administrative group; the Mill Services Group and the Raw Material and Optimization Group. The services provided under the Mill Services Group segment are performed at the Company's customers' sites under long-term contracts. These contracts are typically structured on a fee-per-ton basis tied to production volumes at the Company's customers' sites and are not based on the underlying price of steel. In addition, these contracts typically include tiered pricing structures, with unit prices that increase as volume declines, and/or minimum monthly fees, each of which stabilizes the Company's revenue in the event of volume fluctuations. The services provided to the Company's customers under this segment include: (i) scrap management and preparation; (ii) semi-finished and finished material handling; (iii) metal recovery and slag handling, processing and sales; and (iv) surface conditioning. The services provided under the Raw Material and Optimization Group segment include (i) raw materials procurement and logistics and (ii) proprietary software-based raw materials cost optimization.

Table of Contents

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

	Second quarter ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Revenues, net of inter-segment revenues				
Mill Services Group	\$ 182,597	\$ 167,764	\$ 362,668	\$ 327,244
Raw Material and Optimization Group	486,744	502,977	1,053,615	1,007,433
Administrative Group	13	10	30	34
	\$ 669,354	\$ 670,751	\$ 1,416,313	\$ 1,334,711
Adjusted earnings before interest, taxes, depreciation and amortization				
Mill Services Group	\$ 35,440	\$ 29,966	\$ 67,857	\$ 59,969
Raw Material and Optimization Group	11,645	11,288	26,260	25,968
Administrative Group	(9,238)	(7,804)	(19,477)	(17,882)
	\$ 37,847	\$ 33,450	\$ 74,640	\$ 68,055
Depreciation and Amortization				
Mill Services Group	\$ 14,616	\$ 12,658	\$ 28,725	\$ 25,384
Raw Material and Optimization Group	103	116	193	216
Administrative Group	2,020	2,067	4,040	4,102
	\$ 16,739	\$ 14,841	\$ 32,958	\$ 29,702

	June 30, 2012 (unaudited)
Total assets	
Mill Services Group	\$ 607,618
Raw Material and Optimization Group	351,154
Administrative Group	41,044
	\$ 999,816

	Second quarter ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Percentage of total revenue contributed by each Segment:				
Mill Services Group	27.3%	25.0%	25.6%	24.5%
Raw Material and Optimization Group	72.7%	75.0%	74.4%	75.5%

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

	Second quarter ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Adjusted earnings before interest, taxes, depreciation and amortization	\$ 37,847	\$ 33,450	\$ 74,640	\$ 68,055
Less: Depreciation and Amortization	(16,739)	(14,841)	(32,958)	(29,702)
Interest Expense	(5,923)	(7,907)	(14,024)	(16,584)
Share based compensation associated with IPO		(1,304)		(1,304)
Loss on early extinguishment of debt			(12,300)	
Income Before Income Taxes	\$ 15,185	\$ 9,398	\$ 15,358	\$ 20,465

Table of Contents**Note 11 Retirement and Pension Plans**

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

	Second quarter ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
U.S. plans				
Service cost				
Interest cost	242	233	485	468
Expected return on plan assets	(308)	(341)	(616)	(683)
Net amortization	226	128	451	256
Net periodic pension (income) costs-U.S. plans	\$ 160	\$ 20	\$ 320	\$ 41
Canadian plans				
Service cost	53	51	106	102
Interest cost	63	64	126	128
Expected return on plans assets	(52)	(58)	(104)	(116)
Net amortization	11	5	22	10
Net periodic pension costs-Canadian plans	75	62	150	124
Other plans				
Defined contribution	764	694	1,856	1,733
Multi-employer pension plans	1,457	1,347	2,866	2,638
Total other plans	2,221	2,041	4,722	4,371
Total net pension expense	\$ 2,456	\$ 2,123	\$ 5,192	\$ 4,536

The Company's contributions to its defined benefit pension plans for the six months ended June 30, 2012 and 2011 were \$1.0 million and \$0.4 million, respectively.

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

	Second quarter ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Service cost	\$ 76	\$ 43	\$ 152	\$ 87
Interest cost	78	53	156	128
Net amortization	17		34	
Net periodic costs	\$ 171	\$ 96	\$ 342	\$ 215

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

Note 12 Fair Value of Financial Instruments

Edgar Filing: TMS International Corp. - Form 10-Q

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

Table of Contents

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

	June 30, 2012 (unaudited)	December 31, 2011
Carrying value of financial instruments in:		
Accrued expenses		
Interest rate swaps	\$	\$ 391
Long-term debt (includes current portion)		
Senior secured term loan	\$	\$ 157,163
Senior subordinated notes		223,000
New Senior Secured Term Loan	297,121	
Bank term loan facility	3,627	
Capital equipment leases and other	9,058	7,947
Total long-term debt	\$ 309,806	\$ 388,110
Fair value:		
Accrued expenses		
Interest rate swaps	\$	\$ 391
Long-term debt (includes current portion)		
Senior secured term loan	\$	\$ 157,163
Senior subordinated notes		224,673
New Senior Secured Term Loan	297,121	
Bank term loan facility	3,627	
Capital equipment leases and other	9,058	7,947
Total long-term debt	\$ 309,806	\$ 389,783

Note 13 Commitments and Contingencies

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

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

The Company has agreements with certain officers and other employees of the Company. The agreements provide for termination benefits in the event of termination without cause, or in some instances, in the event of a change in control of the Company. The aggregate commitment for such potential future benefits at June 30, 2012 was approximately \$9.1 million.

Note 14 Business Combinations

On April 1, 2011, the Company acquired all the assets of Keystone Systems Inc., a Pennsylvania provider of software designed to help metal producers, including stainless steel and aluminum producers optimize their raw material inputs. The Company initially paid \$0.1 million, and

Edgar Filing: TMS International Corp. - Form 10-Q

could pay an additional \$0.3 million over the next three years subject to the achievement of certain operating performance targets. On the acquisition date, the previous employee of Keystone Systems Inc. became an employee of the Company's U.S. operating entity. The transaction was accounted for as a business combination under ASC 805. The Company recorded the acquired assets at their fair value, including intangibles of \$0.3 million and goodwill of \$0.1 million. The Company also recorded a liability for contingent consideration of \$0.3 million.

Note 15 Commercial Arbitration Award

On March 28, 2011, the Company was awarded \$13.2 million against a former customer in a commercial arbitration case brought under the parties' service agreement. The basis for the Company's claims was the refusal of the customer to negotiate required price increases.

Table of Contents

based on its change of practices and the customer's wrongful unilateral early termination of the agreement. The Company considers the arbitration award a contingent gain and therefore did not record a gain for the full amount of the award, but recorded income when the proceeds from the award were constructively received.

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

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

During the three months ended June 30, 2012 and June 30, 2011, the Company recorded \$3.0 million and \$1.0 million, respectively, against the arbitration award for cash payments and for the value of scrap commodities transferred to the Company by the Buyer Entities in lieu of cash payments. The Company incurred contingent legal fees related to the arbitration award of \$0.6 million and \$0.2 million during the three months ended June 30, 2012 and June 30, 2011, respectively. The fees were recognized in selling, general and administrative expense.

During the six months ended June 30, 2012 and June 30, 2011, the Company recorded \$5.1 million and \$1.0 million, respectively, against the arbitration award and incurred contingent legal fees of \$1.0 million and \$0.2 million, respectively.

Note 16 Related-Party Transactions

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

The Company incurred and paid management fees and expenses incurred to an affiliate of its majority owner, Onex Partners II LP, totaling \$0.5 million and \$0.6 million for the six months ended June 30, 2012 and 2011, respectively. The second quarter 2012 and 2011 amounts incurred were \$0.2 and \$0.3, respectively.

Note 17 Recent Accounting Pronouncements

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

Table of Contents

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

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

Introduction

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

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

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

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

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

Results of Operations. This section provides a discussion of our results of operations for the second quarter and six-month period ended June 30, 2012 compared to the second quarter and six-month period ended June 30, 2011.

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

Company Overview

We are the largest provider of outsourced industrial services to steel mills in North America as measured by revenue and have a substantial and growing international presence. We offer the most comprehensive suite of outsourced industrial services to the steel industry. Our employees and equipment are embedded at customer sites and are integral throughout the steel production process other than steel making itself. Our services are critical to our customers' 24-hour-a-day operations, enabling them to generate substantial operational efficiencies and cost savings while focusing on their core business of steel making. We operate at 82 customer sites in 11 countries across North America, Europe, Latin America, and the Middle East and our global raw materials procurement network spans five continents. Over the past 80 years we have established long-standing customer relationships and have served our top 10 customers, on average, for over 34 years. Our diversified customer base includes 12 of the top 15 largest global steel producers, including United States Steel, ArcelorMittal, Gerdau, Nucor, Baosteel, POSCO and Tata Steel.

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

Mill Services Group. The services provided under this segment are performed at our customer sites under long-term contracts. These contracts are typically structured on a fee-per-ton basis tied to production volumes at our customer sites and are not based on the underlying price of steel. In addition, our contracts typically include tiered pricing structures, with unit prices that increase as volumes decline, and/or minimum monthly fees, each of which stabilizes our revenue in the event of volume fluctuations. The services provided to our customers under this segment include: (1) scrap management and preparation; (2) semi-finished and finished material handling; (3) metal recovery and slag handling, processing and sales; and (4) surface conditioning. The revenues from these

Edgar Filing: TMS International Corp. - Form 10-Q

services appear in the line item Service Revenue on our statement of operations, and the costs associated therewith appear in Site Operating Costs on our statement of operations. Substantially all of our Capital Expenditures, whether Growth Capital Expenditures or Maintenance Capital Expenditures, are incurred in connection with the services provided by this segment. This segment also includes the results of operations at our location where we buy, process and sell scrap for our own account, which

Table of Contents

revenues appear in the line item Revenue from Sale of Materials on our statement of operations and the costs associated therewith appear in Cost of Raw Materials Shipments on our statement of operations. The Total Revenue and Cost of Raw Materials Shipments from this location will fluctuate based upon the underlying price of scrap.

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

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

Over the last five years, we have expanded from primarily generating our Revenue After Raw Materials Costs and Adjusted EBITDA from North America, to generating approximately 26% and 21% of our year to date 2012 Revenue After Raw Materials Costs and Adjusted EBITDA, respectively, internationally. We believe we have substantial international growth opportunities which will be driven by expansion of our market share and continued growth in outsourcing in developing markets, such as Latin America, Eastern Europe, Asia and the Middle East.

Initial Public Offering

Offering details and proceeds

In April 2011 we completed an initial public offering of 12,880,000 shares of our Class A Common Stock. A registration statement relating to these securities (File No. 333-166807) was filed with the Securities and Exchange Commission and declared effective on April 8, 2011. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC were the joint book runners for the initial public offering. On April 19, 2011, we issued and sold 9,200,000 shares of Class A Common Stock and certain of our stockholders sold 2,000,000 shares of Class A Common Stock. The shares were sold at a public offering price of \$13.00 per share, with an aggregate public offering price of \$145.6 million. The underwriting discount was \$0.845 per share, or \$9.5 million in total. The initial public offering generated \$111.8 million of proceeds to us before expenses and \$24.3 million of proceeds to the selling stockholders before expenses. We did not receive any proceeds from the sale of Class A Common Stock by the selling shareholders.

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

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

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

Table of Contents

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

Amendment to certificate of incorporation and stock split

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

Restricted Stock Plan grant and accelerated vesting

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

Long Term Incentive Plan

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

Certain Line Items Presented

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

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

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

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

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

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

Edgar Filing: TMS International Corp. - Form 10-Q

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

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

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

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

Table of Contents

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

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

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

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

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

Key Measures We Use to Evaluate Our Company

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

Revenue After Raw Materials Costs. We measure our sales volume on the basis of Revenue After Raw Materials Costs, which we define as Total Revenue minus Cost of Raw Materials Shipments. Revenue After Raw Materials Costs is not a recognized financial measure under GAAP, but we believe it is useful in measuring our operating performance because it excludes the fluctuations in the market prices of the raw materials we procure for and sell to our customers. We subtract the Cost of Raw Materials Shipments from Total Revenue because market prices of the raw materials we procure for and generally concurrently sell to our customers are offset on our statement of operations. Further, in our raw materials procurement business, we generally engage in two alternative types of transactions that require different accounting treatments for Total Revenue. In the first type, we take no title to the materials being procured and we record only our commission as revenue; in the second type, we take title to the materials and sell it to a buyer, typically in a transaction where a buyer and seller are matched. By subtracting the Cost of Raw Materials Shipments, we isolate the margin that we make on our raw materials procurement and logistics services, and we are better able to evaluate our operating performance in terms of the volume of raw materials we procure for our customers and the margin we generate.

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

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

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

Table of Contents

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

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

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

Application of Critical Accounting Policies

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

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

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

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

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

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

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

management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts.

Table of Contents

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

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

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

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

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

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

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

Share-Based Compensation. We adopted our Restricted Stock Plan in 2007. Under the plan, 25% of the shares granted vested immediately and the remainder were scheduled to vest in five annual equal installments, on the anniversary of the grant date, so long as the recipient remained an employee. Unvested shares that had not been forfeited were accelerated and vested upon completion of our initial public stock offering. ASC Topic 780 requires that share based payments be accounted for at their fair value on the date of grant or the date of the modification of a grant. On April 13, 2011, in connection with our IPO, we recognized \$0.7 million related to the accelerated vesting of 53,105 previously issued restricted shares. We also recognized \$0.6 million of expense related to 47,180 shares that were newly issued in connection with the IPO and vested immediately. The total of \$1.3 million was recognized as Share based compensation associated with initial public offering.

Table of Contents

During the second quarter of 2011, we established our Long-Term Incentive Plan and on April 13, 2011, we issued options to purchase 519,390 shares of our Class A Common Stock. The options had a total grant date fair value of \$3.5 million and the expense will be recognized over the estimated requisite service period of the recipients.

Results of Operations***Quarter ended June 30, 2012 compared to Quarter ended June 30, 2011***

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

(dollars in thousands)	Quarter ended		Variances	
	2012	June 30, 2011	\$	%
	(unaudited)			
Statement of Operations Data:				
Revenue:				
Revenue from Sale of Materials	\$ 533,034	\$ 552,781	\$ (19,747)	3.6%
Service Revenue	136,320	117,970	18,350	15.6%
Total Revenue	669,354	670,751	(1,397)	0.2%
Costs and expenses:				
Cost of Raw Materials Shipments	515,776	533,732	(17,956)	3.4%
Site Operating Costs	100,017	89,633	10,384	11.6%
Selling, General and Administrative Expenses	15,714	13,936	1,778	12.8%
Share based compensation associated with initial public offering		1,304	(1,304)	
Depreciation and Amortization	16,739	14,841	1,898	12.8%
Total costs and expenses	648,246	653,446	(5,200)	0.8%
Income from Operations	21,108	17,305	3,803	22.0%
Interest Expense, Net	(5,923)	(7,907)	1,984	25.1%
Income Before Income Taxes	15,185	9,398	5,787	61.6%
Income Tax Expense	(5,475)	(3,697)	(1,778)	48.1%
Net Income	\$ 9,710	\$ 5,701	\$ 4,009	70.3%
Other Financial Data:				
Revenue After Raw Materials Costs:				
Consolidated:				
Total Revenue	\$ 669,354	\$ 670,751	\$ (1,397)	
Cost of Raw Materials Shipments	(515,776)	(533,732)	17,956	
Revenue After Raw Materials Costs	\$ 153,578	\$ 137,019	\$ 16,559	12.1%
Mill Services Group:				
Total Revenue	\$ 182,597	\$ 167,764	\$ 14,833	
Cost of Raw Materials Shipments	(45,468)	(46,356)	888	
Revenue After Raw Materials Costs	\$ 137,129	\$ 121,408	\$ 15,721	12.9%

Edgar Filing: TMS International Corp. - Form 10-Q

Raw Material and Optimization Group:

Total Revenue	\$ 486,744	\$ 502,977	\$ (16,233)	
Cost of Raw Materials Shipments	(470,309)	(487,387)	17,078	
Revenue After Raw Materials Costs	\$ 16,435	\$ 15,590	\$ 845	5.4%

Administrative:

Total Revenue	\$ 13	\$ 10	\$ 3	
Cost of Raw Materials Shipments	1	11	(10)	
Revenue After Raw Materials Costs	\$ 14	\$ 21	(7)	

Adjusted EBITDA:

Net Income	\$ 9,710	\$ 5,701	\$ 4,009	
Income Tax Expense	5,475	3,697	1,778	
Interest Expense, Net	5,923	7,907	(1,984)	
Depreciation and Amortization	16,739	14,841	1,898	
Share based compensation associated with initial public offering		1,304	(1,304)	

Adjusted EBITDA	\$ 37,847	\$ 33,450	\$ 4,397	13.1%
-----------------	-----------	-----------	----------	-------

Adjusted EBITDA by Operating Segment:

Mill Services Group	\$ 35,440	\$ 29,966	\$ 5,474	18.3%
Raw Material and Optimization Group	11,645	11,288	357	3.2%
Administrative	(9,238)	(7,804)	(1,434)	18.3%
	\$ 37,847	\$ 33,450	\$ 4,397	13.1%

Adjusted EBITDA Margin	24.6%	24.4%	0.2%	
------------------------	-------	-------	------	--

Revenue from Sale of Materials. Revenue from Sale of Materials was \$533.0 million for the second quarter of 2012 compared to \$552.8 million for the second quarter of 2011. Revenue from Sale of Materials is primarily generated from raw material procurement

Table of Contents

activities, which produced \$485.0 million or 91% of the Revenue from Sale of Materials in the second quarter of 2012, and \$501.4 million or 91% in the second quarter of 2011. The remaining Revenue from Sale of Materials of \$48.0 million in the second quarter of 2012 and \$51.4 million in the second quarter of 2011 was primarily generated by our Mill Services Group location where we buy, process and sell raw material for our own account.

Revenue from the Sale of Materials decreased 3.6% and the cost to procure the materials decreased by 3.4% in the second quarter of 2012 compared to the second quarter of 2011. The total volume of material we procured or arranged for our customers in the second quarter of 2012 was approximately equal to the second quarter of 2011. However, a portion of the volume we procure or arrange for our customers includes shipments where we do not take title and only record a commission or fee for arranging the shipments. Excluding the tonnage related to such arrangements, which have a minimal effect on our Revenue from Sale of Materials, our shipments increased approximately 6%. The increase in volume was more than offset by a decrease in the price of materials we procured for our customer which drove both the decline in Revenue from the Sale of Materials and the decrease in Cost of Scrap Shipments. The price of #1 Heavy Melt, an indicative grade of scrap, decreased approximately 7% year-over-year.

Service Revenue. Service Revenue was \$136.3 million in the second quarter of 2012 compared to \$118.0 million in the second quarter of 2011, an increase of 15.6%. Service Revenue is primarily generated by our Mill Services Group which produced \$134.6 million and \$116.4 million in the second quarter of 2012 and 2011, respectively. The Mill Services Group accounted for approximately 99% of Service Revenue in each period, with the remainder generated by optimization services from our Raw Material and Optimization Group.

Our Service Revenue is largely generated on the basis of the volume of steel our customers produce, although service contracts typically include base monthly fees and/or tiered pricing arrangements. Our Service Revenue increased 15.6% year-over-year, which was primarily driven by new business and Service Revenue related to an arbitration award settlement stemming from a loss of revenue that resulted when a former customer shut down operations at a site prior to the end of our service contract. See Note 15 Commercial Arbitration Award for a discussion of the arbitration award settlement (the Arbitration Award Settlement). Factors that impact the year-over-year change in Service Revenue also impact the change in Revenue After Raw Materials Costs and are discussed below.

Cost of Raw Materials Shipments. Similar to the 3.6% decrease in Revenue from the Sale of Materials, the Cost of Raw Materials Shipments decreased 3.4% due predominantly to a decrease in the price of raw materials. The average composite price of #1 Heavy Melt Scrap during the second quarter of 2012 was \$384 per ton compared to \$411 per ton in the second quarter of 2011.

Revenue After Raw Materials Costs. Revenue After Raw Materials Costs for our Mill Services Group increased \$15.7 million, or 12.9%, to \$137.1 million in the second quarter of 2012 compared to \$121.4 million in the second quarter of 2011. We generated \$12.7 million in additional revenue from new contracts outside of the United States and Canada, including five new sites and a cross-sold service at an existing site. Within the U.S. and Canada, we generated an incremental \$2.4 million of Service Revenue from our largest U.S. site due largely to incremental production at the facility. Additionally, in the second quarter of 2012, we recorded \$3.1 million of Service Revenue related to the Arbitration Award Settlement. We recorded \$1.0 million of Service Revenue related to the Arbitration Award Settlement in the second quarter of 2011. See Note 15 Commercial Arbitration Award for a further discussion of the Arbitration Award Settlement and its current procedural status.

The Revenue After Raw Materials Costs for our Raw Material and Optimization Group increased \$0.8 million, or 5.4%, to \$16.4 million. The per ton margin on our raw material procurement activity increased approximately 6% driven by margins improvements in one domestic channel of business. The increase in our per ton margins drove the year-over-year increase in Revenue After Raw Materials Costs for our Mill Services Group as the tonnage we procured for and sold to our customers was approximately equal year-over-year.

Site Operating Costs. Site Operating Costs are primarily the costs incurred by our Mill Services Group in providing services to our customers. Site Operating Costs are largely variable and generally vary in-line with our customers' production and our Service Revenue. Site operating costs increased \$10.4 million year-over-year, or 11.6%. New international sites and contracts contributed \$8.5 million of additional site operating costs in the second quarter of 2012 compared to the second quarter of 2011. Generally, new sites will incur some operating and overhead costs in advance of generating revenue in order to ramp-up operations as well as hire and train the workforce. Labor and fringe benefit costs increased \$1.4 million, or approximately 2.7%.

Table of Contents

Selling, General and Administrative Expenses. Selling, General and Administrative Expenses for the second quarter of 2012 were \$15.7 million, compared to \$13.9 million in the second quarter of 2011, an increase of \$1.8 million. The increase resulted from a \$0.9 million increase in our performance-based compensation accrual and a \$1.4 million increase in salaries, wages and fringe benefit costs due to higher headcount largely dedicated to supporting growth. These increases were partially offset by a \$0.5 million decrease in our non-income tax expense as we benefitted from a value added tax refund.

Adjusted EBITDA. Adjusted EBITDA for the second quarter of 2012 was \$37.8 million compared to \$33.5 million for the second quarter of 2011, an increase of 13.1%.

Our Mill Services Group's Adjusted EBITDA increased \$5.5 million, or 18.3%, to \$35.4 million. Year-over-year, new sites and contracts provided \$4.0 million of additional Adjusted EBITDA. Additionally, increased revenue at one large domestic site and two international sites helped to generate an additional \$1.8 million of Adjusted EBITDA. Adjusted EBITDA also benefited from recognizing \$2.4 million from the arbitration award settlement compared to \$0.8 million in the second quarter of 2011. See Note 15 Commercial Arbitration Award for a further discussion of the Arbitration Award Settlement and its current procedural status. These favourable impacts were partially offset by the results of the domestic locations where we buy, process and sell scrap for our own account, where Adjusted EBITDA declined \$1.3 million year-over-year, including a \$0.4 million charge to state inventories at their net realizable value.

Our Raw Material and Optimization Group's Adjusted EBITDA increased by \$0.4 million, or 3.2%. Our per ton margins on material we procured or arranged for our customers increased, driven primarily by a margin increase in one domestic channel of business. Year-over-year the volume we procured or arranged for our customers was relatively consistent. The increase in per ton margins was achieved in spite of a \$0.9 million charge to reduce the carrying value of Raw Materials and Optimization Group inventory to its net realizable value.

Our Administrative net expenses increased \$1.4 million, or 18.3%, in the second quarter of 2012 compared to the second quarter of 2011. The increase was primarily due to higher performance-based compensation accruals and severance costs.

Adjusted EBITDA Margin. Adjusted EBITDA margin in the second quarter of 2012 was 24.6% compared to 24.4% in the second quarter of 2011. The increase was mainly due to the EBITDA generated from the results of our new service contracts and the arbitration award settlement. These favorable variances were partially offset by the decrease in EBITDA at the domestic locations where we buy, process and sell scrap for our own account, where results were impacted by difficult market conditions and by a \$1.3 million charge to state our inventories at their net realizable value due to a decline in the market price of scrap and raw materials in June, 2012.

Depreciation and Amortization. Depreciation and amortization expense during the second quarter of 2012 was \$16.7 million compared to \$14.8 million in the second quarter of 2011, an increase of approximately 12.8%. The increase was driven by higher Growth Capital Expenditures in 2012 compared to 2011. Amortization expense for the second quarter of 2012 was comparable to that incurred in the second quarter of 2011.

Interest Expense, Net. Interest Expense, Net for the second quarter of 2012 was \$5.9 million, compared to \$7.9 million in the second quarter of 2011, a decrease of \$2.0 million. This decrease is due to lower average outstanding debt balances and underlying interest rates resulting from our 2012 refinancing.

Income Tax Expense. Income Tax Expense for the second quarter of 2012 was \$5.5 million, or 36% of our pre-tax income, compared to a \$3.7 million expense, or 39.3% of our pre-tax income, in the second quarter of 2011. The Income Tax Expense for the second quarter of 2012 is based on an estimated annual effective rate, which requires us to make our best estimate of expected pre-tax income for the year. The estimated effective tax rate differs from the statutory rate due principally to state taxes, permanent differences related to non-deductible marketing expenses, valuation allowances on foreign tax credits and other items which were slightly lower relative to forecast 2012 pre-tax book income than they were in the second quarter of 2011.

Table of Contents**Results of Operations*****Six months ended June 30, 2012 compared to six months ended June 30, 2011***

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

(dollars in thousands)	Six months ended		Variances	
	2012	June 30, 2011		
		(unaudited)		\$
Statement of Operations Data:				
Revenue:				
Revenue from Sale of Materials	\$ 1,145,693	\$ 1,104,736	\$ 40,957	3.7%
Service Revenue	270,620	229,975	40,645	17.7%
Total Revenue	1,416,313	1,334,711	81,602	6.1%
Costs and expenses:				
Cost of Raw Materials Shipments	1,106,836	1,062,458	44,378	4.2%
Site Operating Costs	201,862	174,197	27,665	15.9%
Selling, General and Administrative Expenses	32,975	30,001	2,974	9.9%
Share based compensation associated with initial public offering		1,304	(1,304)	
Depreciation and Amortization	32,958	29,702	3,256	11.0%
Total costs and expenses	1,374,631	1,297,662	76,969	5.9%
Income from Operations	41,682	37,049	4,633	12.5%
Interest Expense, Net	(14,024)	(16,584)	2,560	-15.4%
Loss on early extinguishment of debt	(12,300)		(12,300)	
Income Before Income Taxes	15,358	20,465	(5,107)	-25.0%
Income Tax Expense	(5,536)	(8,547)	3,011	35.2%
Net Income	\$ 9,822	\$ 11,918	\$ (2,096)	-17.6%
Other Financial Data:				
Revenue After Raw Materials Costs:				
Consolidated:				
Total Revenue	\$ 1,416,313	\$ 1,334,711	\$ 81,602	
Cost of Raw Materials Shipments	(1,106,836)	(1,062,458)	(44,378)	
Revenue After Raw Materials Costs	\$ 309,477	\$ 272,253	\$ 37,224	13.7%
Mill Services Group:				
Total Revenue	\$ 362,668	\$ 327,244	\$ 35,424	
Cost of Raw Materials Shipments	(89,179)	(88,754)	(425)	
Revenue After Raw Materials Costs	\$ 273,489	\$ 238,490	\$ 34,999	14.7%
Raw Material and Optimization Group:				
Total Revenue	\$ 1,053,615	\$ 1,007,433	\$ 46,182	

Edgar Filing: TMS International Corp. - Form 10-Q

Cost of Raw Materials Shipments	(1,017,647)	(973,720)	(43,927)	
Revenue After Raw Materials Costs	\$ 35,968	\$ 33,713	\$ 2,255	6.7%
Administrative:				
Total Revenue	\$ 30	\$ 34	\$ (4)	
Cost of Raw Materials Shipments	(10)	16	(26)	
Revenue After Raw Materials Costs	\$ 20	\$ 50	\$ (30)	
Adjusted EBITDA:				
Net Income	\$ 9,822	\$ 11,918	\$ (2,096)	
Income Tax Expense	5,536	8,547	(3,011)	
Interest Expense, Net	14,024	16,584	(2,560)	
Loss on early extinguishment of debt	12,300		12,300	
Depreciation and Amortization	32,958	29,702	3,256	
Share based compensation associated with initial public offering		1,304	(1,304)	
Adjusted EBITDA	\$ 74,640	\$ 68,055	\$ 6,585	9.7%
Adjusted EBITDA by Operating Segment:				
Mill Services Group	\$ 67,857	\$ 59,969	\$ 7,888	13.2%
Raw Material and Optimization Group	26,260	25,968	292	1.1%
Administrative	(19,477)	(17,882)	(1,595)	8.9%
	\$ 74,640	\$ 68,055	\$ 6,585	9.7%

Adjusted EBITDA Margin 24.1% 25.0% 0.9%

Revenue from Sale of Materials. Revenue from Sale of Materials was \$1,145.7 million for the six-month period ending June 30, 2012 compared to \$1,104.7 million for the six-month period ending June 30, 2011. Revenue from Sale of Materials is primarily generated from raw material procurement activities, which produced \$1,050 million, or 92%, of the Revenue from Sale of Materials in the six-month period ending June 30, 2012, and \$1,004.1 million, or 91%, in the six-month period ending June 30, 2011. The remaining Revenue from Sale of Materials of \$95.7 million in the six-month period ending June 30, 2012 and \$100.7 million in the six-month period ending June 30, 2011 was primarily generated by our Mill Services Group location where we buy, process and sell raw material for our own account.

Table of Contents

Revenue from Sale of Materials increased by 3.7% in the six-month period ending June 30, 2012 compared to the six-month period ending June 30, 2011. The total volume of material we procured or arranged for our customers in the first six months of 2012 was approximately equal to the first six months of 2011. However, a portion of the volume we procure or arrange for our customers includes shipments where we do not take title and only record a commission or fee for arranging the shipments. Excluding the tonnage related to such arrangements, which have a minimal effect on our Revenue from Sale of Materials, our shipments increased approximately 7%. The increase in Revenue from the Sale of Materials from the additional procured volume was partially offset by a decrease in the market price of scrap and other raw materials. The composite price of #1 Heavy Melt, an indicative grade of scrap, decreased approximately 4% year-over-year. Changes in market price have a corresponding impact on our Cost of Scrap Shipments and generally do not affect our Revenue after Cost of Scrap Shipments.

Service Revenue. Service Revenue was \$270.6 million in the six-month period ending June 30, 2012, compared to \$230.0 million in the six-month period ending June 30, 2011. Service Revenue is primarily generated by our Mill Services Group which produced \$267.0 million and \$226.6 million in the six-month periods ending June 30, 2012 and June 30, 2011, respectively. The Mill Services Group accounted for approximately 99% of Service Revenue in each period, with the remainder generated by optimization services from our Raw Material and Optimization Group.

Our Service Revenue is largely generated on the basis of the volume of steel our customers produce, although service contracts typically include base monthly fees and/or tiered pricing arrangements. While steel produced by our customers, excluding customers where we have been operating under a contract for less than one year, increased 2% year-over-year, our Service Revenue increased \$40.6 million, or 17.7%. The increase in Service Revenue was primarily driven by new contract wins both internationally and domestically.

