

**SCHUFF INTERNATIONAL, INC.
AND SUBSIDIARIES**

ANNUAL REPORT

FOR THE YEAR ENDED JANUARY 1, 2012

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
Schuff International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Schuff International, Inc. and Subsidiaries as of January 1, 2012 and January 2, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Schuff International, Inc. and Subsidiaries as of January 1, 2012 and January 2, 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Phoenix, Arizona
March 13, 2012

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	January 1 2012	January 2 2011
	(in thousands, except for share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 7,634	\$ 48,003
Receivables (Notes 2 and 14)	105,008	92,617
Income tax receivable (Note 8)	-	1,295
Costs and recognized earnings in excess of billings on uncompleted contracts (Note 2)	28,369	7,869
Inventories (Note 3)	20,771	18,827
Deferred tax asset (Note 8)	3,279	1,910
Prepaid expenses and other current assets	1,477	1,613
Total current assets	166,538	172,134
Property, plant and equipment, net (Note 4)	75,411	74,042
Goodwill	10,054	17,115
Other assets	6,018	3,687
	\$ 258,021	\$ 266,978
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable (Note 5)	\$ 57,307	\$ 23,757
Accrued payroll and employee benefits	12,317	6,406
Accrued interest	73	55
Other current liabilities (Note 6)	4,283	5,587
Billings in excess of costs and recognized earnings on uncompleted contracts (Note 2)	24,549	48,288
Income tax payable (Note 8)	3,357	-
Current portion of long-term debt (Note 7)	26,413	2,025
Total current liabilities	128,299	86,118
Long-term debt (Note 7)	29,410	5,623
Deferred tax liability (Note 8)	7,143	7,001
Other liabilities	170	199
	36,723	12,823
Commitments and Contingencies (Notes 7, 9, 11, 12 and 13)		
Schuff International stockholders' equity (Note 10)		
Preferred stock, \$.001 par value – authorized 1,000,000 shares, none issued	-	-
Common stock, \$.001 par value – 20,000,000 shares authorized, 10,038,707 and 10,038,057 shares issued, and 4,146,589 and 9,756,605 shares outstanding in 2011 and 2010, respectively	10	10
Additional paid-in capital	49,249	49,199
Retained earnings	117,187	122,219
Treasury stock - 5,892,118 and 281,452 shares, in 2011 and 2010, respectively, at cost	(77,706)	(3,391)
Total Schuff International stockholders' equity	88,740	168,037
Non-controlling interest	4,259	-
Total stockholders' equity	92,999	168,037
	\$ 258,021	\$ 266,978

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended	
	January 1 2012	January 2 2011
	<i>(in thousands, except per share data)</i>	
Revenues (Note 14)	\$ 392,161	\$ 287,566
Cost of revenues	349,143	246,037
Gross profit	43,018	41,529
General and administrative expenses (Note 11)	38,369	37,582
Goodwill impairment	7,061	-
Operating (loss) income	(2,412)	3,947
Interest expense	(1,141)	(1,428)
Other income	352	131
(Loss) income before income tax provision	(3,201)	2,650
Income tax provision (Note 8)	(1,788)	(1,370)
(Loss) income before non-controlling interest	(4,989)	1,280
Non-controlling interest	(43)	-
Net (loss) income	\$ (5,032)	\$ 1,280
Income per common share: (Note 10)		
Basic	\$ (0.52)	\$ 0.13
Diluted	\$ (0.52)	\$ 0.13
Weighted average shares used in computation: (Note 10)		
Basic	9,688	9,689
Diluted	9,688	9,732

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Treasury	Non-	
	Shares	Amount	Paid-In	Earnings	Stock	controlling	Total
			Capital	(in thousands)		Interest	
Balance at January 4, 2010	9,655	\$ 10	\$ 49,205	\$ 120,939	\$ (4,470)	\$ -	165,684
Net income	-	-	-	1,280	-	-	1,280
Issuance of common stock	-	-	9	-	-	-	9
Tax effect of stock-based compensation	-	-	18	-	-	-	18
Purchase of treasury stock	(22)	-	-	-	(618)	-	(618)
Issuance of treasury stock-restricted stock grant	123	-	(1,697)	-	1,697	-	-
Compensation expense-restricted stock grant	-	-	1,664	-	-	-	1,664
Balance at January 2, 2011	9,756	10	49,199	122,219	(3,391)	-	168,037
Net loss	-	-	-	(5,032)	-	-	(5,032)
Issuance of common stock	1	-	8	-	-	-	8
Non-controlling interest	-	-	-	-	-	4,216	4,216
Non-controlling interest income	-	-	-	-	-	43	43
Tax effect of stock-based compensation	-	-	(138)	-	-	-	(138)
Purchase of treasury stock	(5,652)	-	-	-	(74,820)	-	(74,820)
Issuance of treasury stock-restricted stock grant	42	-	(505)	-	505	-	-
Compensation expense-restricted stock grant	-	-	685	-	-	-	685
Balance at January 1, 2012	4,147	\$ 10	\$ 49,249	\$ 117,187	\$ (77,706)	\$ 4,259	\$ 92,999

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	
	January 1 2012	January 2 2011
	<i>(in thousands)</i>	
Operating Activities		
Net (loss) income	\$ (5,032)	\$ 1,280
Adjustments to reconcile net (loss) income to net cash (used in)/provided by operating activities:		
Net decrease in allowance for doubtful accounts	(139)	(637)
Depreciation and amortization	8,583	8,169
Loss from extinguishment of debt	233	48
Goodwill impairment	7,061	-
(Gain)/loss on disposals of property, plant and equipment	(11)	15
Deferred income taxes	(1,227)	2,640
Non-controlling interest income	43	-
Excess tax benefit of restricted stock awards	138	18
Stock awards	8	9
Compensation expense - restricted stock grant	685	1,664
Changes in working capital components:		
Receivables	(12,364)	1,259
Costs and recognized earnings in excess of billings on uncompleted contracts	(20,500)	97
Inventories	(955)	(2,912)
Prepaid expenses and other current assets	252	(350)
Accounts payable	33,550	5,034
Accrued payroll and employee benefits	5,699	(1,759)
Accrued interest	18	(29)
Other current liabilities	(264)	(1,236)
Billings in excess of costs and recognized earnings on uncompleted contracts	(23,739)	4,717
Income taxes payable/receivable	4,515	259
Other liabilities	(29)	(75)
Net cash (used in)/provided by operating activities	<u>(3,475)</u>	<u>18,211</u>
Investing activities		
Acquisitions of property, plant and equipment	(3,395)	(10,664)
Investment in joint venture	(4,050)	-
Proceeds from disposals of property, plant and equipment	31	63
Increase in other assets	(94)	(153)
Net cash used in investing activities	<u>(7,508)</u>	<u>(10,754)</u>
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	68	-
Principal payments on revolving line of credit and long-term debt	(8,848)	(6,315)
Proceeds from exercise of stock options and stock purchase plan	1	-
Payment of debt issuance costs	(2,603)	(139)
Purchase of treasury stock	(17,866)	(618)
Excess tax benefit of restricted stock awards	(138)	-
Net cash used in financing activities	<u>(29,386)</u>	<u>(7,072)</u>
(Decrease)/increase in cash and cash equivalents	(40,369)	385
Cash and cash equivalents at beginning of year	48,003	47,618
Cash and cash equivalents at end of year	<u>\$ 7,634</u>	<u>\$ 48,003</u>
Supplemental schedule of non-cash investing and financing activities:		
Contribution of net assets from non-controlling interest	<u>\$ 4,216</u>	<u>-</u>
Acquisition of treasury stock and assumption of debt	<u>\$ 56,954</u>	<u>-</u>

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 1, 2012 and January 2, 2011

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Schuff International, Inc. and its wholly-owned subsidiaries (“Schuff” or the “Company”) are primarily steel fabrication and erection contractors with headquarters in Phoenix, Arizona and operations in Arizona, Florida, Georgia, Texas, Kansas, California and the New York City area. The Company’s construction projects are primarily in the aforementioned states and location, except for Kansas and the New York City area. Its wholly-owned subsidiaries are Schuff Steel Company, Schuff Steel – Atlantic, L.L.C., Quincy Joist Company, Schuff Steel – Gulf Coast, Inc., On-Time Steel Management Holding, Inc., Schuff Steel Management Company – Southwest, Inc., Schuff Steel Company – Panama, S de RL, Schuff Steel Management Company – Colorado, L.L.C. (dormant) and Schuff Steel Management Company – Southeast, L.L.C. (dormant).

On July 1, 2011, the Company formed Schuff Hopsa Engineering, Inc. (“SHE”), a Panamanian joint venture providing steel fabrication services, with Empresas Hopsa, S.A. The Company has a 49% interest in SHE but controls the operations of SHE, as provided in the operating agreement. Therefore, the assets, liabilities, revenues and expenses of SHE are included in the consolidated financial statements of the Company. Empresas Hopsa, S.A.’s 51% interest in SHE is presented as a non-controlling interest component of total equity.

Stock Repurchase

On December 29, 2011, the Company repurchased approximately 5,600,000 shares of its common stock from its majority shareholders, Plainfield Asset Management, L.L.C. (“Plainfield”) and D.E. Shaw Laminar Portfolios, LLC (“Shaw”), at a negotiated price of \$13.25 per share. The Company used proceeds from a term loan and unsecured note, along with borrowings under its Credit Facility and excess cash to fund the purchase of the shares. As a result of the transaction, Plainfield and Shaw no longer hold any shares of common stock of the Company. The repurchased shares are recorded at cost and presented as treasury stock in the accompanying Statement of Stockholders’ Equity.

Fiscal Year

The Company uses a 4-4-5 week quarterly cycle ending on the Sunday closest to December 31. Fiscal 2011 covered the period from January 3, 2011 to January 1, 2012 (hereinafter 2011). Fiscal 2010 covered the period from January 4, 2010 to January 2, 2011 (hereinafter 2010).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Schuff International, Inc. and all wholly-owned subsidiaries. The consolidated financial statements also include the assets, liabilities, revenues and expenses of its controlled subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

In accordance with accounting principles generally accepted in the United States, references in this report to the Company’s (loss) earnings per share, net (loss) income and stockholders’ equity attributable to its common shareholders do not include amounts attributable to non-controlling interests.

Operating Cycle

Balance sheet items expected to be paid or received within one year are classified as current. Assets and liabilities relating to long-term construction contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets, since they will be realized or liquidated in the normal course of contract completion, although completion may require more than one year.

Cash and cash equivalents

Cash consists of cash in interest bearing checking accounts. The Company considers all highly liquid investments purchased with original maturities of three months or less from the date of purchase to be cash equivalents.

Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a specific reserve for questionable accounts and a general reserve. In accordance with industry practice, receivables include retainage, a portion of which may not be realized within one year. Management determines the allowance for doubtful accounts using historical experience and by evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Receivables are written off when deemed uncollectible and recoveries of amounts previously written off are recorded in income when received. The Company does not routinely charge interest on past due amounts unless it must pursue formal collection or legal actions.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and receivables. The Company maintains cash and cash equivalents and certain other financial instruments with a large financial institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. During the year, the Company maintained cash in financial institutions in excess of FDIC limits. At year end, there was \$7,874,000 being held in banks, of which \$7,422,000 was in excess of the FDIC limits. During the year, the Company maintained cash in financial institutions outside of the United States. At year end, there was \$731,000 being held in banks outside of the United States, none of which is covered by the FDIC. Concentrations of credit risk with respect to receivables are limited as the Company's customers tend to be larger general contractors on adequately funded projects and the Company has certain lien rights.

Inventories

Inventories, primarily steel components, are stated at the lower of cost or market under the first-in, first-out method.

Long-Lived Assets with Definite Lives

The Company continually evaluates whether events and circumstances have occurred that indicate potential impairment of long-lived assets, indicating the remaining balance of these assets may not be recoverable. When factors indicate that these assets should be evaluated for possible impairment, the Company's management uses several factors to measure impairment, including the Company's projection of future operating cash flows relating to these assets. No impairment losses have been recorded by the Company.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is determined on a straight-line basis over the estimated useful lives ranging from 5 to 40 years for buildings and improvements and 3 to 15 years for

machinery and equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. When assets are sold or otherwise retired, the cost and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results. The Company periodically evaluates the carrying value of its property, plant, and equipment based upon the estimated cash flows to be generated by the related assets. If impairment is indicated, a loss is recognized. No impairment losses have been recorded by the Company.

Investments

Investments in non-wholly-owned companies are generally accounted for under the equity method of accounting when the Company has a 20% to 50% ownership interest or exercises significant influence over the venture. If the Company's interest exceeds 50% or, if the Company has the power to direct the economic activities of the entity and the obligation to absorb losses, the results of the non-wholly-owned company are consolidated herein. All other investments are generally accounted for under the cost method.

Deferred Financing Costs

The Company capitalizes certain expenses incurred in connection with its long-term debt and line of credit obligations and amortizes them over the term of the respective debt agreement. The amortization expense of the deferred financing costs is included in interest expense on the consolidated statements of operations. If the Company redeems portions of its long-term debt prior to the maturity date, deferred financing costs are charged to expense on a pro rata basis.

Goodwill

Goodwill is not amortized. It is tested annually for impairment (and in interim periods if events or circumstances indicate that the related carrying amount may be impaired).

Goodwill is tested for impairment using a two-step process. The first step of the goodwill impairment test, which is used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Changes in the carrying amount of goodwill were as follows:

	Carrying Amount
	<i>(in thousands)</i>
Balance at January 4, 2010	\$ 17,115
Balance at January 2, 2011	17,115
Impairment	7,061
Balance at January 1, 2012	<u>\$ 10,054</u>

As a result of the Company's annual goodwill impairment test (performed on November 1, 2011), the Company concluded that the carrying value of one of its reporting units exceeded its fair value and resulted in an approximately \$7,060,000 write-down of goodwill. The impairment resulted from a combination of factors, including the U.S. construction market downturn, a decline in margins for the reporting unit and continued

depressed operating results and estimated future cash flows relating to the reporting unit.

The fair values of the Company's other reporting units exceeded the related carrying value and, therefore, impairment of the related goodwill was not indicated.

There were no changes in the carrying amount of goodwill for the year ended January 2, 2011.

Revenue and Cost Recognition

The Company performs its services primarily under fixed-price contracts and recognizes revenues and costs from construction projects using the percentage of completion method. Under this method, revenue is recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of tons fabricated to date to total estimated tons. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, the Company has made an estimate of the amount that is probable of being paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. At January 1, 2012 and January 2, 2011, the Company had \$15,302,000 and \$7,919,000, respectively, of unapproved change orders on open projects, for which it has recognized revenues on a percent complete basis in each fiscal year. While the Company has been successful in having the majority of its change orders approved in prior years, there is no guarantee that the majority of unapproved change orders at January 1, 2012 will be approved. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

Construction contracts with customers generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under the contracts. Contract receivables arise principally from the balance of amounts due on progress billings on jobs under construction. Retentions on contract receivables are amounts due on progress billings, which are withheld until the completed project has been accepted by the customer.

Costs and recognized earnings in excess of billings on uncompleted contracts primarily represent revenue earned under the percentage of completion method which has not been billed. Billings in excess of related costs and recognized earnings on uncompleted contracts represent amounts billed on contracts in excess of the revenue allowed to be recognized under the percentage of completion method on those contracts.

(Loss) Income Per Common Share

Basic (loss)/income per common share is computed by dividing net (loss) income by the weighted average number of common shares outstanding during the year before giving effect to stock options and unvested restricted stock grants. Diluted (loss) income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year after giving effect to stock options and unvested restricted stock grants.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized, net of any valuation allowance, for deductible temporary differences and net operating loss and tax credit carry forwards. The Company regularly evaluates the realizeability of its deferred tax assets by assessing its forecasts of future taxable income and reviewing available tax planning strategies that could be implemented to realize the deferred tax assets. Based on this evaluation, it was determined that realization of the deferred tax assets is more likely than not.

Stock-Based Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The Company elected the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been granted in prior periods.

Self-insurance

The Company is self-insured for its medical and dental insurance up to certain annual stop-loss limits and its employees' workers' compensation claims. An estimate for medical and dental insurance and workers' compensation claims is charged to income for claims incurred but not paid, claims incurred but not reported and for future claims from injuries existing at year-end.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term maturity of these instruments. The carrying amounts of long term accounts receivable approximate fair value based on the collection analysis performed and recording of necessary reserves. The fair values of the Company's long term borrowings are estimated based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Such values approximate the carrying value of the borrowings as of fiscal year end.

Derivative Financial Instruments

All derivative financial instruments are recognized as either assets or liabilities at their fair value in the balance sheet with the changes in the fair value reported in current-period earnings. These interest rate swaps were classified on the balance sheet as Other Current Liabilities and the change in the fair value was recorded on the statement of operations in Other Income. For the year ended January 2, 2011, the Company recognized expense of \$15,000 on these instruments. These interest rate swaps were terminated in March 2010.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company routinely evaluates its estimates, including those related to the extent of progress towards completion, contract revenues and contract costs on long-term contracts, bad debts, income taxes, impairment of long-lived assets, including goodwill, inventories, environmental matters and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Recently Issued Accounting Standards

In June 2011, the FASB amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The provisions of this new guidance are effective for the

Company in the first quarter of 2012. The adoption of this guidance is not expected to have an effect on the Company's operating results or financial position.

In September 2011, the FASB issued updated guidance on the assessment of goodwill impairment. This guidance allows companies to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step goodwill impairment test. The provisions of this new guidance are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will be required to adopt the new guidance as of January 2, 2012 and does not expect it to have an impact on its consolidated results of operations or financial position.

2. Receivables and Contracts in Progress

Receivables consist of the following:

	January 1	January 2
	2012	2011
	<i>(in thousands)</i>	
Contract receivables:		
Contracts in progress	\$ 81,772	\$ 75,472
Unbilled retentions	22,787	17,128
Allowance for doubtful accounts	(44)	(183)
	<u>104,515</u>	<u>92,417</u>
Other receivables	493	200
	<u>\$ 105,008</u>	<u>\$ 92,617</u>

Substantially all of the Company's receivables are due from general contractors operating in Arizona, California, Colorado, Florida, Georgia, Nevada, Texas and Panama.

Costs and recognized earnings in excess of billings on uncompleted contracts and billings in excess of costs and recognized earnings on uncompleted contracts consist of the following:

	January 1	January 2
	2012	2011
	<i>(in thousands)</i>	
Costs incurred on contracts in progress	\$ 439,025	\$ 629,008
Estimated earnings	37,264	118,080
	<u>476,289</u>	<u>747,088</u>
Less progress billings	472,469	787,507
	<u>\$ 3,820</u>	<u>\$ (40,419)</u>

The above is included in the accompanying consolidated balance sheets under the following captions:

Costs and recognized earnings in excess of billings on uncompleted contracts	\$ 28,369	\$ 7,869
Billings in excess of costs and recognized earnings on uncompleted contracts	(24,549)	(48,288)
	<u>\$ 3,820</u>	<u>\$ (40,419)</u>

3. Inventories

Inventories consist of the following:

	January 1 2012	January 2 2011
	<i>(in thousands)</i>	
Raw materials	\$ 19,679	\$ 18,412
Work in process	926	279
Finished goods	166	136
	<u>\$ 20,771</u>	<u>\$ 18,827</u>

4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	January 1 2012	January 2 2011
	<i>(in thousands)</i>	
Land	\$ 22,420	\$ 20,360
Buildings	29,635	27,442
Building and leasehold improvements	10,040	9,861
Machinery and equipment	56,650	52,746
Transportation equipment	3,793	3,696
Detailing equipment	269	269
Furniture and fixtures	2,754	2,743
EDP equipment	10,553	10,192
Construction in progress	2,547	1,932
	<u>138,661</u>	<u>129,241</u>
Less accumulated depreciation and amortization	63,250	55,199
	<u>\$ 75,411</u>	<u>\$ 74,042</u>

Depreciation expense was \$8,449,000 and \$7,951,000 for the years ended January 1, 2012 and January 2, 2011, respectively.

5. Accounts Payable

Accounts payable consists of the following at:

	January 1 2012	January 2 2011
	<i>(in thousands)</i>	
Accounts payable	\$ 52,457	\$ 19,605
Retentions payable	4,850	4,152
	<u>\$ 57,307</u>	<u>\$ 23,757</u>

6. Other Current Liabilities

Other current liabilities consist of the following:

	January 1	January 2
	2012	2011
	<i>(in thousands)</i>	
Sales, use and property taxes	\$ 1,131	\$ 1,751
Workers' compensation	2,581	3,218
Other	571	618
	<u>\$ 4,283</u>	<u>\$ 5,587</u>

7. Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	January 1	January 2
	2012	2011
	<i>(in thousands)</i>	
Note payable collateralized by the Company's real estate, with interest payable monthly at the greater of LIBOR or 3% plus 11% and principal payable quarterly over a 3.75 year period and one final balloon payment of \$15,250,000, maturing in 2015	\$ 30,000	-
Note payable to a bank under a revolving line of credit agreement, collateralized by the Company's assets, with interest payable monthly at the LIBOR plus 4.25 percent, maturing in 2016	24,413	-
Unsecured note payable to majority shareholder, with 13% interest payable annual in kind through an increase in the principal amount of the note, maturing in 2016	1,410	-
Note payable to a bank collateralized by the Company's real estate, with interest and principal payable monthly at the bank's base rate plus 0.5 percent, repaid in 2011	-	4,028
Note payable to a bank collateralized by the Company's machinery and equipment, with interest and principal payable monthly at the bank's base rate plus 0.5 percent, repaid in 2011	-	732
Note payable to a bank collateralized by the Company's real estate, with interest and principal payable monthly at the bank's base rate plus 0.5 percent, repaid in 2011	-	2,888
	<u>55,823</u>	<u>7,648</u>
Less current portion	26,413	2,025
	<u>\$ 29,410</u>	<u>\$ 5,623</u>

Aggregate debt maturities are as follows (in thousands):

2012	26,413
2013	4,000
2014	5,000
2015	19,000
2016	1,410
	<u>\$ 55,823</u>

On December 28, 2011, the Company obtained a \$30,000,000 term loan from GB Merchant Partners, LLC (“GB Merchant”). The loan is secured by a first priority, perfected security interest in all of the Company’s real estate and has 3.75 year amortization period requiring a quarterly principal payments and a final balloon payment at maturity. The loan has a floating interest rate of the greater of LIBOR or 3.0% plus an applicable margin (from 10.0% to 11.0%, based on the Company’s Leverage Ratio) and requires monthly interest payments.

On December 28, 2011, the Company signed a \$1,410,000 unsecured note with the majority shareholder. The note has 13.0% annual interest rate, with interest payable annually in kind through an increase in the principal amount of the note. The principal balance (including any principal amount added as interest in kind) is payable at the earlier of demand or maturity of the note. However, no payments can be made prior to the repayment of the \$30,000,000 term loan.

The Company has a Credit and Security Agreement (“Credit Facility”) with Wells Fargo Credit, Inc. (“Wells Fargo”), pursuant to which Wells Fargo agreed to advance up to a maximum amount of \$50,000,000 to the Company. On December 28, 2011, the Company amended its Credit Facility, pursuant to which Wells Fargo agreed to allow the Company to obtain the term loan from GB Merchant and extend the maturity date of the credit facility to May 31, 2016. The Credit Facility has a floating interest rate of LIBOR plus 4.25% (4.875% at January 1, 2012) and requires monthly interest payments.

The Credit Facility is secured by a first priority, perfected security interest in all of the Company’s assets, excluding the real estate, and its present and future subsidiaries and a second priority, perfected security interest in all of the Company’s real estate. The security agreements pursuant to which the Company’s assets are pledged prohibit any further pledge of such assets without the written consent of the bank. The Credit Facility contains various restrictive covenants which are effective in the first quarter of 2012.

At January 1, 2012, the Company had \$24,413,000 of borrowings and \$3,361,000 of outstanding letters of credit issued under its Credit Facility. There was \$22,226,000 available under the Company’s Credit Facility at January 1, 2012.

The Company made interest payments of approximately \$615,000, and \$964,000 for the years ended January 1, 2012 and January 2, 2011, respectively, on its long-term debt and line of credit.

8. Income Taxes

Deferred tax assets and liabilities are composed of the following

	January 1, 2012		January 2, 2011	
	Current	Long-Term	Current	Long-Term
	<i>(in thousands)</i>			
Deferred tax assets:				
Compensation accrual	\$ 1,050	\$ -	\$ 838	\$ -
Accrued liabilities	331	-	357	-
Deferred rents payable	-	67	-	76
Stock-based compensation	21	-	5	-
Revenue recognition on contracts in progress	908	-	-	-
Inventory writedown	146	-	249	-
Allowance for doubtful accounts	17	-	70	-
Contribution carryforward	-	166	-	289
Self-insurance	718	-	390	-
Other	88	-	1	-
	<u>3,279</u>	<u>233</u>	<u>1,910</u>	<u>365</u>
Deferred tax liabilities:				
Property, plant and equipment basis difference	-	95	-	93
Accelerated depreciation	-	7,250	-	7,272
Other	-	31	-	1
	<u>-</u>	<u>7,376</u>	<u>-</u>	<u>7,366</u>
Net deferred tax assets (liabilities)	<u>\$ 3,279</u>	<u>\$ (7,143)</u>	<u>\$ 1,910</u>	<u>\$ (7,001)</u>

Significant components of the income tax provision are as follows:

	January 1	January 2
	2012	2011
	<i>(in thousands)</i>	
Current:		
Federal	\$ (2,406)	\$ 1,322
State	(299)	(52)
Foreign	(310)	-
	<u>(3,015)</u>	<u>1,270</u>
Deferred:		
Federal	1,201	(2,370)
State	26	(270)
	<u>1,227</u>	<u>(2,640)</u>
	<u>\$ (1,788)</u>	<u>\$ (1,370)</u>

The reconciliation of income tax computed at the U.S. federal statutory rates to the provision for income taxes is as follows:

	Year Ended	
	January 1	January 2
	2012	2011
	<i>(in thousands)</i>	
Tax at U.S. federal statutory rates	\$ 1,120	\$ (927)
Goodwill impairment	(2,471)	-
State income taxes, net of federal tax benefit	(273)	(287)
Section 199 manufacturing deduction	227	9
Research & Development Credit	24	29
Effect of rates different than statutory	(13)	-
Other	(402)	(194)
	<u>\$ (1,788)</u>	<u>\$ (1,370)</u>

Total income tax payments for the years ended January 1, 2012 and January 2, 2011, were approximately \$492,000 and \$372,000, respectively. For the years ended January 1, 2012 and January 2, 2011, the Company received tax refunds of approximately \$1,725,000 and \$1,647,000, respectively.

The Company has not provided for U.S. income taxes or foreign withholding taxes on undistributed earnings of our foreign subsidiaries as they are considered to be reinvested indefinitely. Upon remittance of those earnings in the form of dividends or under other circumstances, the Company would be subject to both U.S. income taxes and withholding taxes payable to various foreign countries less an adjustment for foreign tax credits. It is not practical to estimate the amount of tax liability related to earnings of these foreign subsidiaries.

The Company accounts for uncertain tax positions by recognizing the financial statement effects of a tax position when, based on the technical merits, it is “more-likely-than-not” that the tax position will be sustained upon examination.

As of January 1, 2012, the Company has unrecognized tax benefits of \$2,839,000 that, if recognized, would favorably impact the Company’s effective tax rate. The Company does not anticipate a significant change in the total amount of unrecognized tax benefits during the next twelve months.

The Company may, from time to time, be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Company has received an assessment of interest and/or penalties, the interest has been classified as interest expense while the penalties have been classified as selling, general and administrative expense in the financial statements. As of January 1, 2012 and January 2, 2011, the Company has accrued \$207,000 and \$92,000, respectively, of interest related to uncertain tax positions.

The Company files U.S., state and foreign income tax returns with varying statures of limitations. The 2007 through 2011 tax years generally remain subject to examination by the U.S. federal and state tax authorities. The 2010 and 2011 tax years remain subject to examination by the foreign tax authority.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows (in thousands):

	Year Ended	
	January 1 2012	January 2 2011
Balance at beginning of year	\$ 2,839	\$ 2,839
Increases for tax positions taken in prior years	-	-
Decreases for tax positions taken in prior years	-	-
Decrease for tax positions due to lapse of statutes of limitations or close of audit	-	-
Settlements	-	-
Balance at end of year	<u>\$ 2,839</u>	<u>\$ 2,839</u>

9. Employee Retirement Plans

The Company maintains a 401(k) retirement savings plan which covers eligible employees and permits participants to contribute to the plan, subject to Internal Revenue Code restrictions. The plan also permits the Company to make discretionary matching contributions. On April 1, 2010, the Company suspended its discretionary matching contribution. The discretionary matching contributions were reinstated on September 1, 2011. Discretionary matching contributions amounted to approximately \$230,000 and \$146,000 for the years ended January 1, 2012 and January 2, 2011, respectively.

Certain of the Company's fabrication and erection workforce are subject to collective bargaining agreements. The Company contributes to union-sponsored, multi-employer pension plans. Contributions are made in accordance with negotiated labor contracts. The passage of the Multi-Employer Pension Plan Amendments Act of 1980 (the Act) may, under certain circumstances, cause the Company to become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. As of January 1, 2012, the Company has not undertaken to terminate, withdraw, or partially withdraw from any of these plans. Under the Act, liabilities would be based upon the Company's proportionate share of each plan's unfunded vested benefits.

The Company made contributions to various union sponsored pension plans of \$3,344,000 and \$2,981,000 during the years ended January 1, 2012 and January 2, 2011, respectively. The Company's funding policy is to make monthly contributions to the plans.

The Company has a 401(k) defined contribution retirement savings plan for union steelworkers. Currently, only participants contribute to this plan on a voluntary basis, subject to Internal Revenue Code restrictions. All account balances are 100 percent vested.

10. (Loss) Income Per Share

The following table sets forth the computation of basic and diluted (loss) income per share:

	Year Ended	
	January 1 2012	January 2 2011
	<i>(in thousands except per share data)</i>	
Numerator:		
Net (loss) income	\$ (5,032)	\$ 1,280
Denominator for basic (loss) income per share		
- weighted average shares	9,688	9,689
Effect of dilutive securities:		
Employee and director stock options	-	1
Unvested restricted stock grants	-	42
Denominator for diluted (loss) income per share		
- adjusted weighted average shares and assumed conversions	9,688	9,732
Basic (loss) income per share:	\$ (0.52)	\$ 0.13
Diluted (loss) income per share:	\$ (0.52)	\$ 0.13

Unvested restricted stock grants of 73,993 shares were outstanding during 2011 but were not included in the computation of diluted net loss per share because the unvested restricted stock grants would be anti-dilutive due to the net loss.

