

Edgen Group Inc.  
Form 10-Q  
November 09, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

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EDGEN GROUP INC.  
(Exact name of registrant as specified in its charter)

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| Commission File Number | State of Incorporation | IRS Employer Identification No. |
|------------------------|------------------------|---------------------------------|
| 001-35513              | Delaware               | 38-3860801                      |

18444 Highland Road  
Baton Rouge, Louisiana 70809  
(225) 756-9868

(Registrant's address of principal executive offices and telephone number)

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. (Check one):

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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 Exchange Act):

Yes  No

The number of shares outstanding of the registrant's common stock at October 29, 2012 is shown below:

| Class and Par Value                      | Number of Shares Outstanding |
|--|------------------------------|
| Class A common stock, \$0.0001 par value | 18,048,062                   |
| Class B common stock, \$0.0001 par value | 24,343,138                   |

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TABLE OF CONTENTS

|                                |  |    |
|--------------------------------|--|----|
| PART I - FINANCIAL INFORMATION |  | 1  |
| Item 1.                        | UNAUDITED CONDENSED CONSOLIDATED/COMBINED<br>CONSOLIDATED FINANCIAL STATEMENTS           | 1  |
| Item 2.                        | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL<br>CONDITION AND RESULTS OF OPERATIONS | 24 |
| Item 3.                        | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT<br>MARKET RISK                            | 34 |
| Item 4.                        | CONTROLS AND PROCEDURES  | 34 |
| PART II - OTHER INFORMATION    |  | 35 |
| Item 1.                        | LEGAL PROCEEDINGS  | 35 |
| Item 1A.                       | RISK FACTORS   | 35 |
| Item 2.                        | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF<br>PROCEEDS                           | 35 |
| Item 3.                        | DEFAULTS UPON SENIOR SECURITIES  | 35 |
| Item 4.                        | MINE SAFETY DISCLOSURES  | 35 |
| Item 5.                        | OTHER INFORMATION  | 35 |
| Item 6.                        | EXHIBITS   | 35 |
| SIGNATURES                     |  | 36 |
| EXHIBIT INDEX                  |  | 37 |

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

EDGEN GROUP INC.  
 UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED BALANCE SHEETS  
 (In thousands)

|   | September 30,<br>2012 | December 31,<br>2011 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| <b>CURRENT ASSETS:</b>  |                       |                      |
| Cash and cash equivalents   | \$19,157              | \$26,269             |
| Accounts receivable - net of allowance for doubtful accounts of \$2,548 and \$2,056, respectively | 301,565               | 261,155              |
| Inventory   | 383,792               | 339,371              |
| Prepaid expenses and other current assets   | 11,603                | 10,443               |
| Total current assets  | 716,117               | 637,238              |
| PROPERTY, PLANT AND EQUIPMENT - NET   | 46,357                | 46,647               |
| GOODWILL  | 23,894                | 22,965               |
| OTHER INTANGIBLE ASSETS - NET   | 152,351               | 172,036              |
| OTHER ASSETS  | 14,333                | 21,854               |
| TOTAL ASSETS  | \$953,052             | \$900,740            |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>   |                       |                      |
| <b>CURRENT LIABILITIES:</b>   |                       |                      |
| Managed cash overdrafts   | \$7,798               | \$6,488              |
| Accounts payable  | 198,571               | 223,428              |
| Accrued interest payable  | 12,860                | 26,982               |
| Current portion of long term debt and capital lease   | 401                   | 19,244               |
| Accrued expenses and other current liabilities  | 47,209                | 31,787               |
| Total current liabilities   | 266,839               | 307,929              |
| DEFERRED TAX LIABILITY - NET  | 2,957                 | 4,544                |
| OTHER LONG TERM LIABILITIES   | 1,328                 | 783                  |
| REVOLVING CREDIT FACILITIES   | 88,200                | 37,523               |
| LONG TERM DEBT AND CAPITAL LEASE  | 523,564               | 627,078              |
| Total liabilities   | 882,888               | 977,857              |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                       |                      |
| <b>STOCKHOLDERS' EQUITY:</b>  |                       |                      |
| Class A common stock; 18,048,062 shares issued and outstanding at September 30, 2012              | 2                     | —                    |
| Class B common stock; 24,343,138 shares issued and outstanding at September 30, 2012              | 2                     | —                    |
| Additional paid in capital  | 162,862               | —                    |
| Retained deficit  | (30,511 )             | —                    |
| Accumulated other comprehensive loss  | (9,423 )              | —                    |
| Total stockholders' equity  | 122,932               | —                    |
| <b>PREDECESSOR NET DEFICIT:</b>   |                       |                      |
| Net deficit   | —                     | (51,799 )            |
| Accumulated other comprehensive loss  | —                     | (25,648 )            |

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|  |           |           |     |
|--|-----------|-----------|-----|
| Total predecessor net deficit          | —         | (77,447   | )   |
| NON-CONTROLLING INTEREST               | (52,768   | )         | 330 |
| Total equity (deficit)                 | 70,164    | (77,117   | )   |
| TOTAL LIABILITIES AND EQUITY (DEFICIT) | \$953,052 | \$900,740 |     |

See accompanying notes to unaudited condensed consolidated/combined consolidated financial statements.

EDGEN GROUP INC.  
 UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED STATEMENTS OF  
 OPERATIONS  
 (Dollars in thousands, except share data)

|  | Three months ended |           | Nine months ended September |             |
|--|--------------------|-----------|-----------------------------|-------------|
|  | September 30,      |           | 30,                         |             |
|  | 2012               | 2011      | 2012                        | 2011        |
| <b>SALES</b>   | \$534,624          | \$457,166 | \$1,536,953                 | \$1,199,282 |
| <b>OPERATING EXPENSES:</b>   |                    |           |                             |             |
| Cost of sales (exclusive of depreciation and amortization shown below) | 469,932            | 398,867   | 1,355,186                   | 1,043,516   |
| Selling, general and administrative expense                            | 25,171             | 25,105    | 76,606                      | 66,961      |
| Depreciation and amortization expense                                  | 7,905              | 8,933     | 24,031                      | 26,781      |
| Total operating expenses   | 503,008            | 432,905   | 1,455,823                   | 1,137,258   |
| <b>INCOME FROM OPERATIONS</b>  | 31,616             | 24,261    | 81,130                      | 62,024      |
| <b>OTHER INCOME (EXPENSE):</b>   |                    |           |                             |             |
| Other income (expense)- net  | (366 )             | 71        | 109                         | 1,857       |
| Loss on prepayment of debt   | —                  | —         | (17,005 )                   | —           |
| Interest expense - net   | (18,331 )          | (20,733 ) | (59,899 )                   | (64,517 )   |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>                                 |                    |           |                             |             |
| <b>EXPENSE</b>   | 12,919             | 3,599     | 4,335                       | (636 )      |
| <b>INCOME TAX EXPENSE</b>  | 2,535              | 1,193     | 3,674                       | 3,315       |
| <b>NET INCOME (LOSS)</b>   | \$10,384           | \$2,406   | \$661                       | \$(3,951 )  |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>                              |                    |           |                             |             |
| Predecessor  | \$—                | \$2,240   | \$4,858                     | \$(4,177 )  |
| Non-controlling interest   | 6,498              | 166       | (2,008 )                    | 226         |
| Edgen Group Inc.   | 3,886              | —         | (2,189 )*                   | —           |
| <b>EDGEN GROUP INC. EARNINGS (LOSS) PER SHARE:</b>                     |                    |           |                             |             |
| Basic  | \$0.22             |           | \$(0.12 )*                  |             |
| Diluted  | 0.21               |           | (0.12 )*                    |             |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>                     |                    |           |                             |             |
| Basic  | 17,771,939         |           | 17,547,082 *                |             |
| Diluted  | 18,182,524         |           | 17,547,082 *                |             |

\* Edgen Group Inc. did not have any assets or operations, nor did it have any common stock outstanding prior to the IPO and the Reorganization. Accordingly, the loss attributable to Edgen Group Inc., loss per share and weighted average common shares outstanding shown are for the period from May 2, 2012 to September 30, 2012 (the period since the IPO and the Reorganization).

See accompanying notes to unaudited condensed consolidated/combined consolidated financial statements.



EDGEN GROUP INC.  
 UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED STATEMENTS OF  
 COMPREHENSIVE INCOME (LOSS)  
 (In thousands)

|   | Three months ended<br>September 30, |         | Nine months ended September<br>30, |           |
|---|-------------------------------------|---------|------------------------------------|-----------|
|   | 2012                                | 2011    | 2012                               | 2011      |
| NET INCOME (LOSS)                               | \$10,384                            | \$2,406 | \$661                              | \$(3,951) |
| OTHER COMPREHENSIVE INCOME (LOSS):              |                                     |         |                                    |           |
| Foreign currency translation adjustments        | 2,650                               | (2,493) | 3,463                              | 360       |
| COMPREHENSIVE INCOME (LOSS)                     | \$13,034                            | \$(87)  | \$4,124                            | \$(3,591) |
| COMPREHENSIVE INCOME (LOSS)<br>ATTRIBUTABLE TO: |                                     |         |                                    |           |
| Predecessor                                     | \$—                                 | \$(253) | \$8,893                            | \$(3,817) |
| Non-controlling interest                        | 8,020                               | 166     | (2,341)                            | 226       |
| Edgen Group Inc.                                | 5,014                               | —       | (2,428)                            | *         |

\* Edgen Group Inc. did not have any assets or operations prior to the IPO and the Reorganization. Accordingly, the comprehensive loss attributable to Edgen Group Inc. shown is for the period from May 2, 2012 to September 30, 2012 (the period since the IPO and the Reorganization).

See accompanying notes to unaudited condensed consolidated/combined consolidated financial statements.



EDGEN GROUP INC.  
 UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED STATEMENTS  
 STOCKHOLDERS' EQUITY (DEFICIT)  
 (In thousands, except unit data)

|   | Predecessor<br>net deficit | Edgen Group Inc.<br>Common stock<br>Class A Class B |     | Additional<br>paid in<br>capital | Retained<br>deficit | Accumulated<br>other<br>comprehensive<br>loss | Non-<br>controlling<br>interest | Total<br>stockholders'<br>equity<br>(deficit) |
|---|----------------------------|---|-----|----------------------------------|---------------------|---|---------------------------------|---|
| Balance at December 31, 2010  | \$ (44,841 )               | \$—   | \$— | \$—                              | \$—                 | \$ (25,531 )                                  | \$ 42                           | \$ (70,330 )                                  |
| Net income (loss)   | (4,177 )                   | —   | —   | —                                | —                   | —   | 226                             | (3,951 )                                      |
| Other comprehensive income  | —                          | —   | —   | —                                | —                   | 360   | —                               | 360   |
| Unit-based compensation   | 1,948                      | —   | —   | —                                | —                   | —   | —                               | 1,948   |
| Distributions to owners of Predecessor  | (5,008 )                   | —   | —   | —                                | —                   | —   | —                               | (5,008 )                                      |
| Balance at September 30, 2011   | \$ (52,078 )               | \$—   | \$— | \$—                              | \$—                 | \$ (25,171 )                                  | \$ 268                          | \$ (76,981 )                                  |
| Balance at December 31, 2011  | \$ (51,799 )               | \$—   | \$— | \$—                              | \$—                 | \$ (25,648 )                                  | \$ 330                          | \$ (77,117 )                                  |
| Net income  | 4,858                      | —   | —   | —                                | —                   | —   | 11                              | 4,869   |
| Other comprehensive income  | —                          | —   | —   | —                                | —                   | 4,035   | —                               | 4,035   |
| Unit-based compensation   | 922                        | —   | —   | —                                | —                   | —   | —                               | 922   |
| Distributions to owners of Predecessor  | (8,605 )                   | —   | —   | —                                | —                   | —   | —                               | (8,605 )                                      |
| Balances at May 2, 2012 (initial public offering date)  | (54,624 )                  | —   | —   | —                                | —                   | (21,613 )                                     | 341                             | (75,896 )                                     |
| Reorganization transactions:  |                            |   |     |                                  |                     |   |                                 |   |
| Exchange of Predecessor unit-based compensation   | (11,498 )                  | —   | —   | 11,498                           | —                   | —   | —                               | —   |
| Allocation of Predecessor net deficit to equity accounts and issuance of Class B common stock | 66,122                     | —   | 2   | 279                              | (28,322)            | —   | (38,328 )                       | (247 )  |
| Allocation of Predecessor AOCL to non-controlling interest                                    | —                          | —   | —   | —                                | —                   | 12,429  | (12,429 )                       | —   |
| Initial public offering transaction:  |                            |   |     |                                  |                     |   |                                 |   |

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|  |      |      |      |            |          |             |              |           |
|--|------|------|------|------------|----------|-------------|--------------|-----------|
| Net proceeds from issuance of 15,000,000 shares of Class A common stock from initial public offering | —    | 2    | —    | 149,286    | —        | —           | —            | 149,288   |
| Balances after the initial public offering and the Reorganization                                    | —    | 2    | 2    | 161,063    | (28,322) | (9,184 )    | (50,416 )    | 73,145    |
| Net loss   | —    | —    | —    | —          | (2,189 ) | —           | (2,019 )     | (4,208 )  |
| Other comprehensive loss   | —    | —    | —    | —          | —        | (239 )      | (333 )       | (572 )    |
| Distribution to owners   | —    | —    | —    | (2,170 )   | —        | —           | —            | (2,170 )  |
| Equity-based compensation  | —    | —    | —    | 3,969      | —        | —           | —            | 3,969     |
| Balance at September 30, 2012  | \$ — | \$ 2 | \$ 2 | \$ 162,862 | (30,511) | \$ (9,423 ) | \$ (52,768 ) | \$ 70,164 |

See accompanying notes to unaudited condensed consolidated/combined consolidated financial statements.

EDGEN GROUP INC.  
 UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED STATEMENTS OF CASH  
 FLOWS  
 (In thousands)

|  | Nine months ended September<br>30, |            |
|--|------------------------------------|------------|
|  | 2012                               | 2011       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                    |            |
| Net income (loss)  | \$661                              | \$(3,951 ) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                                    |            |
| Depreciation and amortization  | 24,031                             | 26,781     |
| Amortization of deferred financing costs   | 3,775                              | 3,665      |
| Amortization of discount on long term debt   | 954                                | 891        |
| Non-cash accrual of interest on Seller Note  | 2,207                              | 2,759      |
| Loss on prepayment of debt   | 17,005                             | —          |
| Equity-based compensation expense  | 4,907                              | 1,948      |
| Unrealized (gain) loss on derivative instruments                                     | (487 )                             | 639        |
| Allowance for doubtful accounts  | 469                                | 27         |
| Provision for inventory allowances and writedowns                                    | 1,125                              | 876        |
| Deferred income tax benefit  | (1,889 )                           | (1,086 )   |
| Loss on foreign currency transactions  | 785                                | 657        |
| Gain on sale of property, plant and equipment  | (48 )                              | (983 )     |
| Changes in operating assets and liabilities:   |                                    |            |
| Accounts receivable  | (40,869 )                          | (50,453 )  |
| Inventory  | (43,859 )                          | (79,169 )  |
| Prepaid expenses and other current assets  | (2,415 )                           | (1,017 )   |
| Accounts payable   | (24,452 )                          | 50,347     |
| Accrued expenses and other current liabilities                                       | (2,254 )                           | (12,997 )  |
| Income tax payable   | 2,154                              | 2,713      |
| Income tax receivable  | (298 )                             | 18,235     |
| Other  | (816 )                             | (130 )     |
| Net cash used in operating activities  | (59,314 )                          | (40,248 )  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                    |            |
| Purchases of property, plant and equipment   | (3,130 )                           | (2,549 )   |
| Proceeds from the sale of property, plant and equipment                              | 113                                | 6,276      |
| Net cash provided by (used in) investing activities                                  | (3,017 )                           | 3,727      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                    |            |
| Gross proceeds from issuance of Class A common stock in initial public offering      | 153,862                            | —          |
| Initial public offering costs  | (4,574 )                           | —          |
| Repayment of BL term loan, including prepayment penalty of \$8,876                   | (125,322 )                         | —          |
| Repayment of portion of Seller Note  | (10,745 )                          | —          |
| Other principal payments on long term debt and capital lease                         | (273 )                             | (4,985 )   |
| Deferred financing costs   | (1,157 )                           | (1,309 )   |
| Distributions to owners of Predecessor   | (8,605 )                           | (5,008 )   |
| Distributions to owners  | (2,170 )                           | —          |
| Loan payable to EM II LP   | 950                                | —          |
| Proceeds from revolving credit facilities  | 602,000                            | 175,434    |
| Payments to revolving credit facilities  | (551,378 )                         | (186,184 ) |

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|  |                 |                  |
|--|-----------------|------------------|
| Managed cash overdraft                                       | 1,329           | 8,288            |
| Net cash provided by (used in) financing activities          | 53,917          | (13,764 )        |
| Effect of exchange rate changes on cash and cash equivalents | 1,302           | (622 )           |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>               | <b>(7,112 )</b> | <b>(50,907 )</b> |
| CASH AND CASH EQUIVALENTS - beginning of period              | 26,269          | 62,864           |
| CASH AND CASH EQUIVALENTS - end of period                    | \$19,157        | \$11,957         |

See accompanying notes to unaudited condensed consolidated/combined consolidated financial statements.

EDGEN GROUP INC.  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED FINANCIAL  
STATEMENTS

(Dollars in thousands, except per share data)

References to “we,” “us” and “our” refer to Edgen Group Inc. (“Edgen Group”) and its consolidated subsidiaries.

1. Organization, Basis of Presentation and General Accounting Matters

Formation and Organization

We are a publicly traded Delaware corporation. Our Class A common stock is listed on the New York Stock Exchange under the symbol “EDG.” We were formed in December 2011 to serve as the issuer in an initial public offering (“IPO”) and as the ultimate parent company of our operating subsidiaries, Edgen Murray Corporation (“EMC”) and its subsidiaries and Bourland & Leverich Supply Co. LLC (“B&L”). We own and control these operating subsidiaries through our approximately 43% economic interest in and our 100% voting control of our consolidated subsidiary, EDG Holdco LLC (“EDG LLC”), which indirectly owns 100% of, and controls, EMC and B&L.

Description of Operations

We are a leading global distributor to the energy sector of specialty products, including steel pipe, valves, quenched and tempered and high yield heavy plate and related components. We primarily serve customers that operate in the upstream, midstream and downstream end-markets for oil and natural gas as well as the power generation, civil construction and mining market segments. We have operations in the U.S., Canada, Brazil, the U.K., France, Norway, the United Arab Emirates (“UAE”), Saudi Arabia, India and Singapore and sales representative offices in Australia, China, South Korea and Indonesia. Our headquarters are located in Baton Rouge, Louisiana. We manage our business in two reportable segments: Energy & Infrastructure (“E&I”) and Oil Country Tubular Goods (“OCTG”).

Initial Public Offering and Reorganization

On May 2, 2012, we completed an IPO of 15,000,000 shares of Class A common stock at an initial offering price of \$11.00 per share, which generated net proceeds of approximately \$149,288 after deducting underwriting discounts, expenses and transaction costs. We used these net proceeds to purchase membership units of EDG LLC, which EDG LLC used to repay certain indebtedness of EMC and B&L.

Immediately prior to the consummation of the IPO, we were party to a series of transactions (the “Reorganization”). These transactions consisted of, among other things, the following:

- (1) Our formation of EDG LLC;
- (2) The contribution by Edgen Murray II, L.P. (“EM II LP”) of all of the equity interests of EMGH Limited (“EMGH”) to EMC, thereby making EMGH a wholly-owned subsidiary of EMC;
- (3) The redemption of EMC’s ownership interest in Bourland & Leverich Holdings LLC (“B&L Holdings”) for an equivalent ownership interest in B&L, B&L Holdings’ former operating subsidiary;
- (4) The contribution by EM II LP of all of the shares of capital stock of EMC and all of EM II LP’s liabilities to EDG LLC in exchange for approximately 30% of EDG LLC and 12,615,230 shares of our Class B common stock;
- (5) The contribution by B&L Holdings of all of the membership units of B&L (other than those held by EMC) and all of B&L Holdings’ liabilities (other than those separately assumed by B&L) to EDG LLC in exchange for approximately 28% of EDG LLC and 11,727,908 shares of our Class B common stock; and
- (6) The exchange of: (i) all of the restricted units of EM II LP and B&L Holdings and (ii) all of the options to purchase units of EM II LP and B&L Holdings for 2,987,838 and 1,723,981 restricted shares of our Class A common stock and options to purchase our Class A common stock, respectively.

As a result of the IPO and the Reorganization, we are the parent holding company of the historical businesses of EM II LP and B&L Holdings and have consolidated the results of these businesses with our own. The Reorganization has been accounted for as a transaction between entities under common control, as we, EM II LP, B&L Holdings, EDG LLC, and B&L have been since July 2010, and continue to be, under the collective common control of affiliates of Jefferies Capital Partners (“JCP”).

#### Basis of Financial Statement Presentation

The condensed consolidated/combined consolidated financial statements and notes are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim reporting.

We did not own any assets prior to the IPO and the Reorganization. As required by GAAP for common control transactions, all assets and liabilities transferred to us as part of the Reorganization were recorded in our financial statements at carryover basis.

For periods prior to the IPO and the Reorganization, the combined consolidated financial statements and related notes presented within this Form 10-Q reflect the Reorganization as if it had occurred on July 19, 2010, the date that EM II LP and B&L Holdings came under the common control of JCP. As such, the periods prior to the IPO reflect the combined assets, liabilities and operations of the historical businesses of EM II LP and B&L Holdings (collectively, the “Predecessor”). Because a single direct owner relationship did not exist among the owners of the Predecessor, the net deficit of the Predecessor is shown in lieu of partners’ or shareholders’ deficit for periods prior to the IPO.

For periods subsequent to the IPO and the Reorganization, our consolidated financial statements include our accounts and those of our majority-owned subsidiaries in which we have a controlling interest, after the elimination of intercompany accounts and transactions. We also consolidate other entities in which we possess a controlling financial interest or in which we have the power to direct the activities that most significantly affect the entities’ performance.

In the opinion of our management, these condensed consolidated/combined consolidated financial statements reflect all adjustments, including those of a normal recurring nature, necessary to present fairly the results of the reported interim periods. Although we believe the disclosures in these financial statements are adequate and make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC.

These unaudited condensed consolidated/combined consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Prospectus filed with the SEC on April 27, 2012.

#### Use of Estimates

The preparation of our condensed consolidated/combined consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the condensed consolidated/combined consolidated financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Areas requiring significant estimates by our management include the following:

- provisions for uncollectible receivables;
- recoverability of inventories and application of lower of cost or market accounting;
- recoverability of goodwill and other indefinite-lived intangible assets;
- recoverability of other intangibles and long-lived assets and related estimated lives;
  - valuation of equity-based compensation; and
- provisions for income taxes and related valuation allowances and tax uncertainties.

Actual results could differ from those estimates, and the foregoing interim results are not necessarily indicative of the results of operations to be expected for other interim periods or for the full year ending December 31, 2012.

#### Non-Controlling Interest

We record the portion of our consolidated subsidiaries that we do not own as non-controlling interest in the consolidated/combined consolidated financial statements. For periods prior to the IPO, non-controlling interest reflects the 30% interest we do not own in a consolidated Bahraini joint venture. In the periods subsequent to the IPO, non-controlling interest also includes the combined interest of approximately 57% of EDG LLC that is owned by EM II LP and B&L Holdings. See Note 9 for more information related to non-controlling interest.

## 2. Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies. Updates to the Accounting Standard Codification (“ASC”) are communicated through the issuance of an Accounting Standards Update (“ASU”).

#### Recently Issued

Currently, no recently issued accounting pronouncements that will be adopted by us are expected to have a material impact on our financial position, results of operations or cash flows.

#### Recently Adopted

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This update is intended to increase the prominence of other comprehensive income in the financial statements by eliminating one of the presentation options provided by current GAAP and requiring an entity to present total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We adopted this guidance at December 31, 2011 and chose to present other comprehensive income within a separate statement of comprehensive income. The effect of this amended guidance has been retrospectively applied to all periods presented.



## 3. Supplemental Cash Flow Information

|   | Nine months ended September 30, |          |
|---|---------------------------------|----------|
|   | 2012                            | 2011     |
| Interest paid   | \$66,812                        | \$71,216 |
| Income taxes paid   | 4,900                           | 1,676    |
| Income tax refunds received   | 818                             | 18,375   |
| <b>Non-cash investing and financing activities:</b>                     |                                 |          |
| Purchases of property, plant and equipment included in accounts payable | \$343                           | \$100    |

## 4. Property, Plant and Equipment

The historical costs of our property, plant and equipment and related accumulated depreciation balances were as follows at the dates indicated:

|                                       | September 30, |          | December 31, |          |
|---------------------------------------|---------------|----------|--------------|----------|
|                                       | 2012          |          | 2011         |          |
| Land and land improvements            | \$            | 11,811   | \$           | 11,247   |
| Buildings                             |               | 39,536   |              | 37,803   |
| Equipment and computers               |               | 29,531   |              | 28,594   |
| Leasehold improvements                |               | 6,216    |              | 6,000    |
| Construction in progress              |               | 304      |              | 163      |
| Property, plant and equipment - gross |               | 87,398   |              | 83,807   |
| Less: accumulated depreciation        |               | (41,041) |              | (37,160) |
| Property, plant and equipment - net   | \$            | 46,357   | \$           | 46,647   |

We are party to a capital lease of land, an office building and two warehouses in Newbridge, Scotland. At September 30, 2012 and December 31, 2011, the carrying value of the leased fixed assets included in property, plant and equipment was \$15,310 and \$15,320, respectively.

Our depreciation expense for the periods indicated is presented below:

|                      | Three months ended September |             | Nine months ended September 30, |         |
|----------------------|------------------------------|-------------|---------------------------------|---------|
|                      | 2012                         | 30,<br>2011 | 2012                            | 2011    |
| Depreciation expense | \$1,284                      | \$1,400     | \$3,886                         | \$4,209 |

5. Intangible Assets

The following table summarizes our intangible assets at the dates indicated by reportable segment:

|  | Gross carrying value |                   | Accumulated amortization |                      | Net carrying value |                   |
|--|----------------------|-------------------|--------------------------|----------------------|--------------------|-------------------|
|  | September 30, 2012   | December 31, 2011 | September 30, 2012       | December 31, 2011    | September 30, 2012 | December 31, 2011 |
| <b>E&amp;I:</b>                                |                      |                   |                          |                      |                    |                   |
| Intangible assets subject to amortization:     |                      |                   |                          |                      |                    |                   |
| Customer relationships                         | \$84,062             | \$ 82,057         | \$(81,438 )              | \$( 73,004 )         | \$2,624            | \$ 9,053          |
| Noncompete agreements                          | 22,011               | 22,011            | (19,790 )                | (17,055 )            | 2,221              | 4,956             |
| Sales backlog                                  | 9,758                | 9,589             | (9,758 )                 | (9,589 )             | —                  | —                 |
| Intangible assets not subject to amortization: |                      |                   |                          |                      |                    |                   |
| Tradenames                                     | 11,721               | 11,424            | —                        | —                    | 11,721             | 11,424            |
| Trademarks                                     | 14                   | 14                | —                        | —                    | 14                 | 14                |
| <b>Total E&amp;I</b>                           | <b>\$127,566</b>     | <b>\$ 125,095</b> | <b>\$(110,986 )</b>      | <b>\$( 99,648 )</b>  | <b>\$16,580</b>    | <b>\$ 25,447</b>  |
| <b>OCTG:</b>                                   |                      |                   |                          |                      |                    |                   |
| Intangible assets subject to amortization:     |                      |                   |                          |                      |                    |                   |
| Customer relationships                         | \$154,262            | \$ 154,262        | \$(29,645 )              | \$( 19,127 )         | \$124,617          | \$ 135,135        |
| Noncompete agreements                          | 2,000                | 2,000             | (846 )                   | (546 )               | 1,154              | 1,454             |
| Intangible assets not subject to amortization: |                      |                   |                          |                      |                    |                   |
| Tradenames                                     | 10,000               | 10,000            | —                        | —                    | 10,000             | \$ 10,000         |
| <b>Total OCTG</b>                              | <b>\$166,262</b>     | <b>\$ 166,262</b> | <b>\$(30,491 )</b>       | <b>\$( 19,673 )</b>  | <b>\$135,771</b>   | <b>\$ 146,589</b> |
| <b>Total intangible assets</b>                 | <b>\$293,828</b>     | <b>\$ 291,357</b> | <b>\$(141,477 )</b>      | <b>\$( 119,321 )</b> | <b>\$152,351</b>   | <b>\$ 172,036</b> |