Cost of Raw Materials Shipments. Cost of Raw Materials Shipments increased 4.2% in the first six months of 2012 compared to the first six months of 2011. The increase was attributable to the same factors that drove the increase in Revenue from the Sale of Materials including an increase in volume of material procured for our customers (excluding those tons where we do not take title and earn only a commission) and a higher value mix of products we procured for our customers. The average composite price of #1 Heavy Melt Scrap during the six-month period ending June 30, 2012 was \$397 per ton, compared to \$414 per ton in the six-month period ending June 30, 2011.

Revenue After Raw Materials Costs. Revenue After Raw Materials Costs for our Mill Services Group increased \$35.0 million, or 14.7%, to \$273.5 million in the six-month period ending June 30, 2012 compared to the six-month period ending June 30, 2011. We generated \$25.7 million in additional Service Revenue from new contracts outside the United States and Canada, including five new sites and a cross-sold service at an existing site. Within the U.S., we generated an incremental \$6.1 million of Service Revenue from two of our largest sites due to incremental volume produced by our customers. Additionally, we recorded \$5.1 million of Service Revenue related to an arbitration award settlement stemming from the shutdown of operations at a previous customer site prior to the end of our service contract. A successor entity acquired the site's business, assumed the liability for the arbitration award, and became our new customer. In addition to cash payments, our new customer agreed to compensate us through discounted or forgiven payments for trade transactions over a period of time. Comparatively, we recorded \$1.0 million of related Service Revenue in the six month period ending June 30, 2011. The successor entity filed for bankruptcy on May 31, 2012 and we expect that we will not earn additional amounts under the arbitration awards and certain amounts we had received under the award might be subject to avoidance actions in the bankruptcy proceedings.

Revenue After Raw Materials Costs for our Raw Material and Optimization Group increased \$2.3 million, or 6.7%, to \$36.0 million. The volume of raw materials we procured and arranged was consistent year-over-year. The increase in the Group's Revenue After Raw Materials Costs was driven by an increase in our per ton margin which was achieved in spite of a \$0.9 million charge in June 2012 that was necessary to record inventory at net realizable value. A sizeable increase in the margin of one domestic channel of business drove the overall increase in the per ton margin.

Site Operating Costs. Site Operating Costs are primarily the costs incurred by our Mill Services Group in providing services to our customers. These costs are largely variable and are generally correlated with our customers' production levels. Site Operating Costs increased by \$27.7 million year-over-year, or approximately 15.9%. New sites and contracts contributed \$18.8 million of additional site operating costs in the six-month period ended June 30, 2012 as compared to the six-month period ended June 30, 2011. Labor and fringe benefit costs increased \$5.3 million and fuel and other petroleum-based supply costs increased \$1.2 million.

Selling, General and Administrative Expenses. Selling, General and Administrative Expenses for the six-month period ending June 30, 2012 were \$33.0 million, compared to \$30.0 million in the six-month period ending June 30, 2011, an increase of 9.9%. Of the increase, \$1.0 million related to higher performance-based compensation accrual and \$2.8 million related to salaries, wages and fringe benefit costs for new raw material procurement staff as well as additional administrative headcount to support our international expansion. The increase in selling, general and administrative expenses was partially offset by a value added tax refund of \$0.5 million. The refund, received in May 2012, related to a first quarter 2011 assessment. At the time of the assessment, we were uncertain as to whether or not we would recover the VAT and we recorded a reserve of \$0.5 million. That reserve was relieved when we received the refund.

Edgar Filing: TMS International Corp. - Form 10-Q

Adjusted EBITDA. Adjusted EBITDA for the six-month period ending June 30, 2012 was \$74.6 million compared to \$68.0 million for the six-month period ending June 30, 2011, an increase of \$6.6 million or 9.7%.

Table of Contents

Our Mill Services Group's Adjusted EBITDA increased \$7.9 million, or 13.2%, to \$67.9 million. The increase in Adjusted EBITDA was driven by a 2% increase in the volume of steel produced by our customers and \$6.5 million of incremental EBITDA associated with new customer contracts. Adjusted EBITDA also benefitted from recognizing \$4.1 million related to an arbitration award settlement compared to \$0.8 million in the second quarter of 2011. The award stemmed from a loss of revenue that resulted when a former customer shut down operations at a site prior to the end of our service contract. A successor entity has acquired the site's business, assumed the arbitration award liability, and become our new customer. In addition to cash payments, our new customer agreed to compensate us through discounted or forgiven payments for trade transactions over a period of time. The successor entity filed for bankruptcy on May 31, 2012 and we expect that we will not earn additional amounts under the arbitration awards and certain amounts we had received under the award might be subject to avoidance actions in the bankruptcy proceedings. Additionally increased revenue at one large domestic site and two international sites helped to generate an additional \$1.8 million of Adjusted EBITDA. These favorable impacts were partially offset by the results of our domestic location where we buy, process and sell scrap for our own account, where Adjusted EBITDA declined \$3.3 million year-over-year, including a \$0.4 million charge to state inventories at their net realizable value.

Our Raw Material and Optimization Group's Adjusted EBITDA increased \$0.3 million or 1.1% to \$26.3 million. Our per ton margins on material we procured or arranged for our customers increased, driven primarily by a margin increase in one domestic channel of business. Year-over-year the volume we procured or arranged for our customers was relatively consistent. The increase in per ton margins was achieved in spite of a \$0.9 million charge to reduce the carrying value of Raw Materials and Optimization Group inventory to its net realizable value in June 2012 and \$1.8 million of certain adjustments and a legal settlement of accounts with a trade partner which was recorded in the six month period ending June 30, 2011 which are non-recurring in nature.

Our Administrative net expenses increased \$1.6 million in the six-month period ending June 30, 2012 to \$19.5 million, compared to the six-month period ending June 30, 2011. The increase was primarily the result of higher performance-based compensation accruals and severance costs.

Adjusted EBITDA Margin. Our Adjusted EBITDA margin decreased from 25.0% in the six-month period ending June 30, 2011 to 24.1% during the six-month period ending June 30, 2012. The decline was mainly due to the decrease in EBITDA at the domestic locations where we buy, process and sell scrap for our own account, a \$1.3 million charge to state our inventories at their net realizable value due to a decline in the market price of scrap and raw materials in June, 2012 and the impact of the overhead costs associated with the ramp-up and administrative support of new international business. These negative impacts were partially offset by EBITDA generated from the arbitration award settlement and the operating results of our new international business.

Depreciation and Amortization. Depreciation and amortization expense during the six-month period ending June 30, 2012 was \$33.0 million compared to \$29.7 million in the six-month period ending June 30, 2011, an increase of 11.0%. The increase is the result of higher Growth Capital Expenditures in 2012 versus 2011 primarily at our new Mill Services Group sites. Amortization expense for the six-month period ending June 30, 2012 was comparable to that incurred in the six-month period ending June 30, 2011.

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

Interest Expense, Net. Interest Expense, Net for the six-month period ending June 30, 2012 was \$14.0 million, compared to \$16.6 million for the six-month period ending June 30, 2011, a decrease of \$2.6 million. This decrease is due to lower average outstanding debt balances and lower underlying interest rates resulting from our 2012 refinancing.

Income Tax Expense. Income Tax Expense for the six-month period ending June 30, 2012 was \$5.5 million, or 36.0% of our pre-tax income, compared to \$8.5 million of expense, or 41.8% of our pre-tax income in the six-month period ending June 30, 2011. The Income Tax Expense for the six months of 2012 is based on an estimated annual effective rate, which requires us to make our best estimate of expected pre-tax income for the year. The estimated effective tax rate differs from the statutory rate due principally to state taxes, permanent differences related to non-deductible marketing expenses, valuation allowances on foreign tax credits and other items which were slightly lower relative to forecast 2012 pre-tax book income than they were in the first six months of 2011.

Liquidity and Capital Resources

Edgar Filing: TMS International Corp. - Form 10-Q

The eligible accounts receivable and eligible inventory that comprise the collateral under the ABL facility as of June 30, 2012 supported a gross borrowing base of approximately \$208.7 million. Our excess available balance was \$190.4 million as we had issued and outstanding borrowing of \$0.2 million and \$18.1 million of outstanding letters of credit. The gross borrowing base was approximately \$141.3 million below the \$350.0 million limit of the ABL facility. The ABL facility also allows for eligible equipment to provide borrowing base capacity under the facility and, with the senior secured term loan due 2014 extinguished, the ABL facility has a first lien on our domestic and Canadian equipment. The Company expects to add an additional approximately \$103.0 million of equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with the agent for the ABL lenders.

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

Table of Contents**Cash Flow**

The nature of our procurement activities is such that the amount we invest in inventories and our accounts receivable may significantly vary at any given point in time. Cash flow provided by operating activities in the six-month period ending June 30, 2012 was \$64.9 million compared to cash used by operations of \$14.0 million in the six-month period ending June 30, 2011. Working capital items provided \$6.3 million of cash in the first six months of 2012 compared to using \$65.6 million in the first six months of 2011. Significant changes in working capital items generally relate to our raw material procurement activities and while we work to manage the timing of disbursements and collections, our working capital levels fluctuate, sometimes significantly, over reporting periods. Additionally, we may, from time to time, invest in our working capital in order to take advantage of opportunities to realize higher than normal margins in our Raw Material and Optimization Group.

Net cash used in investing activities in the six-month period ending June 30, 2012 was \$55.4 million, of which \$38.1 million funded Growth Capital Expenditures and \$17.4 million funded Maintenance Capital Expenditures. In the six-month period ending June 30, 2011, our net cash used by investing activities consisted primarily of \$8.1 million of Growth Capital Expenditures and \$17.9 million of Maintenance Capital Expenditures. Generally, our Maintenance Capital Expenditures will vary with our customer production as the schedule of assets and major components replacement is highly correlated with equipment operating hours.

Net cash used for financing activities in the first six months of 2012 was \$91.9 million, mainly comprised of amounts paid to reduce our overall indebtedness as part of our March 2012 refinancing and the issuance and termination fees associated with that refinancing. We received \$297.0 million in proceeds from our new Term Loan Facility and paid off \$223.0 million of senior subordinated notes and \$157.2 million outstanding on our senior secured term loan due 2014. We also incurred \$13.7 million of debt issuance and termination fees associated with the transaction. In addition to the proceeds of our new senior secured term loan, we used available cash and a \$30.0 million draw on our ABL facility to consummate the March 20, 2012 refinancing. During the second quarter of 2012, we paid down our ABL facility with cash on hand by \$25.0 million. Net cash used by financing activities during the first six months of 2011 consisted of primarily \$44.2 million of debt repayments, which included a \$42.2 million prepayment on our Series 2008 Promissory Notes.

Discretionary Cash Flow

During the six-month period ending June 30, 2012 we generated \$57.2 million of Discretionary Cash Flow compared to \$50.2 in the first six months of 2011. We define Discretionary Cash Flow as Adjusted EBITDA less Maintenance Capital Expenditures and it is calculated as follows for the periods indicated (in thousands):

	Six months ended	
	June 30, 2012	June 30, 2011
Adjusted EBITDA	\$ 74,640	\$ 68,055
Maintenance Capital Expenditures	(17,420)	(17,904)
Discretionary Cash Flow	\$ 57,220	\$ 50,151

The increase in Maintenance Capital Expenditures was driven by our improved operating results and the fact that we have been able to achieve that improvement with a comparable level of Maintenance Capital Expenditures.

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

	Six months ended	
	June 30, 2012	June 30, 2011
Discretionary Cash Flow	\$ 57,220	\$ 50,151
Maintenance Capital Expenditures	17,420	17,904
Cash interest expense	(20,773)	(16,020)

Edgar Filing: TMS International Corp. - Form 10-Q

Cash income taxes	(1,953)	(686)
Change in accounts receivable	4,673	(123,657)
Change in inventory	(5,162)	(27,476)
Change in account payable	10,323	92,157
Change in other current assets and liabilities	4,603	(5,924)
Other operating cash flows	(1,437)	(481)
Net cash provided by (used in) operating activities	\$ 64,914	\$ (14,032)

Table of Contents**Working Capital**

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

	2009	2010	2011	6 months -2011	6 months -2012
Weighted average per ton price of #1 Heavy Melt Scrap	\$ 209	\$ 384	\$ 411	\$ 414	\$ 397

Of note, while the weighted average price of #1 Heavy Melt averaged \$397 per ton for the six months ending June 30, 2012, the price fell to \$348 per ton at the end of June 2012.

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

During the six-month period ending June 30, 2012, our accounts receivable decreased \$4.9 million, or 1.7%, to \$287.7 million, and our inventory increased \$5.2 million, or 9.2%, to \$61.5 million, in each case compared to the levels present at December 31, 2011. Our accounts payable increased \$10.3 million during the same period. We generally expect that movements in accounts receivable and inventory will be offset by movements in accounts payable driven by the volume and market price of the raw materials we procure for our customers. However, for the six months ending June 30, 2012 this was not the case. Our accounts receivable decreased and our accounts payable increased each generating a positive cash flow impact. A decrease in days sales outstanding and a slight increase in days payable drove favorable cash flow from both accounts receivable and accounts payable. The increase in inventory was caused by an increase in the volume of inventory we had on hand. Working capital movements during the six-month period ending June 30, 2011 were more in line with typical trends as the negative cash flow impacts from increases in accounts receivable and inventory were partially offset by the positive cash flow impact of an increase in accounts payable all of which was driven by the increase in the volume and market price of the raw materials we procured for our customers. During the first six months of 2011, our accounts receivable increased \$123.3 million, or 59.5%, and our inventory increased by \$27.5 million, or 71.1%. The cash invested in these items was partially offset by an increase in accounts payable of \$74.8 million, or 42.1%.

Forward Looking Statements

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

counterparties to agreements with us may not perform their obligations;

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

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

Edgar Filing: TMS International Corp. - Form 10-Q

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

we may see increased costs arising from health care reform;

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

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

we face significant competition in the markets we serve;

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

Item 3. Quantitative and Qualitative Disclosure about Market Risks

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

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

Inflation and Changing Prices

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

Interest Rate Risk

Our financing agreements include a variable rate term loan with an outstanding balance of \$300 million at June 30, 2012 and a \$350 million variable rate, asset-based, revolving line of credit. At June 30, 2012, we had \$0.2 million in outstanding revolving borrowings. Assuming no changes in variable rate borrowings from the amounts outstanding at June 30, 2012, a hypothetical 1.0% change in underlying variable rates would change our annual Interest Expense and cash flow from operations by approximately \$3.0 million.

Foreign Currency Risk

Movements in foreign currency exchange rates may affect the translated value of our earnings and cash flows associated with our foreign operations as well as the translation of net asset or liability positions that are denominated in foreign currencies. For the six months ended June 30, 2012, we derived approximately 70.8% of our Revenue After Raw Materials Costs from providing services and products to steel mills in the United States. In countries outside the United States, we generate revenue and incur operating expenses denominated in local currencies. We are exposed to changes in the value of the U.S. dollar relative to the Euro, Canadian dollar, British pound, Serbian dinar, Mexican peso, Trinidad/Tobago dollar, New Taiwan dollar, Bahraini dinar, United Arab Emirates dirham and the South African rand. For the six months ended June 30, 2012, we generated approximately \$10.2 million of Income from Operations in foreign currencies. On an annual basis, we expect operating income in these countries would decrease or increase by approximately \$2.0 million if all foreign currencies uniformly weaken or strengthen 10% relative to the U.S. dollar. As part of our growth strategies discussed above and elsewhere in this Quarterly Report, we are seeking to increase our operations overseas with the possibility that such operations will increase our foreign currency risk. We also plan to employ strategies, when appropriate, to mitigate foreign currency risk, and such strategies may include the use of derivative financial instruments.

Commodity Risk

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

We also purchase commodities for use in our operations, most notably diesel fuel. We consume approximately eight to 11 million gallons of diesel fuel annually, and we incurred \$26.1 million in fuel and other petroleum-based supplies costs for the six months ended June 30, 2012. We estimate that a 10% change in the price of fuel would affect Income from Operations by approximately \$5.2 million per year. To help mitigate the risk of changes in fuel and other commodity risks, our contracts typically provide for price adjustments based on published price indices which pass defined increases or decreases in key operating costs through to our customers. However, the timing of the impact of changes in commodity prices will generally precede the impact of a price adjustment mechanism. For example, changes in commodity prices in 2012 would likely change the indices used to calculate the 2013 price adjustment mechanism.

Item 4. Controls and Procedures

The Company's senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is

Table of Contents

recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

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

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

Table of Contents

PART II Other Information

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I,

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

Table of Contents

Item 6. Exhibits

Exhibit Number	Description of Exhibit
10.1	Credit Agreement, dated as of March 20, 2012, among Tube City IMS Corporation, as borrower, Metal Services Holdco, LLC and Tube City IMS, LLC, as guarantors, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to TMS International Corp. s Quarterly Report on Form 10-Q, filed May 8, 2012, File No. 001-35128).
10.2	Credit Agreement, dated as of December 15, 2011, among Tube City IMS Corporation, certain subsidiaries of Tube City IMS Corporation from time to time party thereto as borrowers, the guarantors from time to time party thereto, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to TMS International Corp. s Annual Report on Form 10-K, filed February 21, 2012, File No. 001-35128).
10.3	First Amendment, dated April 13, 2012, to TMS International Corp. Nonstatutory Option Agreement by and between TMS International Corp. and Joseph Curtin dated April 13, 2011 (incorporated herein by reference to Exhibit 10.3 to TMS International Corp. s Quarterly Report on Form 10-Q, filed May 8, 2012, File No. 001-35128).
10.4	TMS International Corp. Nonstatutory Option Agreement, dated April 13, 2012, by and between TMS International Corp. and Joseph Curtin (incorporated herein by reference to Exhibit 10.4 to TMS International Corp. s Quarterly Report on Form 10-Q, filed May 8, 2012, File No. 001-35128).
10.5	First Amendment, dated April 13, 2012, to TMS International Corp. Nonstatutory Option Agreement by and between TMS International Corp. and Thomas E. Lippard dated April 13, 2011 (incorporated herein by reference to Exhibit 10.5 to TMS International Corp. s Quarterly Report on Form 10-Q, filed May 8, 2012, File No. 001-35128).
10.6	TMS International Corp. Nonstatutory Option Agreement, dated April 13, 2012, by and between TMS International Corp. and Thomas E. Lippard (incorporated herein by reference to Exhibit 10.6 to TMS International Corp. s Quarterly Report on Form 10-Q, filed May 8, 2012, File No. 001-35128).
31.1	Certification of Chief Executive Officer pursuant to Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	XBRL data file

filed herewith.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Glassport, Commonwealth of Pennsylvania, on August 9, 2012.

TMS International Corp. and Subsidiaries

By: /s/ Joseph Curtin
Joseph Curtin
President, Chief Executive Officer and Director (Principal
Executive Officer)

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

(Principal Financial Officer)