11. Stock-Based Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The Company elected the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been granted in prior periods.

Restricted stock grants (“Grants”) vest over three or five years. The Grants provide for accelerated vesting if there is a change in control (as defined in the agreements). The grant-date fair value of restricted stock grants is estimated as the market price of the Company’s stock as of the date of the grant.

A summary of the status of the Company’s nonvested shares as of January 1, 2012 and changes during the year ended January 1, 2012, is presented below:

	Shares	Weighted- Average Grant-Date Fair Value
Nonvested at January 3, 2011	20,000	\$ 16.50
Granted	96,000	15.00
Vested	(42,007)	15.36
Nonvested at January 1, 2012	73,993	\$ 15.20

The compensation cost that has been charged against operations for the Grants was \$685,000 and \$1,664,000 for 2011 and 2010, respectively. As of January 1, 2012, there was \$1,071,000 of total unrecognized compensation cost related to nonvested Grants. That cost is expected to be recognized over a weighted-average period of 1.9 years. The total fair value of shares vested during the years ended January 1, 2012 and January 2, 2011, was \$294,000 and \$2,074,000, respectively. The compensation cost for share-based payment awards is included in general and administrative expenses on our consolidated statements of operations.

12. Related Party Transactions and Leases

The Company leases a property under terms of an operating lease agreement from a partnership owned by the majority shareholder and his family. The lease expires in 2017 and requires stipulated rent increases every five years based on the Consumer Price Index. The Company is also obligated to pay the partnership any taxes related to the lease payments.

Rent expense under the related party leases totaled approximately \$694,000 for both of the years ended January 1, 2012 and January 2, 2011.

The Company also leases certain property, vehicles, and equipment from nonrelated parties for which it incurred rent expense of approximately \$737,000 and \$832,000 for the years ended January 1, 2012 and January 2, 2011, respectively.

Future minimum rentals (excluding taxes), by year, and in the aggregate under these noncancelable operating leases are as follows:

	Related Party	Nonrelated Party	Total
	<i>(in thousands)</i>		
2012	\$ 720	\$ 695	\$ 1,415
2013	720	652	1,372
2014	720	320	1,040
2015	720	284	1,004
2016	720	288	1,008
Thereafter	120	94	214
	<u>\$ 3,720</u>	<u>\$ 2,333</u>	<u>\$ 6,053</u>

13. Commitments and Contingencies

The Company is involved from time to time through the ordinary course of business in certain claims, litigation, and assessments. Due to the nature of the construction industry, the Company's employees from time to time become subject to injury, or even death, while employed by the Company. The Company does not believe there are any such contingencies at January 1, 2012 for which the eventual outcome would have a material adverse impact on the financial position, results of operations or liquidity of the Company.

On February 9, 2009, the Roosevelt Irrigation District ("RID") brought suit in the United States District Court for the District Court of Arizona against Salt River Project Agricultural Improvement and Power District and approximately one-hundred other defendants, including our subsidiary, Schuff Steel Company ("Schuff"). RID operates one-hundred groundwater wells in western Maricopa County and contends that approximately twenty of its wells are contaminated. RID asserts recovery against the defendants under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA" or "Superfund") for the recovery of costs incurred by RID in responding to the defendants' alleged releases or threatened releases of hazardous substances into groundwater that allegedly impact or threaten to impact the groundwater in the West Van Buren area of Phoenix, Arizona. RID has submitted an Early Response Action ("ERA") to the Arizona Department of Environmental Quality ("ADEQ") and has asserted future potential remediation costs in

excess of \$40,000,000. ADEQ received substantial public comment against the ERA. In July 2010, the ADEQ granted conditional approval to RID's remediation plan with a substantial number of conditions and milestones. Accordingly, RID amended its complaint and Schuff was served with the first amended complaint in late July 2010. Initially, most defendants filed either various motions to dismiss RID's complaint or motions for summary judgment based on certain legal theories but the Court dismissed these motions without prejudice to focus on substantial motions to disqualify counsel for RID based upon various conflicts of interest with RID's chosen counsel. The Court granted certain motions by five defendants to disqualify RID's counsel by order dated August 26, 2011. Currently, the court is attempting to determine and rule upon a method to implement the disqualification order. Until this issue concerning RID's counsel is resolved, legal filings with the court are prohibited. Most defendants have not answered the first amended complaint. There are numerous complex legal, technical and practical issues surrounding the ERA as well as this environmental suit, which is at its initial stages. Schuff denies any liability to RID and intends to aggressively defend itself against any allegation that its operations contaminated the groundwater.

