

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

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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.

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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' 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%.

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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.

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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.

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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.

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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 designated as hedging instruments under the <i>Accounting for Derivative Instruments and Hedging</i>	Derivatives	
	Balance Sheet Location	Fair Value
<i>Activities Topic of FASB ASC</i>		March 31, 2013
Interest rate swaps	Other noncurrent liabilities	December 31, 2012
		\$

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):

Derivatives in the Accounting for Derivative Instruments and Hedging Activities Topic of FASB	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	
	Quarter ended March 31,	Quarter ended March 31,		Quarter ended March 31,	Quarter ended March 31,
<i>ASC Cash Flow Hedging Relationship</i>	2013	2012		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.

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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.

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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: