

TMS International Corp.
Form 10-Q
May 08, 2013
[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 March 31, 2013

or

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

For the transition period from _____ to _____.

TMS INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

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001-35128
(Commission

Delaware
(State or other jurisdiction of

20-5899976
(I.R.S. Employer

File Number)

incorporation or organization)
12 Monongahela Avenue

Identification No.)

P.O. Box 2000

Glassport, PA 15045

(412) 678-6141

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

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

14,727,085 shares of Class A Common Stock, \$0.001 par value per share, and 24,550,356 shares of Class B Common Stock, \$0.001 par value per share, were outstanding as of the close of business on May 2, 2013.

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>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	2
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosure about Market Risks</u>	35
Item 4.	<u>Controls and Procedures</u>	36

PART II Other Information

Item 1A.	<u>Risk Factors</u>	37
Item 6.	<u>Exhibits</u>	38
	<u>Signatures</u>	39

Table of Contents

Explanatory Note

Unless the context otherwise indicates or requires, as used in this report for the quarterly period ended March 31, 2013 (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)**

	Quarter ended March 31,	
	2013 (Unaudited)	2012 (Unaudited)
Revenue:		
Revenue from Sale of Materials	\$ 453,630	\$ 612,659
Service Revenue	135,965	134,299
Total Revenue	589,595	746,958
Costs and Expenses:		
Cost of Raw Materials Shipments	433,791	591,058
Site Operating Costs	101,668	101,846
Selling, General and Administrative Expenses	15,821	17,261
Depreciation	15,796	13,166
Amortization	3,083	3,053
Total Costs and Expenses	570,159	726,384
Income from Operations	19,436	20,574
Interest Expense, Net	(5,973)	(8,101)
Loss from equity investment	(43)	
Loss on Modification and Early Extinguishments of debt	(1,102)	(12,300)
Income Before Income Taxes	12,318	173
Income Tax Expense	(4,261)	(60)
Net Income	8,057	113
Net loss attributable to noncontrolling interests	6	298
Net income attributable to TMS International Corp. common stock	\$ 8,063	\$ 411
Net Income per Share:		
Basic	\$ 0.21	\$ 0.01
Diluted	\$ 0.21	\$ 0.01
Average Common Shares Outstanding:		
Basic	39,277,441	39,255,973
Diluted	39,330,737	39,255,973

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 COMPREHENSIVE INCOME (LOSS)****(in thousands of dollars)**

	TMS International		Noncontrolling Interests		Total	
	Quarter ended		Quarter ended		Quarter ended	
	March 31		March 31		March 31	
	2013	2012	2013	2012	2013	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 8,063	\$ 411	\$ (6)	\$ (298)	\$ 8,057	\$ 113
Other comprehensive income, net of tax:						
Changes in foreign currency translation	(4,067)	4,359	(114)	102	(4,181)	4,461
Net change from periodic revaluations		(6)				(6)
Net amount reclassified to earnings	342	246			342	246
Total other comprehensive (loss) income, net of tax	(3,725)	4,599	(114)	102	(3,839)	4,701
Comprehensive income (loss)	\$ 4,338	\$ 5,010	\$ (120)	\$ (196)	\$ 4,218	\$ 4,814

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

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

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,276	\$ 26,936
Accounts receivable, net of allowance for doubtful accounts of \$2,951 and \$3,038, respectively	280,251	280,472
Inventories	58,956	50,520
Prepaid and other current assets	21,254	22,757
Deferred tax asset	7,108	7,485
Total current assets	397,845	388,170
Property, plant and equipment, net	217,933	214,668
Equity investment	2,192	2,235
Deferred financing costs, net of accumulated amortization of \$2,327 and \$1,863, respectively	9,348	10,069
Goodwill	241,554	242,669
Other intangibles, net of accumulated amortization of \$74,842 and \$72,012, respectively	146,661	147,885
Other noncurrent assets	4,087	4,098
Total assets	\$ 1,019,620	\$ 1,009,794
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 252,351	\$ 251,941
Salaries, wages and related benefits	23,612	29,274
Current taxes payable	408	964
Accrued expenses	17,363	18,284
Revolving bank borrowings	13,500	
Current portion of long-term debt	7,492	8,395
Total current liabilities	314,726	308,858
Long-term debt	303,563	303,657
Loans from noncontrolling interests	3,094	4,341
Deferred tax liability	60,066	58,192
Other noncurrent liabilities	26,285	27,704
Total liabilities	707,734	702,752
Stockholders' equity:		
Class A Common Stock; 200,000,000 shares authorized, \$0.001 par value per share; 14,578,332 and 14,564,928 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	14	14
Class B Common Stock; 30,000,000 shares authorized, \$0.001 par value per share; 24,699,109 and 24,712,513 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively.	25	25
Capital in excess of par value	436,985	436,359
Accumulated deficit	(114,091)	(122,154)
Accumulated other comprehensive loss	(12,688)	(8,963)
Total TMS International Corp. stockholders' equity	310,245	305,281
Noncontrolling interests	1,641	1,761

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Total stockholders' equity	311,886	307,042
Total liabilities and stockholders' equity	\$ 1,019,620	\$ 1,009,794

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)

	Three months ended March 31,	
	2013 (unaudited)	2012 (unaudited)
Cash flows from operating activities:		
Net Income	\$ 8,057	\$ 113
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation and Amortization	18,879	16,219
Amortization of deferred financing costs and original issue discount	617	747
Deferred income tax	2,907	(4)
(Recovery) provision for bad debts	(87)	226
Gain (loss) on the disposal of equipment	43	(165)
Non-cash share-based compensation cost	626	322
Equity loss	43	
Loss on modification and early extinguishment of debt	1,102	12,300
Increase (decrease) from changes in:		
Accounts receivable	308	(47,247)
Inventories	(8,436)	(14,257)
Prepaid and other current assets	58	5,604
Other noncurrent assets	11	(348)
Accounts payable	410	48,905
Accrued expenses	(7,139)	(14,227)
Other noncurrent liabilities	(1,078)	99
Other, net	(1,517)	1,503
Net cash provided by operating activities	14,804	9,790
Cash flows from investing activities:		
Capital Expenditures	(20,579)	(33,153)
Software and systems expenditures	(2,366)	(71)
Proceeds from sale of equipment	78	271
Contingent payment for acquired business		(131)
Cash flows related to IU International, net		(27)
Net cash used in investing activities	(22,867)	(33,111)
Cash flows from financing activities:		
Revolving credit facility borrowing (repayments), net	13,500	25,142
Debt issuance and termination fees	(772)	(13,630)
Repayment of debt	(3,185)	(380,732)
Proceeds from debt issuance, net of original issue discount	2,250	297,000
Payments to acquire noncontrolling interest		(231)
Borrowings from noncontrolling interests		1,917
Contributions from noncontrolling interest		269
Net cash provided by (used in) financing activities	11,793	(70,265)
Effect of exchange rate on cash and cash equivalents	(390)	232
Cash and cash equivalents:		
Net increase (decrease) in cash	3,340	(93,354)

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Cash at beginning of period	26,936	108,830
Cash at end of period	\$ 30,276	\$ 15,476

The accompanying notes are an integral part of these condensed 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 81 customer sites in 12 countries and has a raw materials procurement network that extends to five continents. The Company's primary services include: (i) scrap management and preparation, (ii) semi-finished and finished material handling, (iii) metal recovery and slag handling, processing and sales, (iv) surface conditioning, (v) raw materials procurement and logistics and (vi) proprietary software-based raw materials cost optimization.

Note 2 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For the three-month period ending March 31, 2012, \$0.2 million dollars of selling, general and administrative expenses were recorded as an increase to non-current liabilities. The amount was subsequently reclassified as an increase to other comprehensive income and accumulated other comprehensive income. Operating results for the first three months ended March 31, 2013 and 2012 are not necessarily indicative of the results that may be expected for future periods.

Note 3 Earnings per Share

The calculation of basic net income (loss) 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 table below reconciles the basic weighted average shares outstanding to the dilutive weighted average shares outstanding for the periods indicated:

	Quarter ended March 31	
	2013	2012
Basic average common shares outstanding	39,277,441	39,255,973
Dilutive effect of stock options outstanding	53,296	
Diluted average common shares outstanding	39,330,737	39,255,973

As of March 31, 2013, options to purchase 1,360,960 shares of Class A Common Stock were issued and outstanding. The dilutive impact of those options is calculated using the treasury stock method.

Note 4 Inventories

Inventories consisted of the following (in thousands):

	March 31, 2013 (unaudited)	December 31, 2012
Scrap iron and steel	\$ 20,013	\$ 26,183
Goods in transit	26,345	11,926
Spare parts and supplies	12,598	12,411

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Total inventories	\$ 58,956	\$ 50,520
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Note 5 Income Taxes

The income tax expense for the three months ended March 31, 2013 and 2012 reflects a year-to-date effective tax rate of 34.6% and 34.9%, respectively, and a 2013 estimated annualized effective tax rate, excluding discrete items, of 30.2%. The income tax expense for the three months ended March 31, 2013 is based on an estimated annual effective rate, which requires management to make its best estimate of expected pre-tax income for the year. The difference between the estimated annualized effective tax rate and the year-to-date effective tax rate is caused by discrete items including the immediate recognition of the anticipated impact of a tax law change in South Africa. The expense recorded reflects management's current best estimate of the effect of the law change, but may be subject to further adjustment as we continue to analyze the expected application of the new law. The estimated effective tax rates for 2013 and 2012 differ from the United States federal statutory rate of 35.0% due principally to state taxes, foreign taxes and permanent differences related to nondeductible marketing expenses.

Table of Contents**Accounting for Uncertainty in Income Taxes**

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

Note 6 Debt

Debt is summarized as follows (in thousands):

	March 31, 2013 (unaudited)	December 31, 2012
ABL facility	\$ 13,500	\$
Senior secured term loan due 2019, net of original issue discount \$2,438 and \$2,664, respectively	296,812	295,086
Loans from noncontrolling interests	3,094	4,341
Bank term loan facility	12,917	14,958
Capital equipment leases, installment notes and other	1,326	2,008
Total indebtedness	\$ 327,649	\$ 316,393

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

	March 31, 2013 (unaudited)	December 31, 2012
Revolving borrowings	\$ 13,500	\$
Current portion of long-term debt	7,492	8,395
Long-term debt	303,563	303,657
Loans from noncontrolling interests	3,094	4,341
Total indebtedness	\$ 327,649	\$ 316,393

2013 Repricing Amendment

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

Pursuant to the Amendment, the applicable margin used to calculate the amount of interest payable on borrowings under the Amended Term Loan has been reduced. Prior to the amendment, borrowings under the Existing Term Loan Agreement bore interest at a rate equal to an applicable margin plus, at TCIMS's option, either (a) a base rate calculated in a customary manner (which would never be less than the adjusted Eurodollar rate plus 1%) or (b) an adjusted Eurodollar rate calculated in a customary manner (with a floor of 1.25%). The applicable margin under the Existing Term Loan Agreement was 3.50% per annum with respect to base rate borrowings and 4.50% per annum with respect to Eurodollar rate borrowings. Pursuant to the Amendment, the applicable margin has been amended to be 2.75% with respect to base rate borrowings and 3.75% with respect to Eurodollar rate borrowings, and the interest rate floor with respect to Eurodollar rate borrowings has been reduced to 1.00%.

Table of Contents

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

2012 Refinancing

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

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

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

Asset-Based Revolving Credit Facility

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

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

As of March 31, 2013, the eligible accounts receivable, inventory and equipment that comprise the collateral under the ABL facility supported a gross borrowing base of \$275.5 million. At March 31, 2013, there was \$13.5 million in borrowings drawn under the ABL facility and \$49.2 million letters of credit outstanding against the facility, leaving a net available balance of \$212.8 million. The ABL facility allows for eligible equipment to provide borrowing base capacity under the facility and the ABL lenders have a first lien on the domestic and Canadian equipment of the Company. The Company expects to add up to approximately \$20 million of additional equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with the agent for the ABL lenders. The Company believes the ABL facility and other sources of liquidity are adequate to fund its operations, but is carefully monitoring the global economic environment and its impact on its customers' procurement volumes, which could affect its liquidity.

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

Table of Contents

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

In the 2012 refinancing described above, the Term Loan Facility replaced TCIMS' then existing senior secured term loan credit facility among TCIMS, Metal Services, certain other subsidiaries party thereto, Credit Suisse (a/k/a Credit Suisse AG, Cayman Islands Branch), as administrative agent and collateral agent, and the other agents and lenders party thereto from time to time. No prepayment penalties or fees were assessed in connection with the prepayment of the existing term loan facility, which was due to mature on January 25, 2014.

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

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

The Term Loan Facility amortizes in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount thereof, with any remaining balance payable on the final maturity date of the Term Loan Facility, which is March 20, 2019. TCIMS may prepay amounts outstanding under the Term Loan Facility at any time. If such prepayment is made as a result of certain refinancing or repricing transactions within one year following the closing date, TCIMS will be required to pay a fee equal to 1.00% of the principal amount of the

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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.

Table of Contents

After the March 21, 2013 Amendment, borrowings under the Term Loan Facility bear interest at a rate equal to an applicable margin plus, at TCIMS option, either (a) a base rate calculated in a customary manner (which will never be less than the adjusted eurodollar rate plus 1%) or (b) an adjusted eurodollar rate calculated in a customary manner (with a floor of 1.00%). The applicable margin is 2.75% per annum with respect to base rate borrowings and 3.75% per annum with respect to eurodollar rate borrowings.

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

Loans From Noncontrolling Interest

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

Bank Term Loan Facility

In addition to equity and loan funding from its shareholders, the Company's South African subsidiary (the South African Subsidiary) has entered into a term loan agreement with a South African bank (Bank term loan facility). The South African Subsidiary received 30.0 million Rand (\$3.6 million USD) in proceeds in the second quarter of 2012 and 100.0 million Rand (\$11.5 million USD) in proceeds in the fourth quarter of 2012 from such loan. The loan carries interest at the South African prime rate minus 0.8% and is payable in South African Rand. The loan is subject to financial covenants based on the results of operations of the South African Subsidiary. The loan is non-recourse to the Company and to any subsidiary or affiliate of the Company other than the South African Subsidiary.

Capital Leases

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

Note 7 Derivative Financial Instruments and Fair Values

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

Interest Rate Risk

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

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		

Accounting for Derivative Instruments and Hedging

Activities Topic of FASB ASC	Balance Sheet Location	March 31, 2013	December 31, 2012
Interest rate swaps	Other noncurrent liabilities	\$	\$

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

The Company recognized the following amounts related to its derivatives for the first quarter ended March 31, 2013 and 2012, respectively (in thousands):

	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
Derivatives in the Accounting for Derivative Instruments and Hedging Activities Topic of FASB	Quarter ended March 31,		Quarter ended March 31,
ASC Cash Flow Hedging Relationship	2013	2012	
Interest rate swaps	\$	\$ (7)	Interest Expense \$ 247

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.

Table of Contents

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

Note 8 Stockholders Equity*Common Stock*

As of March 31, 2013, there were 14,578,332 shares of Class A Common Stock and 24,699,109 shares of Class B Common Stock outstanding. There were 14,564,928 shares of Class A Common Stock and 24,712,513 outstanding at December 31, 2012.

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

Accumulated Other Comprehensive income (loss)

The changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2013 are as follows:

<i>In thousands</i>	Foreign currency translation	Pension and post retirement benefit plans	Total
Balance at December 31, 2012	\$ (1,402)	\$ (7,561)	\$ (8,963)
Other comprehensive income Before reclassifications	(4,067)		(4,067)
Amounts reclassified from accumulated other comprehensive income		342	342
Net current-period other comprehensive income	(4,067)	342	(3,725)
Balance at March 31, 2013	\$ (5,469)	\$ (7,219)	\$ (12,688)

The amounts reclassified from accumulated other comprehensive income were charged to selling, general and administrative expenses.

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

In April 2011, the Company adopted the TMS International Corp. Long-Term Incentive Plan and registered 1,558,170 shares of Class A Common Stock to be available for awards. The plan provides for grants of stock-based awards to key employees and non-employee directors. The Company has had three grants of stock options under the Long Term Incentive Plan. On April 13, 2011, the date of the Company's initial public offering, the Company granted 519,390 stock options. On April 13, 2012, the Company granted 386,500 stock options and on February 18, 2013, the Company granted 508,300 stock options. Each grant vests over four years with 10% vesting on the first anniversary date of the grant, 20% on the second anniversary, 30% on the third anniversary and 40% on the fourth anniversary. In addition to the time based vesting requirement, one-half the total grant is also subject to a market based exercisability requirement: For those options to be exercisable, the share price of the Company's Class A Common Stock must close at 115% or more of the exercise price of the option on the day immediately preceding the exercise of the option. The 2011 grant has an exercise price of \$13.00 per option and half the award is exercisable only when the stock price is \$14.95 per share or greater. The 2012 grant has an exercise price of \$11.18 and half the award is exercisable only when the stock price is \$12.86 or greater. The 2013 grant has an exercise price of \$13.35 and half the award is exercisable only when the stock price is \$15.36 or greater.

Table of Contents

For that portion of the awards that is subject to time based vesting only, the Company used the Black-Scholes option pricing model to value the options. The expected term of grant was determined using a safe harbor calculation provided in SAB 107 for entities without extensive historical data. The term is calculated as the mid-point between the vesting period and the contractual term of the option. The risk free interest rate was determined for each vesting tranche of an award based upon the calculated yield on U.S. Treasury obligations for the expected term of the award. The expected forfeiture rate was estimated based on forfeiture experience in the Company's previous share based compensation plans. For the option grants in 2011 and 2012, the expected volatility was estimated based on the average volatility of the stock price of peer group companies that were identified based on their market capitalization, industry, stage of life cycle and capital structure. For the option grants in 2013 the expected volatility was estimated using a combination of peer group companies and the Company's own historical volatility for the period from its initial public offering in April 2011 through the 2013 grant date.

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

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

	2013 Grant		2012 Grant		2011 Grant	
	Time based vesting only	Time based vesting + market criteria	Time based vesting only	Time based vesting + market criteria	Time based vesting only	Time based vesting + market criteria
Options granted	254,150	254,150	193,250	193,250	259,695	259,695
Exercise price	\$ 13.35	\$ 13.35	\$ 11.18	\$ 11.18	\$ 13.00	\$ 13.00
Minimum stock price for exercise	N/A	\$ 15.36	N/A	\$ 12.86	N/A	\$ 14.95
Weighted average fair value of grant	\$ 7.42	\$ 7.16	\$ 5.77	\$ 5.73	\$ 6.84	\$ 6.78
Total fair value of options granted (in thousands)	\$ 1,885	\$ 1,819	\$ 1,115	\$ 1,107	\$ 1,776	\$ 1,761
Risk free rate	1.27%	2.09%	1.27%	2.08%	2.59%	3.42%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected forfeiture rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Expected volatility	57.59%	53.26%	52.41%	49.16%	50.87%	48.32%
Expected term in years	6.50	6.58	6.50	6.59	6.50	6.59

The Company is recognizing the expense related to the time based only vesting options using the accelerated method. The Company is recognizing the expense related to the market based options by amortizing each individual tranche over the estimated requisite service period. During the three-month period ended March 31, 2013 and March 31, 2012, the Company recognized \$0.6 million and \$0.3 million, respectively, in share based compensation expense related to options issued under the Long Term Incentive Plan.

As of March 31, 2013 there were 1,360,960 stock options outstanding, of which 47,836 were vested. Of the vested total, 23,918 are subject to a performance condition and may only be exercised if the price of the Company's common stock closes at \$14.95 or higher on the day before exercise.

Table of Contents

Long Term Incentive Plan Restricted Shares

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

On July 11, 2012, the Company granted 21,468 shares of Class A Common Stock to independent members of its board of directors. The shares granted to a director will vest if the recipient remains installed on the Company's board of directors on the day immediately prior to the Company's 2013 annual stockholder meeting. Once vested, the recipient will have the right to sell 40% of the shares immediately, but the remaining 60% will be restricted from sale or transfer for three years after the vesting date. The shares were valued at \$9.54 per share, which was the closing price on the date of grant. The Company recognized \$0.1 million of share based compensation expense related to the award during the first quarter of 2013. As of March 31, 2013, the 21,468 shares that had been granted remained outstanding and unvested.

Note 10 Operating Segments

The Company has two reportable 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):

	Quarter ended March 31,	
	2013 (unaudited)	2012 (unaudited)
Revenues, net of inter-segment revenues		
Mill Services Group	\$ 172,351	\$ 180,070
Raw Material and Optimization Group	417,190	566,872
Administrative Group	54	16
	\$ 589,595	\$ 746,958

Adjusted earnings before interest, taxes, depreciation and amortization

Mill Services Group	\$ 32,750	\$ 32,417
Raw Material and Optimization Group	13,769	14,615
Administrative Group	(8,247)	(10,239)
	\$ 38,272	\$ 36,793

Depreciation and Amortization

Mill Services Group	\$ 16,783	\$ 14,109
Raw Material and Optimization Group	86	90
Administrative Group	2,010	2,020
	\$ 18,879	\$ 16,219

	March 31, 2013 (unaudited)	December 31, 2012
Total assets		
Mill Services Group	\$ 735,119	\$ 720,942
Raw Material and Optimization Group	313,215	315,884
Administrative Group	(28,714)	(27,032)
	\$ 1,019,620	\$ 1,009,794

	Quarter ended March 31,	
	2013 (unaudited)	2012 (unaudited)
Percentage of total revenue contributed by each class of service:		
Mill Services Group	29.2%	24.1%
Raw Material and Optimization Group	70.8%	75.9%

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

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	Quarter ended March 31,	
	2013 (unaudited)	2012 (unaudited)
Adjusted earnings before interest, taxes, depreciation and amortization	\$ 38,272	\$ 36,793
Less: Depreciation and Amortization	(18,879)	(16,219)
Interest Expense	(5,973)	(8,101)
Loss on Modification and Early Extinguishment of debt	(1,102)	(12,300)
Income Before Income Taxes	\$ 12,318	\$ 173

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):

	Quarter ended March 31,	
	2013	2012
	(unaudited)	(unaudited)
U.S. plans		
Service cost	\$	\$
Interest cost	221	242
Expected return on plan assets	(305)	(308)
Net amortization	301	226
Net periodic pension costs-U.S. plans	217	160
Canadian plans		
Service cost	59	53
Interest cost	61	63
Expected return on plans assets	(51)	(52)
Net amortization	15	11
Net periodic pension costs-Canadian plans	84	75
Other plans		
Defined contribution	1,075	1,092
Multi-employer pension plans	1,453	1,409
Total other plans	2,528	2,501
Total net pension expense	\$ 2,829	\$ 2,736

The Company's contributions to its defined benefit pension plans for the three months ended March 31, 2013 and 2012 were \$0.1 million and \$0.5 million, respectively.

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

	Quarter ended March 31,	
	2013	2012
	(unaudited)	(unaudited)
Service cost	\$ 83	\$ 76
Interest cost	73	78
Net amortization	26	17
Net periodic costs	\$ 182	\$ 171

The Company does not expect to contribute to the other post-employment benefit plan in 2013 and intends to pay benefit claims as they become due. For the three months ended March 31, 2013 and March 31, 2012 other post-employment benefit payments were not material.

Note 12 Fair Value of Financial Instruments

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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 capital expenditure loans 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):

	March 31, 2013 (unaudited)	December 31, 2012
Carrying value of financial instruments in:		
Long-term debt (includes current portion)		
Senior secured term loan due 2019, net of original issue discount	\$ 296,812	\$ 295,086
Bank term loan facility	12,917	14,958
Capital equipment leases, installment notes and noncontrolling partner loan	4,420	6,349
Total long-term debt	\$ 314,149	\$ 316,393
Fair value:		
Long-term debt (includes current portion)		
Senior secured term loan due 2019, net of original issue discount	\$ 296,812	\$ 295,086
Bank term loan facility	12,917	14,958
Capital equipment leases, installment notes and noncontrolling partner loan	4,420	6,349
Total long-term debt	\$ 314,149	\$ 316,393

Note 13 Commitments and Contingencies

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

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

The Company has agreements with certain officers and other employees. The agreements provide for termination benefits in the event of termination without cause, or in some instances, in the event of a change in control of the Company. The aggregate commitment for such potential future benefits at March 31, 2013 was approximately \$8.3 million.

Note 14 Commercial Arbitration Award

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

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

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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

Table of Contents

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

During the three months ended March 31, 2013, the Company recorded no amounts related to the arbitration award. During the three months ended March 31, 2012, the Company recorded \$2.0 million against the arbitration award and incurred related contingent legal fees of \$0.3 million.

Note 15 Related-Party Transactions

The Company incurred and paid management fees and expenses incurred to an affiliate of its majority owner, Onex Partners II LP, totaling \$0.3 million and \$0.3 million for the three months ended March 31, 2013 and 2012, respectively.

Note 16 Recent Accounting Pronouncements

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

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

Note 17 Subsequent Event

On April 25, 2013, the Company announced approval of the initiation of a quarterly cash dividend. The first dividend of \$0.10 per share will be payable on July 3, 2013 to stockholders of record as of the close of business on May 16, 2013. This is the first dividend declared by the company since its initial public offering in April 2011.

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 quarter ended March 31, 2013 compared to the quarter ended March 31, 2012.

Liquidity and Capital Resources. This section provides an analysis of our cash flows for the three-month period ending March 31, 2013 compared to the three-month period ended March 31, 2012. This section also includes a discussion of our liquidity and Capital Expenditures.

Company Overview

We are the largest provider of outsourced industrial services to steel mills in North America as measured by revenue and have a substantial and growing international presence. We offer the most comprehensive suite of outsourced industrial services to the steel industry. Our employees and equipment are embedded at customer sites and are integral throughout the steel production process other than steel making itself. Our services are critical to our customers' 24-hour-a-day operations, enabling them to generate substantial operational efficiencies and cost savings while focusing on their core business of steel making. We operate at 81 customer sites in 12 countries across North America, Europe, Latin America and the Middle East and our global raw materials procurement network spans five continents. Over the past 80 years we have established long-standing customer relationships and have served our top 10 customers, on average, for over 35 years. Our diversified customer base includes 12 of the top 15 largest global steel producers, including United States Steel, ArcelorMittal, Gerdau, Nucor, Baosteel, POSCO and Tata Steel.

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

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

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services appear in the line item Service Revenue on our statement of operations, and the costs associated therewith appear in Site Operating Costs on our statement of operations. Substantially all of our Capital Expenditures, whether Growth Capital Expenditures or Maintenance Capital Expenditures, are incurred in connection with the services provided by this segment. This segment also includes the results of operations at our location where we buy, process and sell scrap for our own account, which revenues are included in the line item Revenue from Sale of Materials on our statement of operations and the costs associated therewith appear in Cost of Raw Materials Shipments on our statement of operations. This location represented 3% of the Mill Services Group's Adjusted EBITDA for the three months ended March 31, 2013. The Total Revenue and Cost of Raw Materials Shipments from this location will fluctuate based upon the underlying price of scrap.

Table of Contents

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

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

Over the last five years, we have expanded from primarily generating our *Revenue After Raw Materials Costs* and Adjusted EBITDA from North America, to generating approximately 28% and 27% of our first quarter 2013 *Revenue After Raw Materials Costs* and Adjusted EBITDA, respectively, outside of the U.S. and Canada. We believe we have substantial international growth opportunities which will be driven by expansion of our market share and continued growth in outsourcing in developing markets, such as Latin America, Eastern Europe, Africa, Asia and the Middle East.

Certain Line Items Presented

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

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

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

For the three months ended March 31, 2013, approximately 8% of our Revenue from Sale of Materials was generated by our Mill Services Group, and approximately 92% of our Revenue from Sale of Materials was generated by the raw materials procurement activities of our Raw Material and Optimization Group.

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

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

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

Table of Contents

For the three months ended March 31, 2013, approximately 99% of our Service Revenue was generated by our Mill Services Group, and approximately 1% of our Service Revenue was generated by our Raw Material and Optimization Group.

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

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

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

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

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

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

Income (Loss) from Operations. Income (Loss) from Operations consists of Total Revenue less Total Costs and Expenses but does not include loss on modification and early extinguishment of debt, equity investments, Interest Expense, Net and certain other items that we believe are not indicative of future results.

Key Measures We Use to Evaluate Our Company

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

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

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

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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.

Table of Contents

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

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

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

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

Application of Critical Accounting Policies

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

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

Revenue from Sale of Materials is mainly generated by our raw materials procurement business, although it also includes revenue from our Mill Services Group location where we buy, process and sell scrap for our own account.

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

Revenue from Sale of Materials

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

(1) Transactions where we purchase raw materials from a supplier and sell the raw materials to a customer, for which we invoice the customer for the full sale price of the goods. In this first type of transaction model, it is common for us to arrange for a sale to our customer and a matching purchase from our vendor almost simultaneously. During the three months ended March 31, 2013, approximately 91% of the Company's raw material procurement activity by volume was made under this transaction model; and,

Table of Contents

(2) Transactions where we arrange delivery of raw materials shipments to a customer directly from a supplier, for which we earn a contractually determined, volume based arranging fee. In this second type of transaction, we invoice the customer for our arranging fee (but not for the sale price of the goods, which is paid directly by the customer to the vendor). During the three months ended March 31, 2013, approximately 9% of the Company's raw material procurement activity by volume was transacted under this model.

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

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

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

We recognize revenue from raw materials procurement sales when title and risk of loss pass to the customer, which can be either F.O.B. shipping point or F.O.B. destination depending on terms of sale, or when we have the right to receive the contractual fee. Revenues from these sources are included in Revenue from Sale of Materials. During the three months ended March 31, 2013, approximately 91% of the Company's raw material procurement activity by volume was made under the transaction model where the Company purchases raw materials from a supplier and sells the material to the customer acting as a principal in the transaction. During the three months ended March 31, 2013, approximately 9% of the Company's raw material procurement activity by volume was transacted where the Company arranged for delivery of raw material for a customer directly from a vendor earning a contractually determined volume-based fee acting as an agent in the transaction. The volume-based fee is recorded as Revenue From Sale of Materials and there is no corresponding Cost of Raw Material Shipment in this transaction model.

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

Service Revenue

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

As of March 31, 2013, the Mill Services Group and the Raw Material and Optimization Group had \$161.5 million and \$80.1 million of goodwill, respectively. The 2012 annual goodwill impairment test, as of October 1, 2012, indicated that the estimated fair value of our Mill Services Group and our Raw Material and Optimization Group exceeded their carrying values by approximately 86% and 153%, respectively. The estimates of fair value of a reporting unit under the income approach are based on a discounted cash flow analysis which requires us to make various judgmental assumptions, including assumptions about the timing and amount of future cash flows, growth rates and discount rates. If business conditions change or other factors have an adverse effect on our estimates of discounted future cash flows, assumed growth rates or discount rates, future tests of goodwill impairment may result in additional impairment charges.

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

Impairment of Long-Lived Assets. Long-lived assets, including property, plant and equipment and amortizable intangible assets, are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived 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. During 2012, we substantially liquidated the assets of one of our foreign subsidiaries. ASC 830-30-40-1 requires that upon substantial liquidation, amounts that had previously been charged to the cumulative translation adjustment be reported in current earnings. Accordingly, we recorded a \$0.4 million charge in the fourth quarter of 2012.

Grants from Government Agencies. We recognize receivables for grants from government agencies when we are reasonably assured that the amounts will be received and when the conditions necessary to receive that grant have been fully achieved. We recognize the benefit of government grants in our statement of operations on a systematic and rational basis over the periods of consumption or commitment as applicable. In 2012, we received direct notice from the Department of Trade and Industry of the Republic of South Africa that we have met the conditions and will receive grants totaling approximately \$5.2 million. The grant was for a combination of asset investment and job creation and saving and because there were multiple conditions to receiving the grant, we determined the appropriate treatment for the grant is to record the amount as deferred revenue and recognize it in revenue ratably over the life of our service contracts. For the three months ended March 31, 2013, we recognized \$0.8 million and in the fourth quarter of 2012, we recognized \$0.7 million related to the first year of our seven year contracts.

Health Insurance. We provide health insurance to a portion of our employees through premium-based indemnity plans or nationalized health care plans that may require employer contributions. We provide health insurance to the rest of our employees under a self-insurance plan that uses a third-party administrator to process and administer claims. We have stop-loss coverage through an insurer, in excess of a stated self-insured limit per employee. We maintain an accrual for unpaid claims and claims incurred but not reported. In March 2010, the Patient

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

Table of Contents

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

Share-Based Compensation. We established our Long-Term Incentive Plan in 2011. We account for share based payments under the plan at the fair value of the award on the date of grant or the date of modification of a grant. For grants that are subject to time-based vesting only, we recognize expense over the vesting period. For grants that are subject to time based vesting and a market condition, we recognize expense over the estimate requisite service period.

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

Results of Operations***Quarter ended March 31, 2013 compared to Quarter ended March 31, 2012***

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

(dollars in thousands)	Quarter ended March 31,		Variances	
	2013	2012	\$	%
(unaudited)				
Statement of Operations Data:				
Revenue:				
Revenue from Sale of Materials	\$ 453,630	\$ 612,659	\$ (159,029)	-26.0%
Service Revenue	135,965	134,299	1,666	1.2%
Total Revenue	589,595	746,958	(157,363)	-21.1%
Costs and expenses:				
Cost of Raw Materials Shipments	433,791	591,058	(157,267)	-26.6%
Site Operating Costs	101,668	101,846	(178)	-0.2%
Selling, General and Administrative Expenses	15,821	17,261	(1,440)	-8.3%
Depreciation and Amortization	18,879	16,219	2,660	16.4%
Total costs and expenses	570,159	726,384	(156,225)	-21.5%
Income from Operations	19,436	20,574	(1,138)	-5.5%
Interest Expense, Net	(5,973)	(8,101)	2,128	-26.3%
Loss from equity investment	(43)		(43)	
Loss on Early Extinguishment of Debt	(1,102)	(12,300)	11,198	
Income Before Income Taxes	12,318	173	12,145	
Income Tax Expense	(4,261)	(60)	(4,201)	
Net Income	\$ 8,057	\$ 113	\$ 7,944	

Other Financial Data:

Revenue After Raw Materials Costs:

Consolidated:

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Total Revenue	\$ 589,595	\$ 746,958	\$ (157,363)	
Cost of Raw Materials Shipments	(433,791)	(591,058)	157,267	
Revenue After Raw Materials Costs	\$ 155,804	\$ 155,900	\$ (96)	-0.1%
Mill Services Group:				
Total Revenue	\$ 172,351	\$ 180,070	\$ (7,719)	

Table of Contents

(dollars in thousands)	Quarter ended March 31,		Variances	
	2013 (unaudited)	2012	\$	%
Cost of Raw Materials Shipments	(35,389)	(43,711)	8,322	
Revenue After Raw Materials Costs	\$ 136,962	\$ 136,359	\$ 603	0.4%
Raw Material and Optimization Group:				
Total Revenue	\$ 417,190	\$ 566,872	\$ (149,682)	
Cost of Raw Materials Shipments	(398,394)	(547,339)	148,945	
Revenue After Raw Materials Costs	\$ 18,796	\$ 19,533	\$ (737)	-3.8%
Administrative:				
Total Revenue	\$ 54	\$ 16	\$ 38	
Cost of Raw Materials Shipments	(8)	(10)	2	
Revenue After Raw Materials Costs	\$ 46	\$ 6	\$ 40	
Adjusted EBITDA:				
Net Income	\$ 8,057	\$ 113	\$ 7,944	
Income Tax Expense	4,261	60	4,201	
Interest Expense, Net	5,973	8,101	(2,128)	
Loss on Early Extinguishment of Debt	1,102	12,300	(11,198)	
Depreciation and Amortization	18,879	16,219	2,660	
Adjusted EBITDA	\$ 38,272	\$ 36,793	\$ 1,479	4.0%
Adjusted EBITDA by Operating Segment:				
Mill Services Group	\$ 32,750	\$ 32,417	\$ 333	1.0%
Raw Materials and Optimization Group	13,769	14,615	(846)	-5.8%
Administrative	(8,247)	(10,239)	1,992	-19.5%
	\$ 38,272	\$ 36,793	\$ 1,479	4.0%
Adjusted EBITDA Margin	24.6%	23.6%		

Revenue from Sale of Materials. Revenue from Sale of Materials was \$453.6 million for the first quarter of 2013 compared to \$612.7 million for the first quarter of 2012. Revenue from Sale of Materials is primarily generated from raw material procurement activities, which produced \$415.5 million or 92% of the Revenue from Sale of Materials in the first quarter of 2013, and \$565.0 million or 92% in the first quarter of 2012. The remaining Revenue from Sale of Materials of \$38.1 million in the first quarter of 2013 and \$47.7 million in the first quarter of 2012 was primarily generated by our Mill Services Group location where we buy, process and sell raw material for our own account.

Revenue from the Sale of Materials decreased 26.0%, and the cost to procure the materials decreased by 26.6% in the first quarter of 2013 compared to the first quarter of 2012. The decrease was driven by both a decrease in the market price of the raw materials we procure for and sell to our customers and by a decrease in the volume of material we procured or arranged for our customers. The market price of #1 heavy melt, an indicative grade of scrap, decreased approximately 14% in the first quarter of 2013 compared to the first quarter of 2012. The volume of material we procured or arranged for our customers also decreased driven by a 20% decrease in large vessel shipments and a decrease in our non-contractual domestic activity caused by lower steel production year-over-year.

Service Revenue. Service Revenue was \$136.0 million in the first quarter of 2013 compared to \$134.3 million in the first quarter of 2012, an increase of 1.2%. Service Revenue is primarily generated by our Mill Services Group which produced \$134.2 million and \$132.4 million in the first quarter of 2013 and 2012, respectively. The Mill Services Group accounted for approximately 99% of service revenue in each period, with the remainder generated by optimization services from our Raw Material and Optimization Group.

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Our Service Revenue is largely generated on the basis of the volume of steel our customers produce, although service contracts typically include base monthly fees and/or tiered pricing arrangements. Our service revenue increased 1.2% year-over-year despite a drop in steel production by our customers of approximately 6% on a same site basis. The increase in our service revenue was largely driven by \$6.7 million in revenue from new sites and services which was partially offset by a decrease of \$2.0 million related to an Arbitration Award that was recognized in the first quarter of 2012. Factors that impact the year-over-year change in Service Revenue also impact the change in Revenue After Raw Materials Costs and are discussed below.

Cost of Raw Materials Shipments. Similar to the 26.0% decrease in Revenue from the Sale of Materials, the Cost of Raw Materials Shipments decreased 26.6% due predominantly to a decrease in the price of materials we procured for and sold to our customers and a market-driven volume decrease.

Table of Contents

Revenue After Raw Materials Costs. The Revenue After Raw Materials Costs for our Mill Services Group increased \$0.6 million, or 0.4%, in the first quarter of 2013 compared to the first quarter of 2012. Year-over-year Revenue After Raw Materials Costs increased due to new sites and services which contributed \$6.7 million of incremental revenue, \$4.7 million of which was generated from new international sites and services. This increase was partially offset by a \$1.2 million decrease in Service Revenue related to three contracts in the U.S. and Canada that were not renewed and a \$0.4 million decrease from the cancellation of a contract in Serbia after our customer sold the mill to the Serbian government. Additionally, in the first quarter of 2012 we recognized \$2.0 million of Revenue After Raw Materials Costs related to an arbitration award settlement stemming from the shutdown of operations at a previous customer site prior to the end of our service contract. The remaining decline of \$1.3 million was partially the result of a decrease in our customers' steel production volumes of approximately 6%.

The Revenue After Raw Materials Costs for our Raw Material and Optimization group decreased \$0.7 million, or 3.8%, to \$18.8 million. The volume of material we procured for our customers decreased approximately 17%. Approximately 33% of the overall decline in volume related to non-exclusive domestic customers due in part to a decrease in domestic steel production volumes which was down about 6% year-over-year. Additionally, a contractual change with a customer for whom we are the exclusive purchaser of scrap drove approximately 60% of the total volume decrease. However, the contractual change with that customer also improved our per ton margins which helped to offset the impact on our Revenue After Raw Materials Costs. Including a \$1.1 million favorable non-recurring adjustment related to a true-up adjustment for certain accrued costs, our per ton margin increased by approximately 15%, largely offsetting the impact of lower volumes in the first quarter of 2013. Excluding that adjustment, our per ton margin would have increased approximately 8%.

Site Operating Costs. Site Operating Costs are primarily the costs incurred by our Mill Services Group in providing services to our customers. Site Operating Costs are largely variable and generally vary in line with our customers' production and our service revenue. Site operating costs decreased \$0.2 million year-over-year, or 0.2%. New sites and contracts contributed \$3.8 million of additional site operating costs in the first quarter of 2013 compared to the first quarter of 2012. Site operating costs related to other sites and contracts decreased \$4.0 million, or approximately 4%, which was substantially driven by a decrease in our customers' steel production volumes.

Table of Contents

Selling, General and Administrative Expenses. Selling, General and Administrative Expenses for the first quarter of 2013 were \$15.8 million, compared to \$17.3 million in the first quarter of 2012, a decrease of \$1.4 million. A non-recurring benefit of \$0.9 million related to insurance recoveries on legacy workers compensation costs contributed to the decrease. Additionally our administrative salaries and wages decreased by \$0.4 million driven by a reduction in internal labor costs including a \$0.2 million decrease in severance costs related to a senior executive who retired on December 31, 2012.

Adjusted EBITDA. Adjusted EBITDA for the first quarter of 2013 was \$38.3 million compared to \$36.8 million for the first quarter of 2012, an increase of 4.0%.

Our Mill Services Group's Adjusted EBITDA increased \$0.3 million, or 1.0%, to \$32.8 million. Year-over-year, the volume of steel produced by our Mill Services Group customers decreased by approximately 6%, but we had \$2.9 million of additional Adjusted EBITDA from new operating contracts and services. Additionally, we generated \$2.0 million of incremental adjusted EBITDA at two international sites where we began operating on January 1, 2012, but experienced losses in the first quarter of 2012 during the ramp-up of those operations. Additionally, three large domestic sites generated \$1.0 million of additional Adjusted EBITDA. These positive items helped to offset the impact of a decrease in our customers' production and a decrease of \$1.7 million related to an Arbitration Award that was recognized in the first quarter of 2012. Additionally, we incurred \$0.4 million of negative Adjusted EBITDA at a site where we began operating late in the first quarter of 2013. We typically incur some pre-operating losses when we begin operating in a new location as we put operating and administrative infrastructure in place to support our services prior to earning run-rate revenues.

Our Raw Material and Optimization Group's Adjusted EBITDA decreased \$0.8 million or 5.8% year-over-year, driven by a slight decrease in the volume of material we procured for and sold to our customers. Domestic steel production volume was down approximately 6% in the first quarter of 2013 compared to the first quarter of 2012 and contributed to the decrease in our procurement volume as did a 20% decrease in our large volume vessel shipments, which can be sporadic quarter to quarter. Overall, our per ton margins improved, helping to mitigate the loss of volume. The per ton margins benefited from a \$1.1 million favorable non-recurring adjustment related to the true-up of certain accrued costs. However, even excluding that adjustment, our per ton margin would have increased approximately 8%.

Our Administrative net expenses decreased \$2.0 million, or 19.5%, in the first quarter of 2013 compared to the first quarter of 2012. The decrease was primarily due to a non-recurring benefit of \$0.9 million related to insurance recoveries on legacy workers compensation costs and a \$0.9 million dollar decrease in our accrual for incentive compensation.

Adjusted EBITDA Margin. Adjusted EBITDA margin in the first quarter of 2013 was 24.6% compared to 23.6% in the first quarter of 2012. A variety of factors impact our Adjusted EBITDA margin including the relative contributions of the Mill Services Group and Raw Material and Optimization Group, which have different margin characteristics, and the relationship of the Administrative Segment expenses to consolidated Revenue After Raw Materials Costs. The year-over-year increase was driven by positive contributions from our new sites and services and by the decrease in our Administrative net expenses. These were partially offset by the decrease in Adjusted EBITDA of the Raw Material and Optimization Group.

Depreciation and Amortization. Depreciation and amortization expense during the first quarter of 2013 was \$18.9 million compared to \$16.2 million in the first quarter of 2012, an increase of approximately 16.4%. The increase was driven by the depreciation expenses associated with higher capital expenditures in 2012 and 2013. Much of that capital was expended at new sites in contracts where we began operation in 2012 and the first quarter of 2013. Depreciation expense at those sites amounted to \$3.9 million in the first quarter of 2013 compared to \$1.9 million in the first quarter of 2012; an increase of \$2.0 million. Amortization expense for the first quarter of 2013 was comparable to that incurred in the first quarter of 2012.

Interest Expense, Net. Interest Expense, Net for the first quarter of 2013 was \$6.0 million, compared to \$8.1 million in the first quarter of 2012, a decrease of \$2.1 million. The decrease resulted from lower average outstanding debt balances and lower underlying interest rates resulting from our March 20, 2012 refinancing. In that refinancing we reduced our outstanding indebtedness by \$80.2 million and reduced our overall interest rate by repaying our senior secured notes which carried a fixed rate of 9 ³/₄%.

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

Table of Contents

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

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

Table of Contents

Income Tax Expense. Income Tax Expense for the first quarter of 2013 was \$4.3 million, or 34.6% of our pre-tax income, compared to a \$0.1 million expense, or 34.7% of our pre-tax income, in the first quarter of 2012. The Income Tax Expense for the first quarter of 2013 is based on an estimated annual effective rate, which requires us to make our best estimate of expected pre-tax income for the year. The income tax expense for the first quarter of 2013 was based on an annualized effective rate of 30.2%, but is adjusted to include a \$0.7 million charge associated with the immediate recognition of the anticipated cost associated with a tax law change in South Africa.

Liquidity and Capital Resources

The eligible accounts receivable, inventory and equipment that comprise the collateral under the ABL facility as of March 31, 2013 supported a gross borrowing base of approximately \$275.5 million. Our excess available balance was \$212.8 million as we had outstanding borrowing of \$13.5 million and \$49.2 million of outstanding letters of credit. The gross borrowing base was approximately \$74.5 million below the \$350.0 million limit of the ABL facility. The Company expects to add an additional approximately \$20 million of equipment related borrowing base capacity upon the resolution of certain collateral access and other administrative agreements with the agent for the ABL lenders.

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

Cash Flow

The nature of our procurement activities is such that the amount we invest in inventories and our accounts receivable may significantly vary at any given point in time. Cash flow provided by operating activities in the three-month period ending March 31, 2013 was \$14.8 million compared to cash provided by operations of \$9.8 million in the three-month period ending March 31, 2012. Working capital items used \$14.8 million of cash in the first three months of 2013 compared to using \$21.2 million in the first three months of 2012. Significant changes in working capital items generally relate to our raw material procurement activities and, while we work to manage the timing of disbursements and collections, our working capital levels fluctuate, sometimes significantly, over reporting periods. At March 31, 2013, we had paid \$13.7 million for large ocean-going vessel inventories for which we were paid by our customers in April of 2013. Additionally, we paid incentive compensation in March 2013 related to 2012 performance.

Net cash used in investing activities in the three-month period ending March 31, 2013 was \$22.9 million, of which \$10.3 million funded Growth Capital Expenditures and \$10.2 million funded Maintenance Capital Expenditures. Net cash used in investing activities in the three-month period ending March 31, 2012 was \$33.1 million, of which \$24.5 million funded Growth Capital Expenditures and \$7.8 million funded Maintenance Capital Expenditures. 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 provided by financing activities in the first three months of 2013 was \$11.8 million, and primarily consisted of \$13.5 million in net borrowings on our revolving credit facility. In addition, the Company received \$2.25 million in proceeds in connection with the Amendment to TCIMS's outstanding senior secured Term Loan B credit agreement. Net cash used for financing activities in the first three months of 2012 was \$70.3 million, mainly comprised of amounts paid to reduce our overall indebtedness as part of our March 2012 refinancing and the issuance and termination fees associated with that refinancing. In the March 2012 refinancing, we received \$297.0 million in proceeds from our new Term Loan Facility and paid off \$223.0 million of senior subordinated notes and \$157.2 million outstanding on our senior secured term loan due 2014. We also incurred \$13.6 million of debt issuance and termination fees associated with the transaction. In addition to the proceeds of our new senior secured term loan, we used available cash and a \$30.0 million draw on our ABL facility to consummate the March 20, 2012 refinancing.

Table of Contents**Discretionary Cash Flow**

During the three-month period ending March 31, 2013 we generated \$28.0 million of Discretionary Cash Flow compared to \$29.1 in the first three months of 2012. We define Discretionary Cash Flow as Adjusted EBITDA less Maintenance Capital Expenditures and it is calculated as follows for the periods indicated (in thousands):

	Three months ended	
	March 31, 2013	March 31, 2012
Adjusted EBITDA	\$ 38,272	\$ 36,793
Maintenance Capital Expenditures	(10,238)	(7,696)
Discretionary Cash Flow	\$ 28,034	\$ 29,097

The \$2.5 million increase in Maintenance Capital Expenditures was primarily due to timing differences in spend in comparison to the prior year same quarter. Offsetting this increase was an increase in Adjusted EBITDA of \$1.5 million.

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

	Three months ended	
	March 31, 2013	March 31, 2012
Discretionary Cash Flow	\$ 28,034	\$ 29,097
Maintenance Capital Expenditures	10,238	7,696
Cash interest expense	(5,090)	(15,382)
Cash income taxes	(619)	(1,005)
Change in accounts receivable	308	(47,247)
Change in inventory	(8,436)	(14,257)
Change in accounts payable	410	48,905
Change in other current assets and liabilities	(7,347)	(595)
Other operating cash flows	(2,694)	2,578
Net cash provided by operating activities	\$ 14,804	\$ 9,790

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 and not material. 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. From time to time, we may also 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 3 months -2012 3 months -2013

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Weighted average per ton price of #1 Heavy Melt Scrap	\$ 209	\$ 332	\$ 411	\$ 411	\$ 353
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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.

Table of Contents

Our accounts receivable and inventory provide collateral for our senior secured ABL facility, and changes in those balances may affect the amount we are eligible to borrow under such facility. In periods when the volume and selling price of the raw materials we procure for our customers increase, we will usually experience increased accounts receivable and inventory balances and the amount available to be borrowed under the senior secured ABL facility may increase. Likewise, in periods when the volume and selling price of raw materials we procure for our customers decrease, we will usually experience decreased accounts receivable and inventory balances and the amount available to be borrowed under the senior secured ABL facility may decrease.

During the three-month period ending March 31, 2013, our accounts receivable decreased \$0.3 million, or 0.1%, and our accounts payable increased \$0.4 million, or 0.2%. The slight improvement in working capital from these balances were offset by a larger increase in our inventory of \$8.4 million, or 16.7%. The increase in inventory generally reflects an increase in the volume of inventory that we have in transit to our customers.

During the three-month period ending March 31, 2012, our accounts receivable increased \$47.0 million, or 16.1%, and our inventory increased \$14.3 million, or 25.3%. The increase in accounts receivable generally reflects the increase in our revenue in the first quarter of 2012 compared to the fourth quarter of 2011; there were no significant impacts from collectability or valuation issued. The increase in inventory generally reflects an increase in the volume of inventory that we have in transit to our customers. The increases in accounts receivable and inventory were partially offset by a \$48.9 million increase in accounts payable. Additionally, our net working capital increase in the first quarter of 2012 includes \$14.2 million decrease in accrued expenses primarily resulting from \$13.7 million in interest payments on our senior subordinated notes as well as the March 2012 payment of incentive compensation which had been accrued for in 2011. The net working capital increase during the first quarter of 2012 also reflects the impact of significant new sites in our mill services business where we fund our operations before receiving cash payments for our services.

Forward Looking Statements

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

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

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

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

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

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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;

Table of Contents

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

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

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

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

counterparties to agreements with us may not perform their obligations;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

we may see increased costs arising from health care reform;

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

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

we face significant competition in the markets we serve;

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

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

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

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

Table of Contents

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 and in our most recent Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. 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 \$299.3 million at March 31, 2013 and a \$350.0 million variable rate, asset-based, revolving line of credit. At March 31, 2013, we had \$13.5 million in outstanding revolving borrowings. Assuming no changes in variable rate borrowings from the amounts outstanding at March 31, 2013, a hypothetical 1.0% change in underlying variable rates would change our annual Interest Expense and cash flow from operations by approximately \$3.1 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 three months ended March 31, 2013, we derived approximately 71.6% 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, Polish zloty, Mexican peso, Trinidad/Tobago dollar, New Taiwan dollar, Bahraini dinar, United Arab Emirates dirham and the South African rand. For the three months ended March 31, 2013, we generated approximately \$4.0 million of Income from Operations in foreign currencies. On an annual basis, we expect operating income in these countries would decrease or increase by approximately \$1.6 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, but we believe that this exposure is typically not material to us.

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 \$13.0 million in fuel and other petroleum-based supplies costs for the three months ended March 31, 2013. 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 2013 would likely change the indices used to calculate the 2014 price adjustment mechanism.

Table of Contents

Item 4. Controls and Procedures

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

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

There were no changes in our internal control over financial reporting that occurred during the first quarter of 2013 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, 2012, which could materially affect our business, financial condition or future results. There have been no material changes to the Company's risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012. The risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2012 are not the only risks facing us. In the normal course of business, the Company is routinely subject to a variety of risks.

Table of Contents

Item 6. Exhibits

Exhibit

Number	Description of Exhibit
10.1	Amendment No. 1 to Credit Agreement, dated as of March 21, 2013, to the 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 by reference to Exhibit 10.1 to TMS International Corp.'s Current Report on Form 8-K filed March 27, 2013, File No. 001-35128).
10.2	Form of TMS International Corp. Nonstatutory Option Agreement.
10.3	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.34 to TMS International Corp.'s Annual Report on Form 10-K, filed February 19, 2013, 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 May 8, 2013.

TMS International Corp.

By: /s/ Raymond S. Kalouche
Raymond S. Kalouche
President, Chief Executive Officer and Director

(Principal Executive Officer)

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

Chief Financial Officer

(Principal Financial Officer)