On February 5, 2010, Silver Steel, Inc. ("Silver") brought suit in Clark County, Nevada District Court (the "Court") against our subsidiary Schuff Steel Company ("Schuff") and our bonding company. Silver acted as second tier subcontractor to Schuff on the Sobella Retail project ("project"), which was part of the City Center Project in Las Vegas, Nevada. Silver agreed in October, 2007, to a fixed price of approximately \$1,483,000 to perform metal deck installation and to perform extra work at agreed upon hourly rates. During the project, Silver submitted over 500 extra work orders ("EWO"), which were then bundled into proposed change orders ("PCO"). Twenty-four executed change orders were issued totaling approximately \$3,305,000, for a total adjusted contract of approximately \$4,788,000. Schuff has paid the adjusted contract value. Silver completed construction of the base scope of its work in August 2008. It performed extra work on the project into January 2009. Silver never complained during the project about any unpaid extra work or alleged impacts. Thereafter, on February 26, 2009, Silver first gave Schuff notice of a claim in PCO 43, in the amount of \$666,000. Schuff arranged for Silver to present its claim to Perini Construction Company ("Perini"), the general contractor, which denied the claim, in part because there was no backup presented by Silver. Schuff claims that it was prejudiced by the late claim, because if it had been put on notice of an impact during the course of the project, it could have taken action to minimize the impact or to pass the claim upstream to Perini or the owner. Silver's initial claims in the litigation were for breach of contract, among other legal theories, against Schuff for allegedly unpaid work and its alleged damages, which had increased to \$2,433,000. Schuff has denied any liability. In November 2011, Silver increased its total cost claim for damages to approximately \$4,300,000. Schuff continues to dispute that Silver is entitled to any additional amounts and that the damages claims are incorrect and based upon unsupportable facts and assumptions. Trial in this matter occurred between February 7 and 21, 2012, and is now under submission with the Court.

The Company is self-insured for its employees' workers' compensation claims. Under provisions of the policies, the Company has purchased stop/loss insurance to mitigate its risks against catastrophic injury-related events. The stop/loss amount for workers' compensation is \$350,000 per employee per accident. At January 1, 2012 and January 2, 2011, the Company had an accrual of approximately \$2,581,000 and \$3,218,000, respectively, for workers' compensation claims incurred but not paid or reported and for future claims from injuries existing at year-end (see Note 6).

The Company is self-insured for its employees' medical and dental insurance claims. Under provisions of the policies, the Company has purchased stop/loss insurance to mitigate its risks against catastrophic medical events. The stop/loss amount for medical insurance claims is \$300,000 per claimant and 110% of expected claims for each plan year. At January 1, 2012 and January 2, 2011, the Company had an accrual of approximately \$2,160,000 and \$1,362,000, respectively, for medical and dental insurance claims incurred but not paid or reported and for our terminal liability with our insurance service provider.

The Company has approximately \$47,654,000 of performance bonds issued on its behalf as of January 1, 2012. The performance bonds were required by various general contractors to guarantee the Company's performance on projects.

14. Significant Customers

During 2011, the Company had revenues from a customer that totaled approximately 11% of total revenues. In addition, receivables from this customer totaled approximately 3% of total receivables at January 1, 2012. During 2010, the Company did not have revenues from any one customer that were in excess of 10 percent of 2010 revenues.

During the years ended January 1, 2012 and January 2, 2011, the Company's revenues included approximately \$13,317,000 and \$11,434,000, respectively, relating to projects carried out internationally for which there was approximately \$2,965,000 in accounts receivables at January 1, 2012 and no outstanding amounts in receivables at January 2, 2011.

15. Quarterly Results of Operations (Unaudited)

A summary of the quarterly results of operations for the years ended January 1, 2012 and January 2, 2011 follows (in thousands, except for per share amounts):

	2011			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 70,738	\$ 89,782	\$ 102,104	\$ 129,537
Gross profit	9,501	8,280	11,086	14,151
Net (loss) income	258	(463)	733	(5,560)
(Loss) income per share:				
Basic	\$ 0.03	\$(0.05)	\$ 0.08	\$(0.59)
Diluted	\$ 0.03	\$(0.05)	\$ 0.08	\$(0.59)
Weighted average number of shares outstanding:				
Basic	9,757	9,757	9,757	9,482
Diluted	9,758	9,760	9,766	9,483

	2010			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 81,988	\$ 66,528	\$ 65,966	\$ 73,084
Gross profit	12,772	10,372	9,786	8,599
Net (loss) income	1,577	658	296	(1,251)
(Loss) income per share:				
Basic	\$ 0.16	\$ 0.07	\$ 0.03	\$(0.13)
Diluted	\$ 0.16	\$ 0.07	\$ 0.03	\$(0.13)
Weighted average number of shares outstanding:				
Basic	9,656	9,658	9,709	9,735
Diluted	9,706	9,707	9,756	9,767

The 2011 and 2010 quarterly results for basic and diluted (loss) income per share, when totaled, may not equal the basic and diluted (loss) income per share for the years ended January 1, 2012 and January 2, 2011. These variances are due to rounding.

16. Backlog

The Company's backlog was \$258,831,000 (\$198,150,000 under contracts or purchase orders and \$60,681,000 under letters of intent) and \$173,366,000 (\$168,197,000 under contracts or purchase orders and \$5,169,000 under letters of intent) at January 1, 2012 and at January 2, 2011, respectively. The Company's backlog can be significantly affected by the receipt, or loss, of individual contracts. Approximately \$96,217,000, representing 37.2% of the Company's backlog at January 1, 2012, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more large contracts are terminated or their scope reduced, the Company's backlog could decrease substantially.

17. Subsequent Events

The entity has evaluated subsequent events through March 13, 2012, which is the date the consolidated financial statements were available to be issued. No subsequent events requiring disclosure were identified.