Foreign currency translation adjustments had the following effects on our intangible assets at September 30, 2012:

|  | September 30, 2012 |
|--|--------------------|
| Effects of foreign currency translation: |                    |
| On gross carrying value                  | \$2,471            |
| On accumulated amortization              | 2,031              |

Our amortization expense for the periods indicated is presented below:

|                                   | Three months ended |                | Nine months ended  |                 |
|-----------------------------------|--------------------|----------------|--------------------|-----------------|
|                                   | September 30, 2012 | 2011           | September 30, 2012 | 2011            |
| Amortization expense - E&I        | \$3,009            | \$3,907        | \$9,307            | \$11,734        |
| Amortization expense - OCTG       | 3,606              | 3,606          | 10,818             | 10,818          |
| <b>Total amortization expense</b> | <b>\$6,615</b>     | <b>\$7,513</b> | <b>\$20,125</b>    | <b>\$22,552</b> |

Our scheduled amortization expense associated with intangible assets is expected to be:

Years ending December 31:

|                                      |    |         |
|--------------------------------------|----|---------|
| 2012 (remaining)                     | \$ | 6,310   |
| 2013                                 |    | 16,232  |
| 2014                                 |    | 14,757  |
| 2015                                 |    | 14,278  |
| 2016                                 |    | 14,024  |
| Thereafter                           |    | 65,015  |
| Total scheduled amortization expense | \$ | 130,616 |

## 6. Goodwill

The following table presents changes to goodwill and the gross carrying value and accumulated impairment losses associated with goodwill at the dates indicated. At September 30, 2012, all of our goodwill is included within the E&I segment.

|                               | Gross    | Accumulated<br>impairment | Effects of<br>foreign<br>currency | Net      |
|-------------------------------|----------|---------------------------|-----------------------------------|----------|
| Balance at December 31, 2011  | \$90,674 | \$(62,805)                | \$(4,904)                         | \$22,965 |
| Effects of foreign currency   | —        | —                         | 929                               | 929      |
| Balance at September 30, 2012 | \$90,674 | \$(62,805)                | \$(3,975)                         | \$23,894 |

## 7. Debt Obligations

Our credit arrangements, long term debt and capital lease consisted of the following at the dates indicated:

|   | September 30,<br>2012 | December 31,<br>2011 |
|---|-----------------------|----------------------|
| \$465,000 12.25% 2015 Notes, net of discount of \$2,349 and \$2,968 at September 30, 2012 and December 31, 2011, respectively; due January 15, 2015 | \$ 462,651            | \$ 462,032           |
| \$195,000 EM revolving credit facility, due May 11, 2014  | 36,200                | 20,523               |
| \$125,000 BL term loan, due August 19, 2015   |                       | — 116,406            |
| \$125,000 BL revolving credit facility, due August 19, 2014   | 52,000                | 17,000               |
| Seller Note, net of discount of \$4,116 and \$5,624 at September 30, 2012 and December 31, 2011, respectively; due August 19, 2019                  | 42,668                | 49,698               |
| Capital lease   | 18,646                | 18,186               |
| Total debt and capital lease obligations  | 612,165               | 683,845              |
| Less: current maturities of debt and capital lease  | (401)                 | (19,244)             |
| Long term debt and capital lease  | \$ 611,764            | \$ 664,601           |

Other than as disclosed below, there have been no significant changes in the terms or amounts of our consolidated debt obligations since those reported in our Prospectus filed with the SEC on April 27, 2012.

### 2015 Notes

In connection with the Reorganization, EM Holdings LLC ("EM Holdings") replaced EM II LP as the parent guarantor of EMC's senior secured notes due 2015 (the "2015 Notes"). The 2015 Notes are guaranteed on a senior secured basis by EM Holdings and each of its existing and future U.S. subsidiaries that: (1) is directly or indirectly 80% owned by EM Holdings; (2) guarantees the indebtedness of EMC or any of the guarantors; and (3) is not directly or indirectly owned by any non-U.S. subsidiary. At September 30, 2012, EMC is EM Holdings' only U.S. subsidiary not directly or

indirectly owned by any non-U.S. subsidiary. EM Holdings is therefore currently the sole guarantor of the 2015 Notes.

On October 16, 2012, we repaid the 2015 Notes in full with proceeds from EMC's issuance of \$540,000 aggregate principal amount of 8.75% senior secured notes due 2020 (the "2020 Notes"). The 2020 Notes were issued with an original issue discount of \$3,861. See Note 17.

### EM Revolving Credit Facility

On April 10, 2012, we entered into a seventh amendment (“Seventh Amendment”) to the EM revolving credit facility. The Seventh Amendment permits Edgen Murray Pte. Ltd. (“EM Pte”) to incur up to \$10,000 of additional indebtedness secured by a warehouse facility owned by EM Pte in Singapore and increases the unused line fee payable to the Singapore administrative agent and the Singapore collateral agent under the EM revolving credit facility from 0.50% to 0.65%. Additionally, the Seventh Amendment: (i) permitted us to effect the Reorganization to facilitate the IPO; (ii) released EM II LP from its obligations under the EM revolving credit facility; and (iii) provided for certain other conforming and definitional changes.

In August 2012, we entered into an eighth amendment to the EM revolving credit facility pursuant to which our subsidiary located in France agreed to grant liens to certain inventory in favor of the lenders under the EM revolving credit facility.

On September 28, 2012, we entered into a ninth amendment to the EM revolving credit facility which, among other definitional and conforming changes, permitted EMC to issue the 2020 Notes. See Note 17.

### Amended and Restated BL Revolving Credit Facility

On May 2, 2012, we amended and restated (“BL Amendment”) the BL revolving credit facility (“Amended and Restated BL revolving credit facility”). The BL Amendment: (i) permitted us to effect the Reorganization to facilitate the IPO; (ii) released B&L Holdings from its obligations under the Amended and Restated BL revolving credit facility; and (iii) provided for certain other conforming and definitional changes.

On August 7, 2012, we entered into Amendment No. 1 (the “First Amendment”) to the Amended and Restated BL revolving credit facility. The First Amendment: (i) increased the total revolving commitment under the Amended and Restated BL revolving credit facility to \$125,000 and may be increased further by B&L by an additional \$50,000; (ii) reduced the interest rate charged on B&L's borrowings under the Amended and Restated BL revolving credit facility by 1.25% and reduced the unused line commitment fee payable by 0.125% and 0.25%, depending on the quarterly average undrawn availability under the Amended and Restated BL revolving credit facility; and (iii) provided for certain other administrative, conforming and definitional changes.

On September 28, 2012, we entered into Amendment No. 2 to the Amended and Restated BL revolving credit facility which, among other definitional and conforming changes, permitted us to issue the 2020 Notes. See Note 17.

### Borrowings under our Revolving Credit Facilities

At September 30, 2012, utilization and availability under our revolving credit facilities was as follows:

|  | EM revolving credit facility |           |           |           |            | EM FZE facility | Amended and Restated         | Total revolving credit facilities |
|--|------------------------------|-----------|-----------|-----------|------------|-----------------|------------------------------|-----------------------------------|
|  | EMC                          | EM Canada | EM Europe | EM Pte    | Total      |                 | BL revolving credit facility |                                   |
| Total availability at September 30, 2012 | \$ 145,032                   | \$ 4,537  | \$ 30,431 | \$ 15,000 | \$ 195,000 | \$ 5,000        | \$ 125,000                   | \$ 325,000                        |
| Less: cash borrowings                    | (36,200 )                    | —         | —         | —         | (36,200 )  | —               | (52,000 )                    | (88,200 )                         |
| Less: trade finance instruments          | (15,843 )(a)                 | —         | (10,682)  | (7,489 )  | (34,014 )  | (2,599 )        | —                            | (36,613 )                         |
| Less: reserves                           | (3,161 )                     | (67 )     | (1,749 )  | —         | (4,977 )   | —               | —                            | (4,977 )                          |

|   |          |         |          |         |           |         |          |           |
|---|----------|---------|----------|---------|-----------|---------|----------|-----------|
| Net availability at<br>September 30, 2012 | \$89,828 | \$4,470 | \$18,000 | \$7,511 | \$119,809 | \$2,401 | \$73,000 | \$195,210 |
|---|----------|---------|----------|---------|-----------|---------|----------|-----------|

(a)Includes a letter of credit in the amount of \$5,000 that expires on June 14, 2013 and which supports the facility utilized by our subsidiary in Dubai, Edgen Murray FZE (the "EM FZE facility").

Our weighted average interest rate paid for cash borrowings under our revolving credit facilities ranged between 3.6% to 4.6% during the three months ended September 30, 2012 and 2.3% to 4.6% during the nine months ended September 30, 2012.

On May 2, 2012, we used a portion of the net proceeds from the IPO to repay \$23,758 outstanding under the EM revolving facility.

#### BL Term Loan

In August 2010, B&L Holdings issued a \$125,000 aggregate principal amount term note (the "BL term loan"). The remaining principal balance of \$104,498, accrued interest of \$1,060 and a prepayment penalty of \$8,876 were paid on May 2, 2012 with a portion of the net proceeds received from the IPO. In connection with this debt repayment, we expensed the remaining unamortized debt issuance costs of \$6,916. The effect of the prepayment penalty and write off of unamortized debt issuance costs associated with the BL term loan are classified as loss on prepayment of debt within our consolidated statement of operations.

### Seller Note

In August 2010, B&L Holdings issued a \$50,000 note to the former owner of B&L's predecessor business (the "Seller Note"). The fair value of the Seller Note was determined to be \$43,750 with an original issue discount of \$6,250. The Seller Note accrues interest at a base rate of 2.18% and a contingent rate of 5.82% for an aggregate interest rate of 8.0%, which compounds annually. A portion of the accrued interest equal to 37.5% of the base rate is due annually, while the remaining portion of accrued interest is added to the principal balance to be paid at maturity in August 2019. In connection with the Reorganization, B&L assumed B&L Holdings' obligations under the Seller Note, and we used \$11,000 of the IPO net proceeds to repay \$10,745 of the principal balance and \$255 of the accrued interest outstanding. In connection with this repayment, we expensed \$1,173 of unamortized discount, which is classified as loss on prepayment of debt within our consolidated statement of operations. At September 30, 2012, the remaining principal, accrued interest and unamortized discount associated with the Seller Note were \$39,255, \$7,529 and \$4,116, respectively.

### Third Party Guarantees

In the normal course of business, we may provide performance guarantees directly to third parties on behalf of our subsidiaries.

At September 30, 2012 and December 31, 2011, we had the following outstanding guarantees:

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Maximum potential obligations (undiscounted) | \$ 25,481             | \$ 30,663            |
| Guaranteed commitments outstanding           | 21,529                | 27,386               |

Additionally, at September 30, 2012 and December 31, 2011 we had the following bank guarantees which have been cash collateralized and included in prepaid expenses and other assets on our consolidated/combined consolidated balance sheets:

|                 | September 30,<br>2012 | December 31,<br>2011 |
|-----------------|-----------------------|----------------------|
| Bank guarantees | \$ 942                | \$ 675               |

### 8. Equity-Based Compensation

In connection with the IPO, we adopted the Edgen Group Inc. 2012 Omnibus Incentive Plan ("2012 Plan"), which allows us to grant equity-based compensation awards to certain officers, employees and directors providing services to us. Awards under the 2012 Plan may be granted in the form of restricted stock, stock options, stock appreciation rights, restricted stock units and other equity-based awards as deemed appropriate by our compensation committee. Up to 7,700,000 shares of our Class A common stock may be issued as awards under the 2012 Plan. After giving effect to the awards exchanged in connection with the Reorganization and those discussed below, an additional 2,926,792 shares may be issued subject to automatic annual increases in accordance with the terms of the 2012 Plan.

### Exchange of Predecessor Unit-Based Compensation

In connection with the IPO and the Reorganization, all restricted units of EM II LP and B&L Holdings and all outstanding options to acquire the common partnership units of EM II LP and membership units of B&L Holdings were exchanged contemporaneously for a substantially equivalent value of restricted shares of our Class A common stock or options to acquire our Class A common stock, as applicable. The resulting restricted shares and stock options contain substantially identical terms, conditions and vesting schedules as the previously outstanding EM II LP and B&L Holdings unit-based awards. We accounted for these exchanges as a modification as required by GAAP. The modification did not result in any additional compensation expense as the fair value of the EM II LP and B&L

Holdings unit-based awards immediately prior to their modification was substantially the same as the fair value of the newly issued equity-based awards immediately after the modification. Since this modification, we have continued to record compensation expense associated with these equity-based awards over the remaining vesting period.



Equity-Based Compensation Activity

The following table presents the equity-based compensation expense that has been recorded within the consolidated/combined consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011. All amounts prior to the IPO relate to the unit-based compensation awards of our Predecessor.

| Equity-based compensation expense by type:           | Three months ended September 30, |       | Nine months ended September 30, |         |
|--|----------------------------------|-------|---------------------------------|---------|
|  | 2012                             | 2011  | 2012                            | 2011    |
| Stock options  | \$375                            | \$377 | \$1,124                         | \$1,095 |
| Restricted stock                                     | 127                              | 313   | 3,783                           | 853     |
| Total equity-based compensation expense              | 502                              | 690   | 4,907                           | 1,948   |
| Tax benefit recognized                               | —                                | —     | —                               | —       |
| Total equity-based compensation expense - net of tax | \$502                            | \$690 | \$4,907                         | \$1,948 |

Stock Option Activity

A summary of stock option activity during the nine months ended September 30, 2012 is presented below. As discussed above, in connection with the IPO and the Reorganization, all of the options to purchase units of EM II LP and B&L Holdings that were outstanding prior to the IPO and the Reorganization were exchanged for a substantially equivalent value of options to purchase shares of our Class A common stock. As such, the table below reflects the exchange on May 2, 2012 of 14,623 Predecessor options for 1,723,981 options to purchase our Class A common stock:

|   | Number of options |             | Weighted-average exercise price per share | Weighted-average remaining contractual term (in years) |
|---|-------------------|-------------|---|--|
|   | Predecessor       | Edgen Group |   |  |
| Outstanding - December 31, 2011                 | 14,923            | —           | \$ 1,080                                  |  |
| Granted   | —                 | —           | —   |  |
| Exercised                                       | —                 | —           | —   |  |
| Forfeited                                       | (300 )            | —           | 1,000                                     |  |
| Expired   | —                 | —           | —   |  |
| Outstanding - May 2, 2012 (IPO date)            | 14,623            | —           | 1,082                                     |  |
| Exchange of Predecessor unit-based compensation | (14,623 )         | 1,723,981   | 9.18                                      |  |
| Granted   | —                 | —           | —   |  |
| Exercised                                       | —                 | —           | —   |  |
| Forfeited                                       | —                 | (31,789 )   | 14.31                                     |  |
| Expired   | —                 | —           | —   |  |
| Outstanding - September 30, 2012                | —                 | 1,692,192   | 9.08                                      | 7.01   |
| Exercisable - September 30, 2012                | —                 | 874,416     | 10.26                                     | 6.46   |

At September 30, 2012, there was \$2,066 of compensation expense associated with unvested stock options which we expect to recognize over a weighted average period of 1.54 years.



Restricted Stock Activity

The following table summarizes restricted stock activity during the nine months ended September 30, 2012, including the exchange on May 2, 2012 of 4,139 Predecessor unvested restricted units for 783,013 unvested restricted shares of our Class A common stock:

|   | Number of shares |             | Weighted-average grant date fair value |
|---|------------------|-------------|--|
|   | Predecessor      | Edgen Group |  |
| Outstanding - December 31, 2011                 | 4,252            | —           | \$1,271                                |
| Granted   | —                | —           | —                                      |
| Vested  | (113 )           | —           | 1,075                                  |
| Forfeited                                       | —                | —           | —                                      |
| Outstanding - May 2, 2012 (IPO date)            | 4,139            | —           | 1,222                                  |
| Exchange of Predecessor unit-based compensation | (4,139 )         | 783,013     | 6.31                                   |
| Granted   | —                | 61,389      | 7.33                                   |
| Vested  | —                | (598,390 )  | 6.57                                   |
| Forfeited                                       | —                | (1,165 )    | —                                      |
| Outstanding - September 30, 2012                | —                | 244,847     | 5.94                                   |

In June 2012, we accelerated the vesting period of 533,085 shares of restricted stock previously awarded to employees in our OCTG segment, resulting in an additional \$3,004 of compensation expense during the period. At September 30, 2012, there was \$1,363 of compensation expense associated with unvested restricted stock which we expect to recognize over a weighted average period of 1.45 years.

9. Equity

Our amended and restated certificate of incorporation provides for two classes of common stock, Class A and Class B, as well as preferred stock, the rights, preferences and privileges of which will be designated by our board at the time of issuance. There are currently no shares of our preferred stock outstanding. We are authorized to issue 500,000,000 shares of our capital stock, all with a par value of \$0.0001 per share. Of these shares, 435,656,862 shares are designated as Class A common stock, 24,343,138 shares are designated as Class B common stock and 40,000,000 shares are designated as preferred stock.

Class A and Class B Common Stock

Holders of our Class A common stock and holders of our Class B common stock are each entitled to one vote per share and will vote together as a single class on all matters submitted to a vote of stockholders except in limited circumstances outlined in our amended and restated certificate of incorporation.

Holders of our Class A common stock are entitled to receive dividends, if any are declared by our board, and, in the event of our liquidation, dissolution or winding up, will be entitled to receive ratably the assets available for distribution to our stockholders after payment of liabilities and payment of liquidation preference on any outstanding shares of our preferred stock. Holders of our Class B common stock have no economic rights to our assets or income. All of our Class B common stock is held by EM II LP and B&L Holdings.

The following table presents our common stock share activity since the IPO:

|  | Common stock |         |
|--|--------------|---------|
|  | Class A      | Class B |
| Balance at May 2, 2012 (IPO date)                |              |         |
| Class A shares issued in connection with the IPO | 15,000,000   | —       |

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|  |            |            |
|--|------------|------------|
| Class B shares issued to EM II LP and B&L Holdings in connection with the Reorganization | —          | 24,343,138 |
| Class A restricted shares issued in connection with the Reorganization                   | 2,987,838  | —          |
| Restricted common stock issued   | 61,389     | —          |
| Forfeiture of restricted common stock  | (1,165 )   | —          |
| Balance at September 30, 2012  | 18,048,062 | 24,343,138 |

### Non-Controlling Interest

Non-controlling interest recorded in our consolidated financial statements subsequent to the IPO primarily relates to the approximately 57% combined ownership of EDG LLC by EM II LP and B&L Holdings.

As discussed in Note 1, a portion of the historical Predecessor net deficit was transferred to non-controlling interest as part of the Reorganization, representing the ownership of EDG LLC by EM II LP and B&L Holdings. Subsequent to the Reorganization, any changes to non-controlling interest are the result of: (i) EM II LP's and B&L Holdings' proportional share of the comprehensive income or loss generated by EDG LLC; (ii) 30% of the income earned by our Bahraini joint venture; and (iii) the exercise of Exchange Rights, if any, discussed below.

### Exchange Rights

In connection with the Reorganization, we and EDG LLC entered into an Exchange Agreement with each of EM II LP and B&L Holdings which, subject to certain limitations and subject to the terms specified in each Exchange Agreement, allows EM II LP and B&L Holdings to exchange their membership units of EDG LLC, together with their shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis (subject to customary conversion rate adjustments for splits, stock dividends and reclassifications), or, at our election, cash, ("Exchange Rights") as provided in the applicable Exchange Agreement. Subsequent to the Reorganization, EM II LP and B&L Holdings beneficially own 12,615,230 and 11,727,908, respectively, of EDG LLC membership units and shares of our Class B common stock. As the Exchange Rights are exercised, our non-controlling interest will be reduced and our outstanding shares of Class A common stock will increase. There have been no exercises of Exchange Rights since the IPO.

The following table presents our non-controlling interest at the dates indicated:

|   | Non-controlling interest |                           | Total non-controlling interest |
|---|--------------------------|---------------------------|--------------------------------|
|   | Predecessor owners       | Joint venture partner (1) |                                |
| Balance at December 31, 2011  | \$ —                     | \$ 330                    | \$ 330                         |
| Net income attributable to non-controlling interest                   | —                        | 11                        | 11                             |
| Balance at May 2, 2012 (IPO date)                                     | —                        | 341                       | 341                            |
| Allocation of Predecessor net deficit to non-controlling interest (2) | (38,328)                 | —                         | (38,328)                       |
| Allocation of Predecessor AOCL to non-controlling interest (2)        | (12,429)                 | —                         | (12,429)                       |
| Net loss attributable to non-controlling interest                     | (2,013)                  | (6)                       | (2,019)                        |
| Other comprehensive income attributable to non-controlling interest   | (333)                    | —                         | (333)                          |
| Cash contributions from non-controlling interest                      | —                        | —                         | —                              |
| Cash distributions paid to non-controlling interest                   | —                        | —                         | —                              |
| Balance at September 30, 2012   | \$ (53,103)              | \$ 335                    | \$ (52,768)                    |

(1) Represents the 30% interest we do not own in a consolidated Bahraini joint venture.

(2) Net income attributable to non-controlling interests and other comprehensive income attributable to non-controlling interests associated with the Predecessor owners is calculated as the net income or loss and other comprehensive income or loss generated by EDG LLC during the period, multiplied by the weighted average non-controlling ownership percentage during the period. The weighted average non-controlling ownership percentage during the period was approximately 57%.

### 10. Earnings (Loss) per Share

We calculate basic earnings per share by dividing the earnings attributable to Edgen Group by the weighted average number of shares of common stock outstanding during each period, which includes Class A common stock issued in connection with equity offerings, restricted stock that has vested and shares that have been purchased through the exercise of vested stock options. Diluted earnings per share amounts include the dilutive effect of stock options (using the treasury stock method as prescribed by GAAP) and other stock awards granted to employees under the 2012 Plan, as well as the exchange of Class B common shares for Class A common shares via the exercise of the Exchange Rights. We adjust the numerator in our diluted earnings per share calculation for the income attributable to non-controlling interest of EDG LLC owned by the holders of our Class B common shares. As the Class B shares are exchanged, the amount of income allocated to Edgen Group will increase and the amount of income allocated to the non-controlling interest holders of EDG LLC will decrease.

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The following table sets forth the computation of basic and diluted earnings (loss) per share for the three months ended September 30, 2012 and the period from May 2, 2012 to September 30, 2012 (the period since the IPO and the Reorganization). Prior to the IPO and the Reorganization, all income or loss generated from our operations was allocated to the Predecessor. Because we historically operated as a series of related partnerships and limited liability companies and there was no single capital structure upon which to calculate historical earnings per share information, we have not provided a calculation of basic and diluted earnings per share for periods prior to the IPO and the Reorganization.

|  | Three months ended<br>September 30,<br>2012 | Period from<br>May 2, 2012 to<br>September 30,<br>2012 |
|--|---|--|
| Basic earnings (loss) per share:                   |   |  |
| Numerator (in thousands):                          |   |  |
| Net income (loss) attributable to Edgen Group Inc. | \$3,886                                     | \$(2,189 )   |
| Denominator:                                       |   |  |
| Class A shares                                     | 17,771,939                                  | 17,547,082   |
| Basic weighted average common shares outstanding   | 17,771,939                                  | 17,547,082   |
| Basic earnings (loss) per share                    | \$0.22                                      | \$(0.12 )  |
| Diluted earnings (loss) per share:                 |   |  |
| Numerator (in thousands):                          |   |  |
| Net income (loss) attributable to Edgen Group Inc. | \$3,886                                     | \$(2,189 )   |
| Denominator:                                       |   |  |
| Basic weighted average common shares outstanding   | 17,771,939                                  | 17,547,082   |
| Class A unvested restricted shares                 | 277,187                                     | —  |
| Class A options (vested and unvested)              | 133,398                                     | —  |
| Diluted weighted average common shares outstanding | 18,182,524                                  | 17,547,082   |
| Diluted earnings (loss) per share                  | \$0.21                                      | \$(0.12 )  |

The table below presents the shares that were excluded from our dilutive earnings (loss) per share calculation due to their anti-dilutive nature.

|                                       | Three months ended<br>September 30, 2012 | Period from<br>May 2, 2012 to<br>September 30, 2012 |
|---------------------------------------|--|---|
| Class A unvested restricted shares    | \$ —                                     | 243,848   |
| Class B shares                        | 24,343,138                               | 24,343,138  |
| Class A options (vested and unvested) | 771,585                                  | 1,692,192   |
| Total anti-dilutive shares            | 25,114,723                               | 26,279,178  |

#### 11. Income Taxes

We are subject to U.S., federal, state and local income taxes. In addition, certain of our subsidiaries are subject to foreign income taxes based on the various jurisdictions in which they operate. We provide for current and deferred corporate income taxes in our consolidated/combined consolidated financial statements. Due to the organizational structure of our subsidiaries, some of which are pass-through entities for income tax purposes, and others which are corporations, the effective tax rate calculated from our consolidated/combined consolidated financial statements is not

indicative of our actual effective tax rate, which is a combination of the effective tax rates of our taxable subsidiaries, adjusted for our ownership percentage of each subsidiary. Our consolidated annualized estimated effective tax rate for the year is approximately 15%.



The following table presents our income tax expense for the periods indicated:

|   | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2012                                | 2011    | 2012                               | 2011     |
| Income (loss) before income tax expense | \$12,919                            | \$3,599 | \$4,335                            | \$(636)  |
| Income tax expense                      | 2,535                               | 1,193   | 3,674                              | 3,315    |
| Effective tax rate                      | 20                                  | % 33    | % 85                               | % (521)% |

Prior to the IPO and the Reorganization, we did not incur tax on the income earned by the subsidiary that comprises our OCTG segment because that subsidiary was a pass-through entity for income tax purposes. As a result of the Reorganization, we now incur tax expense as a result of our allocation of this segment's income. Additionally, we did not recognize a tax benefit for taxable losses generated in our E&I segment by our U.S. operations during the nine months ended September 30, 2012 and 2011 due to a valuation allowance that has been established against any tax benefits related to these taxable losses.

At September 30, 2012 and December 31, 2011, a valuation allowance of \$34,214 and \$24,299, respectively, was recorded against deferred tax assets and net operating loss ("NOL") carryforwards. The NOLs are scheduled to expire beginning in 2024 through 2031.

The following is a summary of activity related to uncertain tax positions:

|  |         |
|--|---------|
| Balance at January 1, 2012   | \$1,939 |
| Gross increases for tax positions taken in prior year              | 542     |
| Settlement of uncertain tax position with tax authorities          | —       |
| Lapse of statute of limitations related to uncertain tax positions | —       |
| Foreign currency translation                                       | 83      |
| Balance at September 30, 2012                                      | \$2,564 |

Our subsidiaries have open tax years as follows:

| Jurisdiction    | Tax years<br>open for<br>assessment |
|-----------------|-------------------------------------|
| Federal         | 2008- 2011                          |
| Various State   | 2005- 2011                          |
| Various Foreign | 2007- 2011                          |

To the extent amended returns are filed with respect to pre-2008 tax year ends, these years would be subject to limited examination by the Internal Revenue Service.

#### Tax Receivable Agreements ("TRA")

In connection with the Reorganization, we entered into a TRA with each of EM II LP and B&L Holdings that will provide for the payment by us to EM II LP and B&L Holdings of 85% of the amount of the cash savings, if any, in U.S. federal, state and local income taxes that we actually realize as a result of increased depreciation and amortization deductions available to us as a result of the exercise of the Exchange Rights. We will retain the remaining 15% of cash savings, if any, in realized income tax savings. The term of the TRAs commenced upon completion of the IPO and will continue until all such tax benefits have been utilized or have expired. Because there have been no exercises of Exchange Rights, the TRAs have not impacted our financial statements.



## 12. Commitments and Contingencies

### Operating Leases

Through our subsidiaries, we lease various properties, warehouses, equipment, vehicles and office space under operating leases with remaining terms ranging from one to nine years with various renewal options of up to 20 years. In addition to rental payments, substantially all leases require payment of taxes, insurance and maintenance costs. Total rental expense for all operating leases is as follows:

|                                | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                | 2012                                | 2011     | 2012                               | 2011     |
| Operating lease rental expense | \$ 1,305                            | \$ 1,377 | \$ 3,735                           | \$ 3,799 |

### Employment Agreements

In the ordinary course of business, we have entered into employment agreements with certain executives. Among other things, the employment agreements provide for minimum salary levels, incentive bonuses and other compensation. Employment agreement terms also include payments to the executives in the event of termination of employment. The payments, among other things, may include cash severance, continuation of medical and other insurance benefits and acceleration of the vesting of certain equity-based awards, depending on, among other factors, the circumstances surrounding termination.

### Legal Proceedings

We are involved in various claims, lawsuits and proceedings arising in the ordinary course of business. Although we attempt to collect from our suppliers any amounts paid to our customers arising from warranty claims and lawsuits, there can be no assurance that we will be able to recover from our suppliers, in every instance, any or all of the amounts claimed by our customers. While there are uncertainties inherent in the ultimate outcome of such matters and it is impossible to presently determine the ultimate costs that may be incurred, we believe the resolution of such uncertainties and the incurrence of such costs will not have a material effect on our consolidated financial position, results of operations or cash flows.

## 13. Segment Information

We have two reportable segments: E&I and OCTG. Certain overhead operating expenses of our non-trading entities, including EM Holdings, EDG LLC, and Edgen Group are not allocated to the segments, but are included in Corporate.

The E&I segment, which is branded under the “Edgen Murray” name, serves customers in the Americas, Europe/Middle East/Africa and Asia Pacific regions distributing pipe, plate, valves and related components to upstream, midstream, downstream and select power generation, civil construction and mining customers across more than 30 global locations.

The OCTG segment, which is branded under the “Bourland & Leverich” name, provides oil country tubular goods to the upstream conventional and unconventional onshore drilling market in the U.S. through nine customer sales and service locations and over 50 third-party owned distribution facilities.

Our Chairman and Chief Executive Officer evaluates segment performance based on net income (loss) before income taxes, interest expense and depreciation and amortization expense. We account for sales between segments at an agreed margin between segment management.

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The following table presents the financial information for each reportable segment. The prior period information related to the combined results of the Predecessor has been recast to conform to our change in segments made in connection with the IPO and the Reorganization:

|  | Three months ended September<br>30, |                       | Nine months ended September<br>30, |                    |
|--|-------------------------------------|-----------------------|------------------------------------|--------------------|
|  | 2012                                | 2011                  | 2012                               | 2011               |
| <b>Sales:</b>  |                                     |                       |                                    |                    |
| E&I  | \$295,651                           | \$244,838             | \$828,691                          | \$652,949          |
| OCTG   | 239,188                             | 212,328               | 708,479                            | 546,395            |
| Intersegment sales                                       | (215 )                              | —                     | (217 )                             | (62 )              |
| <b>Total sales</b>                                       | <b>\$534,624</b>                    | <b>\$457,166</b>      | <b>\$1,536,953</b>                 | <b>\$1,199,282</b> |
| <b>Intersegment sales:</b>                               |                                     |                       |                                    |                    |
| E&I  | \$71                                | \$—                   | \$71                               | \$—                |
| OCTG   | 144                                 | —                     | 146                                | 62                 |
| <b>Total intersegment sales</b>                          | <b>\$215</b>                        | <b>\$—</b>            | <b>\$217</b>                       | <b>\$62</b>        |
| <b>Selling, general and administrative expense:</b>      |                                     |                       |                                    |                    |
| E&I  | \$17,870                            | \$18,464              | \$51,094                           | \$49,609           |
| OCTG   | 3,534                               | 3,825                 | 14,442                             | 10,039             |
| Corporate  | 3,767                               | 2,816                 | 11,070                             | 7,313              |
| <b>Total selling, general and administrative expense</b> | <b>\$25,171</b>                     | <b>\$25,105</b>       | <b>\$76,606</b>                    | <b>\$66,961</b>    |
| <b>Depreciation and amortization:</b>                    |                                     |                       |                                    |                    |
| E&I  | \$4,270                             | \$5,296               | \$13,130                           | \$15,891           |
| OCTG   | 3,635                               | 3,637                 | 10,901                             | 10,890             |
| Corporate  | —                                   | —                     | —                                  | —                  |
| <b>Total depreciation and amortization</b>               | <b>\$7,905</b>                      | <b>\$8,933</b>        | <b>\$24,031</b>                    | <b>\$26,781</b>    |
| <b>Income from operations:</b>                           |                                     |                       |                                    |                    |
| E&I  | \$19,366                            | \$13,174              | \$49,817                           | \$33,897           |
| OCTG   | 16,017                              | 13,903                | 42,383                             | 35,440             |
| Corporate  | (3,767 )                            | (2,816 )              | (11,070 )                          | (7,313 )           |
| <b>Total income from operations</b>                      | <b>\$31,616</b>                     | <b>\$24,261</b>       | <b>\$81,130</b>                    | <b>\$62,024</b>    |
|  |                                     | September 30,<br>2012 | December 31,<br>2011               |                    |
| <b>Assets:</b>   |                                     |                       |                                    |                    |
| E&I  | \$                                  | 586,906               | \$                                 | 537,872            |
| OCTG   |                                     | 364,799               |                                    | 362,868            |
| Corporate  |                                     | 1,347                 |                                    | —                  |
| <b>Total assets</b>                                      | <b>\$</b>                           | <b>953,052</b>        | <b>\$</b>                          | <b>900,740</b>     |

#### 14. Derivatives and Other Financial Instruments

In the normal course of business, we are exposed to certain risks, including changes in interest rates and foreign currency rates. We enter into derivative financial instruments to manage certain exposures to these risks. Our derivative policy requires that only known firm commitments are hedged and does not allow us to enter into any derivative instruments for trading or other speculative purposes. We do not designate any of our outstanding derivatives as hedging instruments and as such, account for all of our derivatives using mark-to-market accounting.

#### Currency Exchange Rate Risk

Transactions hedged by us include forecasted purchase commitments. The total notional amount of outstanding forward contracts at September 30, 2012 and December 31, 2011 was \$51,048 and \$56,005, respectively.

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The following table provides a balance sheet overview of our derivative assets and liabilities at the dates indicated (n/a is defined as not applicable):

|   | Asset derivatives      |            |                        |            | Liability derivatives                          |            |  |            |
|---|------------------------|------------|------------------------|------------|--|------------|--|------------|
|   | September 30, 2012     |            | December 31, 2011      |            | September 30, 2012                             |            | December 31, 2011                              |            |
|   | Balance sheet location | Fair value | Balance sheet location | Fair value | Balance sheet location                         | Fair value | Balance sheet location                         | Fair value |
| Derivatives designated as hedging instruments     |                        |            |                        |            |  |            |  |            |
| Forward contracts                                 | n/a                    | \$ —       | n/a                    | \$ —       | n/a  | \$ —       | n/a  | \$ —       |
| Derivatives not designated as hedging instruments |                        |            |                        |            |  |            |  |            |
| Forward contracts                                 | Other current assets   | \$ 540     | Other current assets   | \$ 241     | Accrued expenses and other current liabilities | \$ (53)    | Accrued expenses and other current liabilities | \$ (738)   |

The following table discloses the impact of derivative instruments not designated as hedging instruments on our consolidated/combined consolidated statements of operations:

| Derivatives not designated as hedging instruments | Location of gain recognized in income       | Recognized gain in income        |          |                                 |          |
|---|---|----------------------------------|----------|---------------------------------|----------|
|   |   | Three months ended September 30, |          | Nine months ended September 30, |          |
|   |   | 2012                             | 2011     | 2012                            | 2011     |
| Forward contracts                                 | Selling, general and administrative expense | \$ 646                           | \$ 1,208 | \$ 509                          | \$ 1,193 |

At September 30, 2012 and December 31, 2011, the cumulative effect of currency translation adjustments was a loss of \$22,185 and \$25,648, respectively, and is the sole component of accumulated other comprehensive loss on our consolidated/combined consolidated balance sheets. Of this amount at September 30, 2012, \$12,762 is allocated to non-controlling interest and the remaining \$9,423 is classified within accumulated other comprehensive loss. Currency translation adjustments are the result of the translation of our foreign subsidiaries' financial statements that have a functional currency other than the U.S. dollar.

#### Interest Rate Risk

Our variable interest rate risk is limited to cash borrowings under our credit facilities which are subject to interest rates that fluctuate with market rates. This risk is partially mitigated due to the short term nature of these borrowings. There were no interest rate derivatives outstanding at September 30, 2012 and December 31, 2011.

#### Credit Risk

By using derivative instruments to manage our risk exposure, we are subject to credit risk on those derivative instruments. Credit risk arises from the potential failure of the counterparty to perform under the terms of the derivative instrument. We attempt to limit this risk by entering into derivative instruments with bank counterparties with high credit ratings assigned by international credit rating agencies.

#### 15. Fair Value Measurements and Financial Instruments

We classify financial assets and liabilities that are measured and reported at fair value on a recurring basis using a hierarchy based on the inputs used in measuring fair value. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We classify the inputs used to measure fair value into the following hierarchy:

- Level 1: Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable and can be corroborated by observable market data.

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- Level 3: Inputs reflect management's best estimates and assumptions of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation of the instruments.

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2012 and December 31, 2011 are as follows:

|                              | September 30, 2012 |         |         |        | December 31, 2011 |         |         |         |
|------------------------------|--------------------|---------|---------|--------|-------------------|---------|---------|---------|
|                              | Level 1            | Level 2 | Level 3 | Total  | Level 1           | Level 2 | Level 3 | Total   |
| <b>Financial assets</b>      |                    |         |         |        |                   |         |         |         |
| Forward contracts            | \$—                | \$540   | \$—     | \$540  | \$—               | \$241   | \$—     | \$241   |
| <b>Financial liabilities</b> |                    |         |         |        |                   |         |         |         |
| Forward contracts            | \$—                | \$(53)  | \$—     | \$(53) | \$—               | \$(738) | \$—     | \$(738) |

Forward contracts are valued using broker quotations or market transactions in either the listed or over-the counter markets. Management performs procedures to validate the information obtained from the broker quotations in calculating the ultimate fair values. As such, these derivative instruments are classified within Level 2.

The comparison of carrying value and estimated fair value of certain financial instruments are presented below:

|              | September 30, 2012 |            | December 31, 2011 |            |
|--------------|--------------------|------------|-------------------|------------|
|              | Carrying value     | Fair value | Carrying value    | Fair value |
| 2015 Notes   | \$ 462,651         | \$ 495,225 | \$ 462,032        | \$ 404,550 |
| BL term loan | —                  | —          | 116,406           | 112,914    |

The fair value of the 2015 Notes, excluding unamortized discount, has been estimated based upon market quotes approximating the fair value at the dates indicated. The fair value of the BL term loan, which was fully repaid in connection with the IPO, was estimated based upon the most recent trades of the debt by participating banks in a secondary market.

The fair value amounts shown are not necessarily indicative of the amounts that we would realize upon disposition, nor do they indicate our intent or ability to dispose of the financial instrument. We believe that the carrying amounts of our other financial assets and liabilities approximate their fair values due to their short term nature.

#### 16. Related Party Transactions

An employee pension fund of the ultimate parent company of one of our customers owns on a fully-diluted ownership basis greater than 5% of our common shares. Sales to this customer for the three and nine months ended September 30, 2012 and 2011 were as follows:

|                        | Three months ended |                    | Nine months ended  |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Sales to related party | \$ 8,995           | \$ 12,182          | \$ 35,513          | \$ 34,638          |

Accounts receivable due from this customer included in accounts receivable on our consolidated/combined consolidated balance sheets at September 30, 2012 and December 31, 2011 were as follows:

September 30,      December 31,



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|  | 2012      | 2011      |
|--|-----------|-----------|
| Accounts receivable from related party | \$ 10,962 | \$ 10,858 |

21

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## Transactions with JCP

We made the following payments to JCP for reimbursement of certain expenses incurred while monitoring its investment in us as follows:

|                 | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |          |
|-----------------|-------------------------------------|------|------------------------------------|----------|
|                 | 2012                                | 2011 | 2012                               | 2011     |
| Payments to JCP | \$                                  | —\$  | 46 \$                              | 11 \$ 64 |

## Transactions with EM II LP

On September 19, 2012, EM II LP, one of our Class B shareholders, loaned us \$950. The loan is due on demand, but no later than December 31, 2012 and accrues interest at 0.21% per annum. This loan is classified within accrued expenses and other current liabilities on our consolidated balance sheet.

## 17. Subsequent Event

On October 16, 2012, EMC completed its offering of the 2020 Notes. The offering was conducted in compliance with Rule 144A and Regulation S of the Securities Act. After deducting offering expenses, discounts and commissions, EMC received net proceeds of approximately \$525,308, which were used to fully repay all of the 2015 Notes (including the payment of tender and redemption premiums, consent fees, accrued interest and other fees and expenses associated with the repayment). The remaining net proceeds from the offering were used for general corporate purposes.

The 2020 Notes, which mature on November 1, 2020, bear interest at a rate of 8.75% per year payable on May 1 and November 1 of each year, beginning on May 1, 2013.

The 2020 Notes are guaranteed on a senior secured basis by all of our existing and certain of our future significant domestic restricted subsidiaries (other than the issuer, EMC). The 2020 Notes and the guarantees are secured: (1) on a first priority basis by substantially all of EMC's and the guarantors' current and future property and assets (other than the collateral securing the EM revolving credit facility and the Amended and Restated BL revolving credit facility (together, the "Revolving Credit Facilities") on a first priority basis), including the capital stock of each of our wholly owned subsidiaries, which, in the case of foreign subsidiaries, is limited to 65% of the voting stock and 100% of the non-voting stock of each such first-tier subsidiary that is a foreign subsidiary; and (2) on a second priority basis by substantially all of the collateral that secures our Revolving Credit Facilities on a first priority basis.

The 2020 Notes are our senior secured obligations and rank equally in right of payment with all of our existing and future senior indebtedness and senior in right of payment to any future subordinated indebtedness. The guarantees will rank equally in right of payment with all of the existing and future senior indebtedness of our subsidiary guarantors. The 2020 Notes and guarantees are effectively subordinated in right of payment to any indebtedness under our Revolving Credit Facilities, to the extent our and the guarantors' assets secure such obligations on a first priority basis and are effectively junior to any secured indebtedness that is either secured by assets that are not collateral for the 2020 Notes and the guarantees or secured by a prior lien in the collateral for the 2020 Notes and the guarantees, in each case, to the extent of the value of the assets securing such indebtedness.

EMC may redeem the 2020 Notes in whole or in part on and after November 1, 2015 at the redemption prices described below, plus accrued and unpaid interest, if any, at the date of redemption. In addition, EMC may redeem up to 35% of the 2020 Notes before November 1, 2015 with the proceeds of certain equity offerings.

| Period | Redemption<br>Price |
|--------|---------------------|
|--------|---------------------|

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|                              |         |   |
|------------------------------|---------|---|
| On of after November 1, 2015 | 106.563 | % |
| On of after November 1, 2016 | 104.375 | % |
| On of after November 1, 2017 | 102.188 | % |
| On of after November 1, 2018 | 100.000 | % |

22

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words “may,” “could,” “would,” “should,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project,” “intend,” “potential,” “predicts,” “will” and the negative of these terms or other comparable terminology. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, including the realization of revenue from our sales backlog, our business strategy and means to implement the strategy, our objectives, industry trends, the impact of the initial public offering, the likelihood of our success in expanding our business, financing and refinancing plans, budgets, working capital needs, borrowing availability under our revolving credit agreements and other sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. You should not put undue reliance on our forward-looking statements. These statements are based on our management's beliefs and assumptions, which, in turn, are based on currently available information. These assumptions could prove inaccurate. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those described in more detail under the section, Risk Factors, included in our Prospectus filed with the SEC on April 27, 2012 and other announcements we make from time to time. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated/combined consolidated financial statements and the related notes to the financial statements included elsewhere in this Form 10-Q, and the audited consolidated financial statements and accompanying notes included in our Prospectus filed with the SEC on April 27, 2012. The following discussion and analysis of our financial condition and results of operations contains forward-looking statements within the meaning of the federal securities laws. See "Cautionary Statement Regarding Forward-Looking Statements."

### Significant Recent Developments

#### Initial Public Offering and Reorganization

On May 2, 2012, we completed an initial public offering ("IPO") of 15,000,000 shares of Class A common stock at a price of \$11.00 per share, which generated net proceeds of approximately \$149.3 million after deducting underwriting discounts, expenses and transaction costs. We used these net proceeds to purchase newly issued membership units of EDG Holdco LLC ("EDG LLC"), which EDG LLC used to repay certain indebtedness of its subsidiaries, Edgen Murray Corporation ("EMC") and Bourland & Leverich Supply Co. LLC ("B&L"). See "Liquidity and Capital Resources" within this Item 2 for more information regarding our use of proceeds received from the IPO.

Immediately prior to the IPO, we completed a series of transactions (the "Reorganization") which resulted in our consolidation of the historical businesses of Edgen Murray II, L.P. ("EM II LP") and Bourland and Leverich Holdings LLC ("B&L Holdings"). The Reorganization was accounted for as a transaction between entities under common control which requires us to present our financial information as if the Reorganization had occurred for all periods that the combined entities were under common control. As such, all financial information included within this Item 2 for periods prior to the IPO reflect the combined operations of the historical businesses of EM II LP and B&L Holdings.

#### 2020 Notes

On October 16, 2012, EMC completed an offering of \$540.0 million aggregate principal amount of 8.75% Senior Secured Notes due 2020 (the "2020 Notes") with an original issue discount of \$3.9 million. The offering was conducted in compliance with Rule 144A and Regulation S of the Securities Act. After deducting offering expenses, discounts and commissions, EMC received net proceeds of approximately \$525.3 million, which were used to fully repay all of the 2015 Notes (including the payment of tender and redemption premiums, consent fees, accrued interest and other fees and expenses associated with the repayment). The remaining net proceeds from the offering were used for general corporate purposes.

The 2020 Notes, which mature on November 1, 2020, bear interest at a rate of 8.75% per year payable on May 1 and November 1 of each year, beginning on May 1, 2013.

The 2020 Notes are guaranteed on a senior secured basis by all of our existing and certain of our future significant domestic restricted subsidiaries (other than the issuer, EMC). The 2020 Notes and the guarantees are secured: (1) on a first priority basis by substantially all of EMC's and the guarantors' current and future property and assets (other than the collateral securing the EM revolving credit facility and the Amended and Restated BL revolving credit facility (together, the "Revolving Credit Facilities") on a first priority basis), including the capital stock of each of our wholly owned subsidiaries, which, in the case of foreign subsidiaries, is limited to 65% of the voting stock and 100% of the non-voting stock of each such first-tier subsidiary that is a foreign subsidiary; and (2) on a second priority basis by substantially all of the collateral that secures our Revolving Credit Facilities on a first priority basis.

The 2020 Notes are our senior secured obligations and rank equally in right of payment with all of our existing and future senior indebtedness and senior in right of payment to any future subordinated indebtedness. The guarantees will rank equally in right of payment with all of the existing and future senior indebtedness of our subsidiary guarantors.

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The 2020 Notes and guarantees are effectively subordinated in right of payment to any indebtedness under our Revolving Credit Facilities, to the extent our and the guarantors' assets secure such obligations on a first priority basis and are effectively junior to any secured indebtedness that is either secured by assets that are not collateral for the 2020 Notes and the guarantees or secured by a prior lien in the collateral for the 2020 Notes and the guarantees, in each case, to the extent of the value of the assets securing such indebtedness.

EMC may redeem the 2020 Notes in whole or in part on and after November 1, 2015 at the redemption prices described below, plus accrued and unpaid interest, if any, at the date of redemption. In addition, EMC may redeem up to 35% of the 2020 Notes before November 1, 2015 with the proceeds of certain equity offerings.

| Period                       | Redemption Price |   |
|------------------------------|------------------|---|
| On of after November 1, 2015 | 106.563          | % |
| On of after November 1, 2016 | 104.375          | % |
| On of after November 1, 2017 | 102.188          | % |
| On of after November 1, 2018 | 100.000          | % |

## Overview of Business

### General

We are a leading global distributor of our suppliers' manufactured products and earn revenue from the sale of specialty products to the energy sector. We primarily serve customers that operate in the upstream, midstream and downstream end-markets for oil and natural gas. We also serve power generation, civil construction and mining applications, which have a similar need for our technical, procurement and global delivery expertise in specialized steel and specialty steel products. We have operations in the U.S., Canada, Brazil, the U.K., France, Norway, the United Arab Emirates ("UAE"), Saudi Arabia, India and Singapore and sales representative offices in Australia, China, South Korea and Indonesia. Our headquarters are located in Baton Rouge, Louisiana. We manage our business in two reportable segments: Energy & Infrastructure ("E&I") and Oil Country Tubular Goods ("OCTG").

Our revenues are predominantly derived from the sale of specialty steel products which are primarily used by the energy sector for capital expenditures and maintenance, repair and operations ("MRO"). As a result, our business is cyclical and substantially dependent upon conditions in the energy industry and, in particular, the willingness by our customers to make capital expenditures for the exploration and production, gathering and transmission, refining and processing of oil and natural gas.

The factors affecting our business, as well as our revenue sources, pricing, and our principal costs and expenses have not materially changed from those disclosed in our Prospectus filed with the SEC on April 27, 2012.

### Customer and Supplier Concentration

Our ten largest customers and ten largest suppliers represented the following percentages of our sales and product purchases for the three and nine months ended September 30, 2012 and 2011:

|  | Three months ended<br>September 30, |   |      |   | Nine months ended<br>September 30, |   |      |   |
|--|-------------------------------------|---|------|---|------------------------------------|---|------|---|
|  | 2012                                |   | 2011 |   | 2012                               |   | 2011 |   |
| Top ten customers as a percentage of sales             | 37                                  | % | 36   | % | 33                                 | % | 35   | % |
| Top ten suppliers as a percentage of product purchases | 56                                  | % | 74   | % | 62                                 | % | 66   | % |

No one customer accounted for more than 10% of our sales during the three and nine months ended September 30, 2012 and 2011.

During the three and nine months ended September 30, 2012 and 2011, our largest supplier accounted for the following percentages of our total purchases:

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|   | Three months ended<br>September 30, |   |      |   | Nine months ended<br>September 30, |   |      |   |
|---|-------------------------------------|---|------|---|------------------------------------|---|------|---|
|   | 2012                                |   | 2011 |   | 2012                               |   | 2011 |   |
| Percentage of total purchases derived<br>from single largest supplier | 20                                  | % | 28   | % | 24                                 | % | 26   | % |

25

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The oil and natural gas industry continues to comprise the majority of our business. During the three and nine months ended September 30, 2012 and 2011, we derived the following percentage of our sales from customers in the oil and natural gas industry:

|   | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |      |
|---|-------------------------------------|------|------------------------------------|------|
|   | 2012                                | 2011 | 2012                               | 2011 |
| Percentage of sales derived from the oil and natural gas industry | 93                                  | % 99 | % 93                               | % 92 |

The table below presents the percentage of our sales during the three and nine months ended September 30, 2012 and 2011 that originated in subsidiaries outside of the U.S. These percentages do not reflect sales originating in the U.S. that are delivered to customers outside of the U.S.:

|  | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |      |
|--|-------------------------------------|------|------------------------------------|------|
|  | 2012                                | 2011 | 2012                               | 2011 |
| Percentage of sales originated outside of the U.S. | 22                                  | % 19 | % 19                               | % 22 |

### Sales Backlog

The table below presents our sales backlog at the dates indicated:

| (in millions) | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---------------|-----------------------|----------------------|-----------------------|
| Sales backlog | \$ 350                | \$ 353               | \$ 412                |

Sales backlog at September 30, 2012 is comprised primarily of sales orders related to: (1) the construction of offshore high performance multi-purpose platform, or jack-up, oil rigs; (2) oil and natural gas gathering and storage systems; and (3) other offshore exploration and production infrastructure.

Our sales backlog represents our estimate of potential future revenues that may result from contracts/orders currently awarded to us by our customers. Sales backlog is determined by the amount of unshipped third party customer purchase orders and may be revised upward or downward, or canceled by our customers in certain instances. There can be no assurance that sales backlog will ultimately be realized as revenue or that we will earn a profit on any of our sales backlog. Realization of revenue from sales backlog is dependent on, among other things, our ability to fulfill purchase orders and transfer title to customers, which in turn is dependent on a number of factors, including our ability to obtain product from our suppliers. Further, because of the project nature of our business, sales orders and sales backlog can vary materially from quarter to quarter.

### Results of Operations

#### Overview

Our business is highly dependent on the conditions in the energy industry and, in particular, our customers' willingness to make capital expenditures for oil and natural gas infrastructure. Certain key indicators in the energy industry which we believe have impacted our operating results for the three and nine months ended September 30, 2012 and 2011 include worldwide total rig count and oil and natural gas prices, which we believe are correlated with the oil and natural gas-related capital and maintenance spending of our customers.

While total worldwide average rig count increased during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, the continued decrease in natural gas prices during the three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011 has shifted a greater portion of exploration and production away from natural gas and toward oil. This greater emphasis on oil exploration and production, particularly in shale formations in the U.S. which typically require more sophisticated technology and specialized products, has caused a shift in our oil country tubular goods product sales mix toward higher priced alloy products used for well completion. Additionally, increased shale oil and natural gas production has resulted in increased line pipe sales to the North American midstream energy market for the construction of gathering systems and transmission infrastructure.

Three months ended September 30, 2012 compared to three months ended September 30, 2011

The following tables compare sales and income from operations for the three months ended September 30, 2012 and 2011. The period-to-period comparisons of financial results are not necessarily indicative of future results. "NM" means not meaningful.

Sales

| (in millions, except percentages) | Three months ended September 30, |          | \$ Change | % Change |
|-----------------------------------|----------------------------------|----------|-----------|----------|
|                                   | 2012                             | 2011     |           |          |
| E&I                               | \$ 295.6                         | \$ 244.9 | \$ 50.7   | 21%      |
| OCTG                              | 239.2                            | 212.3    | 26.9      | 13%      |
| Eliminations                      | (0.2)                            | —        | (0.2)     | NM       |
| Total                             | \$ 534.6                         | \$ 457.2 | \$ 77.4   | 17%      |

Consolidated. For the three months ended September 30, 2012, consolidated sales increased \$77.4 million, or 17%, to \$534.6 million compared to \$457.2 million for the three months ended September 30, 2011. Despite a decrease in average commodity prices for the three months ended September 30, 2012 compared to the same period in 2011, we had organic sales growth due to the continued worldwide spending by our customers for oil and natural gas infrastructure, particularly in the North America and Asia Pacific ("APAC") regions, and due to increased market share and improved product sales mix within our OCTG segment. The majority of our sales increase was driven by higher sales volumes of our oil gathering and transmission products and oil country tubular goods in the North American energy market and by higher project activity in APAC.

E&I. For the three months ended September 30, 2012, E&I sales increased \$50.7 million, or 21%, to \$295.6 million compared to \$244.9 million for the three months ended September 30, 2011. Sales increases for the period were primarily due to higher sales volumes within the U.S. midstream energy market and from sales of specialty products to support fabrication of offshore infrastructure in APAC. These increases were partially offset by a decline in sales volumes in the Middle East due to reduced project activity as a result of political and economic uncertainties in the region.

OCTG. For the three months ended September 30, 2012, OCTG sales increased \$26.9 million, or 13%, to \$239.2 million compared to \$212.3 million for the three months ended September 30, 2011. Despite a decline in U.S. onshore average rig count during the period, sales increased primarily due to higher sales volumes and an improved product sales mix of specialized alloy products required for horizontal oil and natural gas well drilling and completion.

Income from operations

| (in millions, except percentages) | Three months ended September 30, |         | \$ Change | % Change |
|-----------------------------------|----------------------------------|---------|-----------|----------|
|                                   | 2012                             | 2011    |           |          |
| E&I                               | \$ 19.4                          | \$ 13.2 | \$ 6.2    | 47%      |
| OCTG                              | 16.0                             | 13.9    | 2.1       | 15%      |
| Corporate                         | (3.8)                            | (2.8)   | (1.0)     | 36%      |
| Total                             | \$ 31.6                          | \$ 24.3 | \$ 7.3    | 30%      |

Consolidated. For the three months ended September 30, 2012, consolidated income from operations increased \$7.3 million, or 30%, to \$31.6 million compared to \$24.3 million for the three months ended September 30, 2011. The increase in consolidated income from operations is primarily attributable to higher gross profit from greater sales volumes and the product sales mix change discussed above. Selling, general and administrative expenses were 4.7%

of sales for the three months ended September 30, 2012 compared to 5.5% of sales for the three months ended September 30, 2011.

E&I. For the three months ended September 30, 2012, E&I income from operations increased \$6.2 million, or 47%, to \$19.4 million compared to \$13.2 million for the three months ended September 30, 2011. The increase in income from operations is attributable to higher gross profit from greater sales volumes and lower amortization expense.

OCTG. For the three months ended September 30, 2012, OCTG income from operations increased \$2.1 million, or 15%, to \$16.0 million compared to \$13.9 million for the three months ended September 30, 2011. The increase in income from operations was driven primarily by higher gross profit from greater sales volumes and an improved product sales mix.

Corporate. For the three months ended September 30, 2012, Corporate loss from operations increased \$1.0 million, or 36%, to \$3.8 million compared to \$2.8 million for the three months ended September 30, 2011. The increase in loss from operations was driven primarily by additional staffing and other expenses related to the support of our sales growth.

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Other expense

The following table displays our interest expense–net and income tax expense for the three months ended September 30, 2012 and 2011.

| (in millions, except percentages) | Three months ended September 30, |          | \$ Change | % Change |
|-----------------------------------|----------------------------------|----------|-----------|----------|
|                                   | 2012                             | 2011     |           |          |
| Interest expense-net              | \$(18.3)                         | \$(20.7) | \$2.4     | (12)%    |
| Income tax expense                | 2.5                              | 1.2      | 1.3       | NM       |

Interest expense–net

Interest expense–net for the three months ended September 30, 2012 and 2011 was \$18.3 million and \$20.7 million, respectively. Interest expense–net includes: (i) interest on the 2015 Notes and the Seller Note; (ii) amortization of deferred financing costs and original issue discounts; (iii) interest associated with a capital lease in the U.K; and (iv) interest expense related to borrowings and to fees associated with the utilization of our revolving credit facilities for trade finance instruments issued in support of our normal business operations. The decrease in interest expense is due to lower outstanding debt during the period due to the repayment of certain indebtedness using net proceeds from the IPO.

Income tax expense

Due to the organizational structure of our subsidiaries, some of which are pass-through entities for income tax purposes, and others which are corporations, the effective tax rate calculated from our consolidated/combined consolidated financial statements is not indicative of our actual effective tax rate, which is a combination of the effective tax rates of our taxable subsidiaries, adjusted for our ownership percentage of each subsidiary. Our effective tax rate for the three months ended September 30, 2012 was approximately 20% resulting in income tax expense of \$2.5 million compared to income tax expense of \$1.2 million and an effective tax rate of approximately 33% for the three months ended September 30, 2011.

The income tax expense for the three months ended September 30, 2012 reflects taxable income at an annualized estimated effective tax rate of approximately 15%. Prior to the IPO and the Reorganization, we did not incur tax on the income earned by the subsidiary that comprises our OCTG segment because that subsidiary was a pass-through entity for income tax purposes. As a result of the Reorganization, we now incur tax expense as a result of our allocation of this segment's income. Additionally, we did not recognize a tax benefit for taxable losses generated in our E&I segment by our U.S. operations during the three months ended September 30, 2012 and 2011 due to a valuation allowance that has been established against any tax benefits related to these taxable losses. As a result, any tax benefits from our E&I segment's U.S. operations were excluded in deriving our estimated annual effective tax rate for the three months ended September 30, 2012 and 2011.

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

The following tables compare sales and income from operations for the nine months ended September 30, 2012 and 2011. The period-to-period comparisons of financial results are not necessarily indicative of future results. “NM” means not meaningful.

Sales

| (in millions, except percentages) | Nine months ended September 30, |         | \$ Change | % Change |
|-----------------------------------|---------------------------------|---------|-----------|----------|
|                                   | 2012                            | 2011    |           |          |
| E&I                               | \$828.7                         | \$653.0 | \$175.7   | 27%      |

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|              |           |           |         |    |    |
|--------------|-----------|-----------|---------|----|----|
| OCTG         | 708.5     | 546.4     | 162.1   | 30 | %  |
| Eliminations | (0.2 )    | (0.1 )    | (0.1 )  |    | NM |
| Total        | \$1,537.0 | \$1,199.3 | \$337.7 | 28 | %  |

Consolidated. For the nine months ended September 30, 2012, consolidated sales increased \$337.7 million, or 28%, to \$1,537.0 million compared to \$1,199.3 million for the nine months ended September 30, 2011. Our sales growth, all of which was organic, was primarily driven by higher sales volumes in a majority of our markets, particularly the U.S. midstream and global onshore and offshore upstream energy markets, due to continued increased worldwide oil and natural gas development activity and by an improved product sales mix of our oil country tubular good products.

E&I. For the nine months ended September 30, 2012, E&I sales increased \$175.7 million, or 27%, to \$828.7 million compared to \$653.0 million for the nine months ended September 30, 2011. Sales increased across a majority of our markets, with the largest increases occurring in the midstream energy market in the U.S. and the upstream energy market in the APAC region. Sales increases in the U.S. were due to oil gathering and transmission expenditures in North American shale formations. Increases in the APAC region relate to higher sales of specialty products to support fabrication of offshore infrastructure. These sales increases were partially offset by a decline in project sales volumes in Europe and the Middle East due to lower project activity as a result of political and economic uncertainties in these regions.

OCTG. For the nine months ended September 30, 2012, OCTG sales increased \$162.1 million, or 30%, to \$708.5 million compared to \$546.4 million for the nine months ended September 30, 2011 due to increased sales volumes as a result of increased market share, favorable oil prices and an improved product sales mix towards our alloy products.

#### Income from operations

| (in millions, except percentages) | Nine months ended September 30, |        |           |          |
|-----------------------------------|---------------------------------|--------|-----------|----------|
|                                   | 2012                            | 2011   | \$ Change | % Change |
| E&I                               | \$49.8                          | \$33.9 | \$15.9    | 47 %     |
| OCTG                              | 42.4                            | 35.4   | 7.0       | 20 %     |
| Corporate                         | (11.1 )                         | (7.3 ) | (3.8 )    | 52 %     |
| Total                             | \$81.1                          | \$62.0 | \$19.1    | 31 %     |

Consolidated. For the nine months ended September 30, 2012, consolidated income from operations increased \$19.1 million, or 31%, to \$81.1 million compared to \$62.0 million for the nine months ended September 30, 2011. The increase in consolidated income from operations is primarily attributable to higher gross profit driven by greater sales volumes discussed above, partially offset by increased selling, general and administrative expenses of \$9.6 million. Selling, general and administrative expenses were 5.0% of sales for the nine months ended September 30, 2012 compared to 5.6% of sales for the nine months ended September 30, 2011.

E&I. For the nine months ended September 30, 2012, E&I income from operations increased \$15.9 million, or 47%, to \$49.8 million compared to \$33.9 million for the nine months ended September 30, 2011. The increase in income from operations is due to higher gross profit across a majority of our markets, primarily within the upstream and midstream energy markets, as well as lower amortization expense. This increase was partially offset by lower gross margins for the period due to an unfavorable sales mix of lower margin products to the midstream energy market and higher selling, general and administrative expenses of \$1.5 million related to additional staffing and other expenses to support our sales growth and expansion of our international offices and to higher employee related variable expenses.

OCTG. For the nine months ended September 30, 2012, OCTG income from operations increased \$7.0 million, or 20%, to \$42.4 million compared to \$35.4 million for the nine months ended September 30, 2011. The increase in income from operations was driven primarily by higher gross profit from greater sales volumes and an improved product mix, partially offset by an increase in selling, general and administrative expenses of \$4.4 million, \$3.0 million of which was associated with the acceleration of the vesting period for certain equity-based awards previously granted to segment employees.

Corporate. For the nine months ended September 30, 2012, Corporate loss from operations increased \$3.8 million, or 52%, to \$11.1 million compared to \$7.3 million for the nine months ended September 30, 2011. The increase in loss from operations was driven primarily by additional staffing and other expenses related to the support of our sales growth and expenses associated with becoming a publicly traded company.

Other expense

The following table displays our interest expense-net, loss on prepayment of debt and income tax expense for the nine months ended September 30, 2012 and 2011.

| (in millions, except percentages) | Nine months ended September |           | \$ Change | % Change |
|-----------------------------------|-----------------------------|-----------|-----------|----------|
|                                   | 2012                        | 2011      |           |          |
| Interest expense-net              | \$(59.9 )                   | \$(64.5 ) | \$4.6     | (7 )%    |
| Loss on prepayment of debt        | (17.0 )                     | —         | (17.0 )   | NM       |
| Income tax expense                | 3.7                         | 3.3       | 0.4       | 12 %     |



#### Interest expense—net

Interest expense—net for the nine months ended September 30, 2012 and 2011 was \$59.9 million and \$64.5 million, respectively. Interest expense—net includes: (i) interest on the 2015 Notes, the BL term loan and the Seller Note; (ii) amortization of deferred financing costs and original issue discounts; (iii) interest associated with a capital lease in the U.K; and (iv) interest expense related to borrowings and to fees associated with the utilization of our revolving credit facilities for trade finance instruments issued in support of our normal business operations. The decrease in interest expense is due to lower outstanding debt during the period due to the repayment of certain indebtedness using net proceeds from the IPO.

#### Loss on prepayment of debt

Loss on prepayment of debt of \$17.0 million for the nine months ended September 30, 2012 is the result of our early repayment of the BL term loan and partial repayment of the Seller Note with net proceeds received from the IPO. In connection with these repayments, we incurred a prepayment penalty of \$8.9 million and wrote off \$8.1 million in unamortized discounts and deferred debt issuance costs.

#### Income tax expense

Due to the organizational structure of our subsidiaries, some of which are pass-through entities for income tax purposes, and others which are corporations, the effective tax rate calculated from our consolidated/combined consolidated financial statements is not indicative of our actual effective tax rate, which is a combination of the effective tax rates of our taxable subsidiaries, adjusted for our ownership percentage of each subsidiary. Our effective tax rate for the nine months ended September 30, 2012 was approximately 85% resulting in income tax expense of \$3.7 million compared to income tax expense of \$3.3 million which is an effective tax rate of approximately (521)% for the nine months ended September 30, 2011.

The income tax expense for the nine months ended September 30, 2012 reflects taxable income at an annualized estimated effective tax rate of approximately 15%. Prior to the IPO and the Reorganization, we did not incur tax on the income earned by the subsidiary that comprises our OCTG segment because that subsidiary was a pass-through entity for income tax purposes. As a result of the Reorganization, we now incur income tax expense as a result of our allocation of this segment's income. Additionally, we did not recognize a tax benefit for taxable losses generated in our E&I segment by our U.S. operations during the nine months ended September 30, 2012 and 2011 due to a valuation allowance that has been established against any tax benefits related to these taxable losses. As a result, any tax benefits from our E&I U.S. operations were excluded in deriving our estimated annual effective tax rate for the nine months ended September 30, 2012 and 2011.

#### Liquidity and Capital Resources

##### Overview

At September 30, 2012 we had \$19.2 million of unrestricted cash on hand and \$195.2 million of combined available credit under our revolving credit facilities. Actual credit availability under our revolving credit facilities fluctuates because it is subject to a borrowing base limitation that is calculated based on a percentage of eligible trade accounts receivable and inventories, the balances of which fluctuate, and is subject to discretionary reserves, revaluation adjustments and sublimits as defined by each respective revolving credit facility agreement. Our primary cash requirements, in addition to normal operating expenses and debt service, are for working capital, capital expenditures and business acquisitions. We expect to finance our operations through cash flows generated from operations and from borrowings under our credit facilities. We expect to finance any business acquisitions through one or more of the following: cash on hand; the use of operating cash flows; borrowings under our revolving credit facilities; proceeds from divestitures; and the issuance of additional equity and debt securities. Our debt service requirements are expected to be funded by operating cash flows or refinancing arrangements, but may also be funded through the issuance of additional equity securities.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures depends on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our cash flows are primarily dependent on sales of our products to our customers at profit margins sufficient to cover fixed and variable expenses as well as our ability to successfully collect receivables from our customers on a timely basis. Additionally, provisions of certain of our indebtedness, as well as the laws of the jurisdictions in which our companies are organized, restrict our ability to pay dividends or make certain other restricted payments.

Based on current market conditions, we believe that we will have sufficient liquidity, cash flow from operations and access to capital markets to fund future recurring operating and investing activities and to service our indebtedness. We cannot provide assurance that if our business declines we would be able to generate sufficient cash flows from operations or that future borrowings will be available to us under our credit facilities in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. If we are unable to generate sufficient cash flow from operations in the future to service our indebtedness and to meet our other commitments and liquidity needs, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or raising additional debt or equity capital. We cannot provide assurance that any of these actions could be accomplished on a timely basis or on satisfactory terms, if at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing or future debt agreements may contain provisions prohibiting us from pursuing any of these alternatives. Our failure to comply with these provisions could result in, among other things, an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

#### Long Term Debt

At September 30, 2012 our total indebtedness, including capital leases, was \$612.2 million. Significant changes to our long term debt during the nine months ended September 30, 2012 are presented below:

#### Amendment to EM Revolving Credit Facility

On April 10, 2012, we entered into a seventh amendment (“Seventh Amendment”) to the EM revolving credit facility. The Seventh Amendment permits EM Pte to incur up to \$10.0 million of additional indebtedness secured by a warehouse facility owned by EM Pte in Singapore and increases the unused line fee payable to the Singapore administrative agent and the Singapore collateral agent under the EM revolving credit facility from 0.50% to 0.65%. Additionally, the Seventh Amendment: (i) permitted us to effect the Reorganization to facilitate the IPO; (ii) released EM II LP from its obligations under the EM revolving credit facility; and (iii) provided for certain other conforming and definitional changes.

In August, 2012 we entered into an eighth amendment to the EM revolving credit facility pursuant to which our subsidiary located in France agreed to grant liens to certain inventory in favor of the lenders under the EM revolving credit facility.

On September 28, 2012, we entered into a ninth amendment to the EM revolving credit facility which, among other definitional and conforming changes, permitted us to issue the 2020 Notes and the guarantees related thereto.

#### Amended and Restated BL Revolving Credit Facility

On May 2, 2012, we entered into an amendment and restatement (“BL Amendment”) of the BL revolving credit facility (“Amended and Restated BL revolving credit facility”). The BL Amendment: (i) permitted us to effect the Reorganization to facilitate the IPO; (ii) released B&L Holdings from its obligations under the BL revolving credit facility; and (iii) provided for certain other conforming and definitional changes.

On August 7, 2012, we entered into Amendment No. 1 (the “First Amendment”) to the Amended and Restated BL revolving credit facility. The First Amendment: (i) increased the total revolving commitment under the BL revolving credit facility to \$125.0 million and may be increased further by B&L by an additional \$50.0 million; (ii) reduced the interest rate charged on B&L's borrowings under the Amended and Restated BL revolving credit facility by 1.25% and reduced the unused line commitment fee payable by 0.125% and 0.25%, depending on the quarterly average undrawn availability under the Amended and Restated BL revolving credit facility; and (iii) provided for certain other administrative, conforming and definitional changes.

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On September 28, 2012, we entered into Amendment No. 2 to the Amended and Restated BL revolving credit facility which, among other definitional and conforming changes, permitted us to issue the 2020 Notes and the guarantees related thereto.

Borrowings under our Revolving Credit Facilities

At September 30, 2012, utilization and availability under our revolving credit facilities was as follows:

|  | EM revolving credit facility |           |           |        |        | EM FZE facility | Amended and Restated BL revolving credit facility | Total revolving credit facilities |
|--|------------------------------|-----------|-----------|--------|--------|-----------------|---|-----------------------------------|
|  | EMC                          | EM Canada | EM Europe | EM Pte | Total  |                 |   |                                   |
| Total availability at September 30, 2012 | 145.0                        | 4.6       | 30.4      | 15.0   | 195.0  | 5.0             | 125.0   | 325.0                             |
| Less: cash borrowings                    | (36.2)                       | —         | —         | —      | (36.2) | —               | (52.0)  | (88.2)                            |
| Less: trade finance instruments          | (15.8)                       | —         | (10.7)    | (7.5)  | (34.0) | (2.6)           | —   | (36.6)                            |
| Less: reserves                           | (3.2)                        | (0.1)     | (1.7)     | —      | (5.0)  | —               | —   | (5.0)                             |
| Net availability at September 30, 2012   | 89.8                         | 4.5       | 18.0      | 7.5    | 119.8  | 2.4             | 73.0  | 195.2                             |

(a) Includes a letter of credit in the amount of \$5.0 million that expires on June 14, 2013 and which supports the facility utilized by our subsidiary in Dubai, Edgen Murray FZE (the “EM FZE facility”).

### Debt Repayment

On May 2, 2012, with the net proceeds received from the IPO, we repaid: (i) the remaining principal balance of \$104.5 million, accrued interest of \$1.2 million and a prepayment penalty of \$8.9 million of the BL term loan; (ii) \$11.0 million of principal and accrued interest associated with the Seller Note; and (iii) \$23.8 million of the amount outstanding under the EM revolving credit facility.

On October 16, 2012, we repaid the remaining principal, accrued interest and tender and redemption premiums associated with the 2015 Notes with a portion of the net proceeds received from the 2020 Notes.

### Debt Restrictions and Covenants

We were in compliance with all applicable financial, affirmative and negative covenants under our various debt agreements during the nine months ended September 30, 2012.

### Equity

On May 2, 2012, we completed an IPO of 15,000,000 shares of Class A common stock at a price of \$11.00 per share, which generated net proceeds of approximately \$149.3 million after deducting underwriting discounts, expenses and transaction costs. We used these net proceeds to purchase newly issued membership units of EDG LLC, which EDG LLC used to repay certain indebtedness of its subsidiaries, EMC and B&L.

### Statements of Cash Flows Data

The following table highlights the significant period to period variances in our cash flow amounts:

| (in millions)  | Nine months ended September 30, |           |
|--|---------------------------------|-----------|
|  | 2012                            | 2011      |
| <b>Cash flows provided by (used in) activities:</b>          |                                 |           |
| Net cash used in operating activities                        | \$ (59.3)                       | \$ (40.2) |
| Net cash provided by (used in) investing activities          | (3.0)                           | 3.7       |
| Net cash provided by (used in) financing activities          | 53.9                            | (13.8)    |
| Effect of exchange rate changes on cash and cash equivalents | 1.3                             | (0.6)     |
| Net change in cash and cash equivalents                      | (7.1)                           | (50.9)    |
| Cash and cash equivalents-beginning of period                | 26.3                            | 62.9      |
| Cash and cash equivalents-end of period                      | \$ 19.2                         | \$ 12.0   |

**Operating activities.** Net cash outflows from operating activities were \$59.3 million for the nine months ended September 30, 2012 compared to net cash outflows of \$40.2 million for the nine months ended September 30, 2011. The increase in cash used in operating activities for the nine months ended September 30, 2012 is primarily due to cash used for working capital requirements to support increased sales volumes partially offset by an increase in income from operations.

**Investing activities.** Excluding the proceeds of \$6.3 million received from the sale of our former Singapore sales and distribution facility in January 2011, net cash used in investing activities was similar between periods.

**Financing activities.** Net cash provided by financing activities was \$53.9 million for the nine months ended September 30, 2012 compared to cash outflows of \$13.8 million for the nine months ended September 30, 2011. The change in cash provided by financing activities for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 is primarily due to increased net borrowings under our revolving credit facilities to support increased working capital requirements as a result of increased sales.

### Off-Balance Sheet Transactions

In the normal course of business, we are a party to certain off-balance sheet arrangements. These arrangements include guarantees and financial instruments with off-balance sheet risk, such as bank letters of credit and payment guarantees. No liabilities related to these arrangements are reflected in our consolidated/condensed consolidated balance sheets, and we do not expect any material adverse effect on our financial condition, results of operations and/or cash flows to result from these off-balance sheet arrangements.

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At September 30, 2012 and December 31, 2011, we had the following outstanding guarantees:

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Maximum potential obligations (undiscounted) | \$ 25.5               | \$ 30.7              |
| Guaranteed commitments outstanding           | 21.5                  | 27.4                 |

Commitments and Contractual Obligations

Our commitments and contractual obligations principally include obligations associated with our outstanding indebtedness, purchase commitments and future minimum operating lease obligations. The information presented in the table below reflects our estimate of the contractual maturities of our obligations at September 30, 2012 including the effects of the completion of the 2020 Notes offering and the application of the net proceeds from that offering:

| (in millions)   | Payments due by period ending December 31, |          |                  |                  |            |            | Total |
|---|--|----------|------------------|------------------|------------|------------|-------|
|   | 2012<br>(remaining)                        | 2013     | 2014 and<br>2015 | 2016 and<br>2017 | Thereafter |            |       |
| <b>Contractual obligations—</b>                       |  |          |                  |                  |            |            |       |
| 2020 Notes (1)  | \$ —                                       | \$ 49.3  | \$ 94.5          | \$ 94.5          | \$ 681.8   | \$ 920.1   |       |
| 2015 Notes (1)  | —  | —        | —                | —                | —          | —          |       |
| EM revolving credit facility (2)                      | 0.4  | 1.7      | 36.8             | —                | —          | 38.9       |       |
| Amended and Restated BL revolving credit facility (3) | 1.2  | 3.4      | 57.0             | —                | —          | 61.6       |       |
| Seller Note (4)                                       | —  | 0.4      | 0.8              | 1.0              | 76.8       | 79.0       |       |
| Capital lease (5)                                     | 0.6  | 2.2      | 4.4              | 4.4              | 29.6       | 41.2       |       |
| Operating lease obligations                           | 1.1  | 3.8      | 4.0              | 0.8              | 0.4        | 10.1       |       |
| Purchase commitments (6)                              | 303.2                                      | 61.8     | —                | —                | —          | 365.0      |       |
| <b>Derivative instruments—</b>                        |  |          |                  |                  |            |            |       |
| Foreign currency exchange contracts (7)               | 37.1                                       | 13.9     | —                | —                | —          | 51.0       |       |
| Total   | \$ 343.6                                   | \$ 136.5 | \$ 197.5         | \$ 100.7         | \$ 788.6   | \$ 1,566.9 |       |

- (1) Includes \$540.0 million of aggregate principal amount and approximately \$47.3 million of annual interest expense associated with the 2020 Notes which EMC issued on October 16, 2012. We used \$521.1 million of the net proceeds from the offering of the 2020 Notes to fully repay \$465.0 million aggregate principal amount of the 2015 Notes as well as tender and redemption premiums, consent fees, accrued interest and other fees and expenses.
- (2) Includes \$36.2 million of cash borrowings outstanding under the EM revolving credit facility and the related estimated interest payment obligations calculated using an interest rate of 4.57%, our weighted average interest rate paid for cash borrowings during the nine months ended September 30, 2012.
- (3) Includes \$52.0 million of cash borrowings outstanding under the Amended and Restated BL revolving credit facility and the related estimated interest payment obligations calculated using an interest rate of 4.15%, our weighted average interest rate paid for cash borrowings during the nine months ended September 30, 2012.
- (4)

Includes \$46.8 million million of combined principal and accrued interest associated with the Seller Note. The Seller Note accrues compounding interest at a base rate of 2.18% and a contingent rate of 5.82%, a portion of which is added to the Seller Note balance to be paid at maturity on August 19, 2019.

- (5) Includes interest obligations of 9.84%, the implicit interest rate under our Newbridge, Scotland facility capital lease.
- (6) Includes purchase commitments for stock inventory and inventory for existing orders from our customers. We enter into purchase commitments on an as-needed basis, typically daily, but these commitments generally do not extend beyond one year.
- (7) Represents the notional value of foreign currency contracts to purchase and sell foreign currencies at specified forward rates in connection with our foreign currency hedging policy.

#### Critical Accounting Policies

The accounting policies and related estimates that we believe are the most critical to understanding our condensed consolidated/combined consolidated financial statements, financial condition and results of operations and those that require management judgment and assumptions or involve uncertainties are disclosed in our Prospectus filed with the SEC on April 27, 2012. There have been no material changes to these critical accounting policies and related estimates during the nine months ended September 30, 2012.

#### Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2 to our condensed consolidated/combined consolidated financial statements.



### Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to market risks arising from adverse changes in interest rates on our variable rate debt and foreign exchange rate risk related to our foreign operations and foreign currency transactions. Market risk is defined for these purposes as the potential change in the fair value of financial assets or liabilities resulting from an adverse movement in interest rates or foreign exchange rates. There have been no material changes to these market risks from that which was disclosed in our Prospectus filed with the SEC on April 27, 2012. For a further discussion of our derivative instruments and their fair values, see Notes 14 and 15 to our condensed consolidated/combined consolidated financial statements included in this Quarterly Report on Form 10-Q.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

During the period covered by this report, our management performed an evaluation, under the supervision and with the participation of our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Chairman and Chief Executive Officer along with our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures at September 30, 2012 are effective in ensuring that information required to be disclosed in the reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the three months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to various claims and legal proceedings related to our business. While there are uncertainties inherent in the ultimate outcome of such matters and it is impossible to presently determine the ultimate costs that may be incurred, management believes the resolution of such uncertainties and the incurrence of such costs will not have a material effect on our condensed consolidated financial position, results of operations and/or cash flows. For information regarding any pending or threatened litigation, see Note 12 to the condensed consolidated/combined consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Prospectus filed with the SEC on April 27, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits filed as part of this Report are listed in the Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EDGEN GROUP INC.

Dated: November 9, 2012

/s/

Daniel J. O'Leary  
Daniel J. O'Leary  
Chairman and Chief Executive Officer

Dated: November 9, 2012

/s/

David L. Laxton, III  
David L. Laxton, III  
Executive Vice President and Chief Financial  
Officer

EXHIBIT

INDEX

| Exhibit | Title   |
|---------|---|
| 10.1    | Eighth Amendment to Credit Agreement, dated as of August 24, 2012, by and among Edgen Murray Corporation, Edgen Murray Canada Inc., Edgen Murray Europe Limited, Edgen Murray Pte. Ltd., the Loan Parties party thereto, JPMorgan Chase Bank, N.A., JPMorgan Chase Bank, N.A., Toronto Branch, J.P. Morgan Europe Limited, The HongKong and Shanghai Banking Corporation Limited and the Lenders party thereto.   |
| 10.2    | Ninth Amendment to Credit Agreement, dated as of September 28, 2012, by and among Edgen Murray Corporation, Edgen Murray Canada Inc., Edgen Murray Europe Limited, Edgen Murray Pte. Ltd., the Loan Parties party thereto, JPMorgan Chase Bank, N.A., JPMorgan Chase Bank, N.A., Toronto Branch, J.P. Morgan Europe Limited, The HongKong and Shanghai Banking Corporation Limited and the Lenders party thereto. |
| 10.3    | Amendment No. 1 to Credit Agreement, dated as of August 7, 2012, by and among Bourland & Leverich Supply Co. LLC, Regions Bank, RBS Business Capital and Regions Business Capital (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 8, 2012 (SEC File No. 001-35513).   |
| 10.4    | Amendment No. 2 to Credit Agreement, dated as of September 28, 2012, by and among Bourland & Leverich Supply Co. LLC, Regions Bank, RBS Business Capital and Regions Business Capital   |
| 31.1    | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.  |
| 31.2    | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.  |
| 32      | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Schema   |
| 101.CAL | XBRL Calculation Linkbase   |
| 101.DEF | XBRL Definition Linkbase  |
| 101.LAB | XBRL Label Linkbase   |
| 101.PRE | XBRL Presentation Linkbase  |