METALS USA INC
Form PRER14A
August 24, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934, as amended

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

METALS USA, INC.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.
¨ Fee computed below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $.01 per share, of Metals USA, Inc. (MUSA Common Stock)

(2) Aggregate number of securities to which transaction applies:

20,282,790 shares of Metals USA common stock

45,437 unvested rights to receive shares of Metals USA common stock

1,081,270 options to purchase shares of Metals USA common stock

3,556,703 warrants to purchase shares of Metals USA common stock

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined):

$22.00 per share of Metals USA common stock, warrants and unvested rights to receive shares of Metals USA common stock

$22.00 minus the weighted average exercise price of outstanding options of $9.42 per share

(4) Proposed maximum aggregate value of transaction:

$539,075,835.66

(5) Total fee paid:

$63,449.23*

* Fee is .0001177 of transaction value

x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Preliminary Proxy Statement

Dated August 24, 2005, Subject to Completion

[LOGO TO COME]

Metals USA, Inc.

One Riverway, Suite 1100, Houston, Texas 77056

, 2005

To our Stockholders:

You are cordially invited to attend a special meeting of the stockholders of Metals USA, Inc., which will be held on , , 2005, beginning at , at .

On May 18, 2005, the board of directors of Metals USA approved a merger agreement, dated May 18, 2005, by and among the Company, Flag Holdings Corporation and Flag Acquisition Corporation, a wholly owned subsidiary of Flag Holdings, providing for the merger of Flag Acquisition with and into Metals USA, with Metals USA as the surviving corporation in the merger. If the merger is completed, you will be entitled to receive $22.00 in cash, without interest, for each share of Metals USA s common stock you own, unless you have properly exercised your appraisal rights.

Following completion of the merger, Metals USA will continue its operations as a privately-held company, wholly-owned by Flag Holdings. Flag Holdings is a newly-formed corporation that is owned by affiliates of Apollo Management V, L.P. Certain members of Metals USA s management, including myself, have agreed to invest in equity securities of Flag Holdings upon completion of the merger.

At the special meeting, you will be asked to adopt the merger agreement. The board of directors has approved and declared the merger and the merger agreement advisable, and has declared that it is fair to and in the best interests of Metals USA and its stockholders (other than certain members of Metals USA s management who will invest in equity securities of the surviving corporation or Flag Holdings). The board of directors recommends that Metals USA s stockholders vote FOR the adoption of the merger agreement.

Voting in favor of the merger will have the effect of taking Metals USA private, and as a result you will no longer hold any ownership interests in the surviving corporation, you will not participate in any future earnings or growth of Metals USA and you will not benefit from any appreciation in value of Metals USA.

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting. We encourage you to read the entire proxy statement carefully. You may also obtain more information about Metals USA from documents we have filed with the Securities and Exchange Commission.

Your vote is very important. The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of Metals USA common stock. If you fail to vote on the merger agreement, the effect will be the same as a vote against the adoption of the merger agreement for purposes of the vote referred to above.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE VOTE YOUR SHARES BY INTERNET, TELEPHONE OR MAIL. IF YOU RECEIVE MORE THAN ONE PROXY CARD BECAUSE YOU OWN SHARES THAT ARE REGISTERED DIFFERENTLY, PLEASE VOTE ALL OF YOUR SHARES SHOWN ON ALL OF YOUR PROXY CARDS.

Voting by proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

Thank you for your cooperation and continued support.

Sincerely,

C. Lourenco Goncalves
Chief Executive Officer and President

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

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THIS PROXY STATEMENT IS DATED [ ], 2005

AND IS FIRST BEING MAILED TO STOCKHOLDERS ON OR ABOUT [ ], 2005.

[LOGO TO COME]

Metals USA, Inc.

One Riverway, Suite 1100 Houston, Texas 77056

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD , 2005

TO THE STOCKHOLDERS:

The special meeting of stockholders of Metals USA, Inc., a Delaware corporation (Metals USA or the Company), will be held on , 2005, at a.m. New York time, at , for the following purposes:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of May 18, 2005, by and among Metals USA, Flag Holdings Corporation, a Delaware corporation, and Flag Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Flag Holdings, pursuant to which, upon the merger becoming effective, each share of Common Stock, par value $0.01 per share, of Metals USA (other than shares owned by Metals USA, Flag Acquisition or Flag Holdings or any of their respective direct or indirect wholly owned subsidiaries or held by stockholders who are entitled to and who properly exercise appraisal rights in compliance with all of the required procedures under Delaware law) will be converted into the right to receive $22.00 in cash, without interest.

2. To approve the adjournment or postponement of the meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Agreement and Plan of Merger.

3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Only holders of Metals USA s common stock at the close of business on , 2005 are entitled to notice of the meeting and to vote at the meeting.

You are cordially invited to attend the meeting in person.

Your vote is important, regardless of the number of shares of Metals USA s common stock you own. The adoption of the merger agreement requires the approval of the holders of a majority of the outstanding shares of Metals USA s common stock entitled to vote thereon. The proposal to adjourn or postpone the meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of a majority of the shares present and entitled to vote.

If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote in favor of the adoption of the merger agreement, and in favor of the proposal to adjourn or postpone the meeting, if necessary or appropriate, to solicit additional proxies. If you fail to return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the meeting and will instruct a proxy to have the same effect as a vote against the adoption of the merger agreement, but will not affect the outcome of the vote regarding the adjournment or postponement of the meeting, if necessary or appropriate, to solicit additional proxies. Alternatively, you may vote your shares over the Internet or by telephone, as indicated on the proxy card. If you are a stockholder of record and do attend the meeting and wish to vote in person, you may withdraw your proxy and vote in person.

Stockholders of Metals USA who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares if the merger is completed, but only if they submit a written demand for appraisal to Metals USA before the vote is taken on the merger agreement and they comply with all requirements of Delaware law, which are summarized in the accompanying proxy statement.

By Order of the Board of Directors,

John A. Hageman
Secretary

, 2005

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SUMMARY

The following summary highlights selected information from this proxy statement. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions in the section entitled Where You Can Find Additional Information. Each item in this summary includes a page reference directing you to a more complete description of that item in this document.

Unless we otherwise indicate or unless the context requires otherwise, all references in this document to Metals USA, Company, we, our, ours and us refer to Metals USA, Inc. and its subsidiaries, all references to merger agreement refer to the Agreement and Plan of Merger, dated May 18, 2005, by and among the Company, Parent and Merger Sub, a copy of which is attached as Annex A to this document, and all references to the merger refer to the merger contemplated by the merger agreement.

Summary Term Sheet

The Parties to the Merger. Metals USA is a leading provider of value-added processed steel, stainless steel, aluminum, red metals and manufactured metal components. Flag Acquisition Corporation, which we refer to as Merger Sub, is a Delaware corporation formed on May 9, 2005 for the sole purpose of completing the merger with the Company and arranging the related financing transactions. Merger Sub is a wholly owned subsidiary of Flag Holdings Corporation, a Delaware corporation. Flag Holdings Corporation, which we refer to as Parent, is a Delaware corporation formed on May 9, 2005 for the sole purpose of completing the merger with the Company and arranging the related financing transactions. Parent is wholly owned by certain private equity funds, which we refer to in this document as the Apollo Funds. The Apollo Funds are managed by Apollo Management V, L.P., which we refer to in this document as Apollo. We refer to the Apollo Funds and Apollo, collectively with their general partners and the directors and principal executive officers of their general partners as the Apollo Affiliates. The Apollo Funds have the right to transfer their interests in Parent. As a result, Parent may ultimately include additional equity participants. Parent has not engaged in any business except in anticipation of the merger. See The Parties to the Merger beginning on page 63.

The Merger Agreement. You are being asked to vote to adopt a merger agreement providing for the acquisition of the Company by Parent, pursuant to which Merger Sub, a wholly-owned subsidiary of Parent, will be merged with and into the Company, with the Company as the surviving corporation in the merger. See The Merger Agreement (Proposal No. 1) beginning on page 66.

Timing and Likelihood of Closing. We are working toward completing the merger as quickly as possible, and we anticipate that it will be completed in the fourth quarter of 2005, assuming satisfaction or waiver of all of the conditions to the merger. However, because the merger is subject to certain conditions, the exact timing of the merger and the likelihood of the consummation thereof cannot be predicted. In particular, we currently are uncertain regarding whether the debt financing condition will be satisfied. See Special Factors Financing by Parent of Merger and Related Transactions Conditions Precedent to the Debt Commitment beginning on page 43. If any of the conditions in the merger agreement (including the debt financing condition) are not satisfied, the merger transaction may terminate as a result.

Merger Consideration. Upon completion of the merger, you will be entitled to receive $22.00 in cash, without interest, for each share of our common stock that you own. See Special Factors Opinion of Jefferies & Company, Inc. Transaction Overview on page 28. Holders of the Company s stock options, warrants and rights to receive additional shares of Metals USA will also be entitled to receive the merger consideration less their respective exercise prices and applicable withholding taxes. See The Merger Agreement (Proposal No. 1) Treatment of Stock Options, Warrants and Rights to Receive Shares of Metals USA Common Stock beginning on page 66.

Board Recommendation. Our board of directors by unanimous vote (excluding C. Lourenco Goncalves, who abstained) recommends that Metals USA s stockholders vote FOR the adoption of the merger agreement. See Special Factors Recommendation of the Company s Board of Directors on page 25.

Opinion of Jefferies & Company, Inc. In connection with the merger, Metals USA s board of directors received a written opinion from Jefferies & Company, Inc. as to the fairness, from a financial point of view, to holders of Metals USA common stock of the merger consideration to be received by such holders pursuant to the merger agreement, other than Parent and its affiliates and other than any members of Metals USA s management who may be given the opportunity to obtain equity interests in Parent or the surviving corporation from and after consummation of the merger. The full text of the Jefferies opinion dated May 18, 2005, is attached to this proxy statement as Annex B. Metals USA and its board of directors encourage stockholders to read the Jefferies opinion carefully and in its entirety. The Jefferies opinion was provided to Metals USA s board of directors in connection with its consideration of the merger consideration, does not address any other aspect of the proposed merger and does not constitute a recommendation as to how any stockholder should vote on the merger or any matter relevant to the merger agreement. See Special Factors Opinion of Jefferies & Company, Inc. beginning on page 25 and Annex B.

Affiliates Engaged in the Merger. Under a potential interpretation of the Securities Exchange Act of 1934 rules governing going private transactions, each of C. Lourenco Goncalves, our chief executive officer, Terry L. Freeman, our chief financial officer, and John A. Hageman, our chief legal officer and secretary, Merger Sub, Parent, Apollo and the Apollo Affiliates may be deemed to be an affiliate of Metals USA. Each of Messrs. Goncalves, Freeman and Hageman, Merger Sub, Parent, Apollo and the Apollo Affiliates believes that the merger agreement and the merger are substantively and procedurally fair to the stockholders of Metals USA (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). None of Messrs. Goncalves, Freeman and Hageman undertook a formal evaluation of the fairness of the merger or engaged a financial advisor for such purposes. None of Merger Sub, Parent, Apollo or the Apollo Affiliates participated in the deliberations of the Company s board of directors regarding, or received advice from the Company s legal or financial advisors as to, the substantive or procedural fairness of the merger, nor did Merger Sub, Parent, Apollo or the Apollo Affiliates undertake any independent evaluation of the fairness of the merger or engage a financial advisor for such purposes. See Special Factors Position of C. Lourenco Goncalves, Terry L. Freeman and John A. Hageman as to Fairness, and Special Factors Position of Merger Sub, Parent, Apollo and the Apollo Affiliates as to Fairness on page 35.

Record Date and Voting Power. You are entitled to vote at the special meeting if you owned shares of Metals USA common stock at the close of business on , 2005, the record date for the special meeting. Each outstanding share of our common stock on the record date entitles the holder to one vote on each matter submitted to stockholders for approval at the special meeting. As of the record date, there were [20,284,148] shares of common stock of Metals USA entitled to be voted. See The Special Meeting Record Date, Quorum and Voting Power on page 64.

Stockholder Vote Required to Adopt the Merger Agreement. For us to complete the merger, stockholders holding at least a majority of the shares of our common stock outstanding at the close of business on the record date must vote FOR the adoption of the merger agreement. See The Special Meeting Required Vote on page 64.

Share Ownership of Directors and Executive Officers. As of , 2005, the record date for the special meeting, the directors and executive officers of Metals USA held and are entitled to vote, in the aggregate, [131,679] shares of our common stock, representing [less than 1.0%] of the outstanding shares of our common stock. Our directors, holding an aggregate of [70,000] shares, or less than [1.0%] of the outstanding shares, of our common stock, and Messrs. Freeman and Hageman, holding [30,745] and [19,204], or less than [1.0%] of the outstanding shares, of our common stock, respectively, have informed the Company that they intend to vote all of their shares of our common stock FOR the adoption of the merger agreement. See The Special Meeting Voting by Directors and Executive Officers on page 64.

Material U.S. Federal Income Tax Consequences. The merger will be a taxable transaction to you if you are a U.S. holder (as defined in Special Factors Material U.S. Federal Income Tax Consequences). Your receipt of cash in exchange for your shares of Metals USA common stock generally will cause you to recognize a gain or loss measured by the difference, if any, between the cash you receive in the merger and your adjusted tax basis in your shares of Metals USA common stock. Under U.S. federal income tax law, you may be subject to information reporting on cash received in the merger unless an exemption applies. Backup withholding (currently at a rate of 28%) may also apply with respect to the amount of cash received in the merger, unless you provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with the applicable requirements of the backup withholding rules. Holders of our common stock that are not U.S. holders may have different tax consequences than those described with respect to U.S. holders and are urged to consult their tax advisors regarding the tax treatment to them under U.S. and non-U.S. tax laws. You should also consult your tax advisor on the tax consequences of the merger to you, including the federal, state, local and/or non-U.S. tax consequences of the merger. See Special Factors Material U.S. Federal Income Tax Consequences beginning on page 57.

Dissenters Rights of Appraisal. Delaware law provides you, as a stockholder, with appraisal rights in the merger. This means that you are entitled to have the value of your shares determined by the Delaware Court of Chancery and to receive payment based on that valuation. The ultimate amount you receive as a dissenting stockholder in an appraisal proceeding may be more or less than, or the same as, the amount you would have received under the merger agreement. To exercise your appraisal rights, you must submit a written demand for appraisal to the Company before the vote is taken on the merger agreement and you must not vote in favor of the adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. See Dissenters Rights of Appraisal beginning on page 86 and Annex C Section 262 of the Delaware General Corporation Law.

Questions and Answers about the Special Meeting and the Merger

Q: When and where is the special meeting?

A: The special meeting of Metals USA stockholders will be held at , on , , 2005, at .

Q: What matters will I vote on at the special meeting?

A: You will vote:

for or against the Agreement and Plan of Merger, dated as of May 18, 2005 (referred to in this document as the merger agreement), among the Company, Flag Holdings Corporation and Flag Acquisition Corporation;

to approve the adjournment or postponement of the meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement; and

to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Q: How does Metals USA s board of directors recommend that I vote on the proposals?

A: Our board of directors recommends that you vote:

FOR the proposal to adopt the merger agreement; and

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FOR adjournment or postponement of the meeting, if necessary or appropriate, to solicit additional proxies.

Q: What vote of stockholders is required to adopt the merger agreement?

A: Stockholders holding at least a majority of the shares of our common stock outstanding at the close of business on the record date must vote FOR the adoption of the merger agreement for us to complete the merger.

Q: What vote of stockholders is required to adjourn or postpone the meeting, if necessary or appropriate, to solicit additional proxies at the special meeting?

A: The proposal to adjourn or postpone the meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of a majority of the shares present and entitled to vote.

Q: Who is entitled to vote?

A: Stockholders as of the close of business on , 2005, the record date for this solicitation, are entitled to receive notice of and to vote at the special meeting. On the record date, approximately [20,284,148] shares of our common stock, held by approximately [2,000] stockholders of record, were outstanding and entitled to vote. You may vote all shares you owned as of the record date. You are entitled to one vote per share.

Q: What does it mean if I get more than one proxy card?

A: If you have shares of our common stock that are registered differently and are in more than one account, you will receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that all of your shares are voted.

Q: How do I vote without attending the special meeting?

A: If you hold shares in your name as the stockholder of record, then you received this proxy statement and a proxy card from us. If you hold shares in street name through a broker, bank or other nominee, then you received this proxy statement from the nominee, along with the nominee s form of proxy card which includes voting instructions. In either case, you may vote your shares by Internet, telephone or mail without attending the special meeting. To vote by Internet or telephone 24 hours a day, seven days a week, follow the instructions on the proxy card. To vote by mail, mark, sign and date the proxy card and return it in the postage-paid envelope provided.

Internet and telephone voting provide the same authority to vote your shares as if you returned your proxy card by mail. In addition, Internet and telephone voting will reduce our proxy-related postage expenses.

Q: How do I vote in person at the special meeting?

A: If you hold shares in your name as the stockholder of record, you may vote those shares in person at the meeting by giving us a signed proxy card or ballot before voting is closed. If you want to do that, please bring proof of identification with you. Even if you plan to attend the meeting, we recommend that you vote your shares in advance as described above, so your vote will be counted even if you later decide not to attend.

If you hold shares in street name through a broker, bank or other nominee, you may vote those shares in person at the meeting only if you obtain and bring with you a signed proxy from the necessary nominees giving you the right to vote the shares. To do this, you should contact your nominee.

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Q: Can I change my vote?

A: After you vote your shares, whether by Internet, telephone or mail, you may change your vote at any time before voting is closed at the special meeting. If you hold shares in your name as the stockholder of record, you should write to our Secretary at our principal offices, One Riverway, Suite 1100, Houston, Texas 77056, stating that you want to revoke your proxy and that you need another proxy card. If you hold your shares in street name through a broker, bank or other nominee, you should contact the nominee and ask for a new proxy card. Alternatively, you may vote again by Internet or telephone. If you attend the special meeting, you may vote by ballot as described above, which will cancel your previous vote. Your last vote before voting is closed at the special meeting is the vote that will be counted.

Q: What is a quorum?

A: A quorum of the holders of the outstanding shares of our common stock must be present for the special meeting to be held. A quorum is present if the holders of a majority of the outstanding shares of our common stock entitled to vote are present at the meeting, either in person or represented by proxy. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you provide instructions to your broker on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Without those instructions, your shares will not be voted.

Q: How are votes counted?

A: For the proposal relating to the adoption of the merger agreement, you may vote FOR, AGAINST or ABSTAIN. Abstentions will not count as votes cast on the proposal relating to adoption of the merger agreement, but will count for the purpose of determining whether a quorum is present. Stockholders holding at least a majority of the shares of our common stock outstanding at the close of business on the record date must vote FOR the adoption of the merger agreement for us to complete the merger. As a result, if you ABSTAIN, it has the same effect as if you vote AGAINST the adoption of the merger agreement.

For the proposal to adjourn or postpone the meeting, if necessary or appropriate, to solicit additional proxies, you may vote FOR, AGAINST or ABSTAIN. Abstentions will not count as votes cast on the proposal to adjourn or postpone the meeting, if necessary or appropriate, to solicit additional proxies, but will count for the purpose of determining whether a quorum is present. As a result, if you ABSTAIN, it has the same effect as if you vote AGAINST adjournment or postponement of the meeting, if necessary or appropriate, to solicit additional proxies.

If you sign your proxy card without indicating your vote, your shares will be voted FOR the adoption of the merger agreement, FOR adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies, and in accordance with the recommendations of Metals USA s board of directors on any other matters properly brought before the meeting for a vote.

A broker non-vote generally occurs when a broker, bank or other nominee holding shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the shares. Broker non-votes will not count as votes cast on a proposal, but will count for the purpose of determining whether a quorum is present. As a result, broker non-votes will have the same effect as a vote against the adoption of the merger agreement. Broker non-votes will also have the same effect as a vote against the adjournment or postponement of the meeting, if necessary or appropriate, to solicit additional proxies.

Q: Who will bear the cost of this solicitation?

A: We will pay the cost of this solicitation, which will be made primarily by mail. Proxies also may be solicited in person, or by telephone or facsimile, by our directors, officers or employees without additional compensation. We will, on request, reimburse stockholders who are brokers, banks or other nominees for their reasonable expenses in sending proxy materials and annual reports to the beneficial owners of the shares they hold of record.

Q: Should I send in my stock certificates now?

A: No. Shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you how to send your stock certificates to the paying agent in order to receive the merger consideration, without interest. You should use the letter of transmittal to exchange Metals USA stock certificates for the merger consideration to which you are entitled as a result of the merger. DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY.

Q: Who can help answer my other questions?

A: If you have more questions about the special meeting or the merger, you should contact Metals USA, Inc., Attention: Investor Relations, One Riverway, Suite 1100, Houston, Texas 77056, or by telephone at (713) 965-0990.

Financing by Parent of Merger and Related Transactions (Page 42)

Parent and Merger Sub estimate that the total amount of funds necessary to consummate the merger and related transactions will be approximately $700 million, which will be funded by a new credit facility, either a private offering of debt securities and equity financing or a bridge loan facility and equity financing. Funding of the equity and debt financing is subject to the satisfaction of the conditions set forth in the commitment letters pursuant to which the financing will be provided, see Special Factors Financing of the Merger. The following arrangements are in place to provide the necessary financing for the merger, including the payment of related transaction costs, charges, fees and expenses:

Equity Financing **(Page 42)**

Parent has received an equity commitment letter from Apollo on behalf of the Apollo Funds, pursuant to which, subject to the conditions contained therein, Apollo has agreed to make or cause to be made a cash capital contribution to Parent of up to $165 million.

Debt Financing **(Page 43)**

Merger Sub has received a debt commitment letter pursuant to which, subject to the conditions contained therein, (a) Credit Suisse, Cayman Islands Branch and Bank of America, N.A. severally committed to provide up to $450 million in the aggregate of a senior secured asset-based revolving credit facility, and (b) Credit Suisse and CIBC World Markets Corp. (CIBC World Markets and, collectively with Credit Suisse and Bank of America, N.A., the debt providers) severally committed, if the Company is unable to issue at least $250 million of senior secured floating rate notes and/or senior secured fixed rate notes in a public offering or in a Rule 144A or other private placement on or before the effective time of the merger, to provide at least $250 million in the aggregate of senior secured increasing rate bridge loans.

The availability of the senior secured facility and the bridge facility are subject to the satisfaction of certain conditions, including other customary conditions for leveraged acquisition financings. Importantly, we are aware of two conditions to the debt commitment letter that may not be satisfied, and as such may provide the debt providers with the sole discretion to not provide either or both of the senior secured facility and the bridge facility.

The Company s Consolidated EBITDA. It is a condition to the financing under the debt commitment letter that the Company s consolidated earnings before interest, tax, depreciation and amortization (EBITDA) for the four-fiscal quarter period most recently ended before the effective time of the merger will be not less than $146

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million if such four-fiscal quarter period ended on June 30, 2005 and $117.5 million if such four-fiscal quarter period ended on September 30, 2005. The Company s consolidated EBITDA for the four-fiscal quarter period ended on June 30, 2005 was approximately $146.3 million, exceeding the minimum required amount by approximately $300,000. The Company s most recent forecast as of early July 2005 indicates that its EBITDA for the four-fiscal quarter period ended on September 30, 2005 will be approximately 2% to 3% below the minimum required amount under the debt commitment letter. If the effective time of the merger occurs after September 30, 2005 and the Company s actual EBITDA for the four-fiscal quarter period ended on September 30, 2005 fails to meet this $117.5 million minimum required amount, the debt providers will not be obligated under the debt commitment letter to provide the financing.

The Company s Excess Borrowing Capacity. It is also a condition to the financing under the debt commitment letter that the Company have excess borrowing capacity under the new senior secured facility of at least $75 million at the effective time of the merger. The debt commitment letter provides that the borrowing base under the senior secured facility at any time must equal the sum of (a) 90% of the net amount of eligible accounts receivable plus (b) the lesser of (i) 70% of the lesser of the original cost or market value of eligible inventory and (ii) the sum of (x) 90% of the net orderly liquidation value of the Company s flat rolled inventory plus (y) 85% of the net orderly liquidation value of all other inventory of the Company. Based on a preliminary valuation recently conducted by the debt providers third party appraisers, the orderly liquidation value of the Company s inventory is projected to be approximately 12% less than originally anticipated. As a result, based on this preliminary valuation, the Company would have excess capacity less than the minimum amount required by the debt commitment letter. If such excess capacity with respect to the Company is less than $75 million at the effective time of the merger, then the debt providers will not be obligated to provide the senior secured facility or the bridge facility.

If any portion of the debt financing under the debt commitment letter becomes unavailable, Parent will be required to use its reasonable best efforts to obtain alternative financing on substantially comparable or more favorable terms from other sources within 30 days after all of the other conditions to the merger agreement have been satisfied. If Parent is unable to obtain such alternative financing within such 30 day period, Parent will not be obligated to close the transaction because Parent s obligation under the merger agreement to close the transaction is conditioned upon Parent having obtained its debt financing or alternative debt financing. Accordingly, if the debt providers, in their sole discretion, do not waive any condition that is not otherwise satisfied, and Parent is unable to obtain alternative financing within the 30 day period as described above, Parent will not be obligated to close the merger transaction, and the merger transaction may terminate as a result. We cannot assure you that the debt providers will waive any condition or that Parent will obtain alternative debt financing.

Based on our discussions with Parent, Apollo and the debt providers to date, if one or both of the minimum EBITDA condition and minimum excess capacity condition discussed above are not satisfied, there is a reasonable possibility that the debt providers will not provide the debt financing under the debt commitment letter and that, depending on the condition of the metals and steel industry (and of the Company in particular) and the debt financing markets at such time, it may be difficult, or not possible, for Parent to obtain alternative financing on comparable terms. In that event, Parent would not be obligated to close the merger transaction, and the merger transaction may terminate as a result, in which case you would not receive any of the merger consideration and your ownership interest in the Company would continue. Alternatively, if Parent is unable to obtain its debt financing and is consequently not obligated to close the merger transaction, it is possible that Parent and the Company may engage in discussions about entering into a revised transaction on different terms than those in the merger agreement. In the event we agree to such a revised transaction with Parent on materially different terms than those in the merger agreement, the Company will disseminate a new proxy statement to its stockholders disclosing, among other things, the terms of such revised transaction and submit such revised transaction to a vote at a special meeting called for that purpose.

Interests of the Company s Directors and Executive Officers in the Merger (Page 47)

Some of the directors and executive officers of Metals USA have financial interests in the merger that are different from, or are in addition to, the interests of stockholders of Metals USA. The Metals USA board of

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directors was aware of these interests and considered them in approving the merger agreement and the merger. These interests include:

Following the merger, C. Lourenco Goncalves, our chief executive officer and a member of our board of directors, Terry L. Freeman, our chief financial officer, and John A. Hageman, our chief legal officer and secretary, will continue as executive officers of the surviving corporation. It is expected that our other current executive officers will continue as executive officers of the surviving corporation. The service of our directors, other than Mr. Goncalves, will end on the completion of the merger.

Prior to entering into the merger agreement, Parent required that Messrs. Goncalves, Freeman and Hageman, enter into employment agreements with Merger Sub and agree to make significant investments in Parent. Accordingly, Messrs. Goncalves, Freeman and Hageman have entered into agreements with Merger Sub and Parent pursuant to which they have agreed to be employed by the surviving corporation following the effective time and to make an equity investment in Parent.

The aggregate equity investment in Parent agreed to by Messrs. Goncalves, Freeman and Hageman is expected to represent approximately $4.6 million, or approximately 6% of the shares of common stock of Parent on a fully diluted basis immediately following the merger. As a result of his respective equity ownership in the Company, at the effective time of the merger, Mr. Goncalves is entitled to receive approximately $4.95 million, of which he has agreed to contribute $3.13 million to Parent at the effective time of the merger; Mr. Freeman is entitled to receive approximately $1.76 million, of which he has agreed to contribute $800,000 to Parent at the effective time of the merger; and Mr. Hageman is entitled to receive approximately $1.5 million, of which he has agreed to contribute $625,000 to Parent at the effective time of the merger. Messrs. Goncalves , Freeman s and Hageman s equity investment in Parent will be illiquid and subject to an investor rights agreement restricting the ability of the management participants to sell such equity. The capital used by each of Messrs. Goncalves, Freeman and Hageman to pay for their respective equity investments in Parent will be derived from the proceeds they otherwise would be entitled to receive in the merger as holders of options, warrants, shares of Metals USA common stock and/or rights to receive additional shares of Metals USA common stock.

Each of Messrs. Goncalves, Freeman and Hageman will be granted stock options to purchase shares of Parent under the terms of Parent s stock option incentive plan and their respective non-qualified stock option agreements. In the aggregate, these stock options represent approximately 3% of the shares of common stock of the Parent on a fully diluted basis immediately following the merger. Specifically, Mr. Goncalves will be granted options to purchase up to approximately 2%, Mr. Freeman will be granted options to purchase up to approximately 0.5%, and Mr. Hageman will be granted options to purchase up to approximately 0.4%, of the common stock of Parent on a fully diluted basis immediately following the merger.

Additionally, each of Messrs. Goncalves, Freeman and Hageman has subscribed to purchase shares of Parent. In the aggregate, these shares represent approximately 3% of the shares of common stock of Parent on a fully diluted basis immediately following the merger. Specifically, Mr. Goncalves has subscribed to purchase shares representing approximately 2%, Mr. Freeman has subscribed to purchase shares representing approximately 0.5%, and Mr. Hageman has subscribed to purchase shares representing approximately 0.4%, of the common stock of Parent on a fully diluted basis immediately following the merger.

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Additional members of management of the Company and its subsidiaries that enter into employment agreements or arrangements with Parent or Merger Sub before the closing of the merger may also, at Parent s election, at the effective time of the merger, have their stock options of Metals USA common stock converted into options to purchase shares of either Parent or Merger Sub. Parent must make this election not later than three business days prior to the effective time of the merger. Parent expects that any equity investment of each of these additional individuals will be less than the equity investment of each of Messrs. Goncalves, Freeman and Hageman.

Also, our board of directors (other than Messrs. Dienst and Goncalves, who abstained) has awarded Mr. Dienst, the non-executive Chairman of our board of directors, in recognition of his substantial efforts and time commitment in negotiating the transaction with Apollo, and for coordinating the efforts of the Company s management, financial advisors, attorneys and accountants involved in the transaction, a cash payment of $500,000 to be paid upon the completion of the transaction or of a superior proposal approved by our board of directors. This payment was recommended by our compensation committee and approved by our board of directors (other than Messrs. Goncalves and Dienst who abstained) after our board had approved the merger agreement. This payment, if paid, will not reduce the amount to be paid to our stockholders in the merger, but will be paid with Company funds at the effective time of the merger.

At the effective time of the merger, each outstanding option to purchase shares of Metals USA common stock and each outstanding and unvested right to receive one share of Metals USA common stock (in each case, including those held by our directors and executive officers) will vest. The total value of all options and rights to receive shares of Metals USA common stock that will become vested at the effective time of the merger is [$5,502,888] and [$929,214], respectively.

Under the terms of the merger agreement, Parent and Merger Sub have generally agreed to indemnify current and former officers and directors of the Company for any acts or omissions in their capacity as an officer or director occurring on or before the effective time of the merger and provide for liability insurance for a period of six years from and after the effective time of the merger, subject to certain conditions.

Citadel Support Agreement (Page 55 and Annex D)

Affiliates of Citadel Investment Group, L.L.C., which collectively own approximately 16.7% of the shares of Metals USA common stock as of the record date, have entered into a separate support agreement with Parent pursuant to which they have agreed to vote their shares in favor of the merger and against any other acquisition proposal. The support agreement also granted Parent, in certain limited circumstances, an irrevocable proxy to vote such shares of Metals USA common stock. A copy of the support agreement is attached to this proxy statement as Annex D.

The Citadel affiliates also agreed to certain restrictions on their ability to sell or transfer their shares of Metals USA common stock until the earlier of the termination of the support agreement or the completion of the stockholders meeting (including any adjournment or postponement thereof). The support agreement terminates upon the earliest to occur of:

- termination of the merger agreement;
- completion of the merger;
- any amendment to the merger agreement without the consent of the Company s stockholders that reduces the merger consideration below $22.00 per share or changes the form of merger consideration to other than cash; or

December 15, 2005.

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James E. Bolin, a director of Metals USA, served as Managing Director of the Credit Research and Analysis Group at Citadel Investment Group, L.L.C., from 2003 to April 2005. Mr. Bolin was not involved in the negotiations or discussions concerning the support agreement with Parent and the Citadel affiliates referenced above. Additionally, other than as a member of the board of directors, Mr. Bolin did not participate in the negotiations or discussions with Parent with respect to the merger agreement.

Treatment of the Company s Stock Options (Page 66)

Immediately prior to the effective time of the merger, all outstanding options to acquire Metals USA common stock under the Company s 2002 Long-Term Incentive Plan or otherwise will become fully vested and immediately exercisable.

All such options not exercised will, immediately following such conversion, be cancelled in exchange for an amount in cash (without interest) less applicable withholding taxes equal to the product of (i) the number of shares of our common stock subject to each option immediately prior to the effective time of the merger and (ii) the excess of $22.00 over the exercise price per share of common stock subject to such option.

Treatment of the Company s Warrants (Page 66)

From and after the effective time of the merger, all of the outstanding warrants to acquire Metals USA common stock will represent the right to receive (upon surrender by the holder thereof of the warrant and the payment by the holder thereof to the surviving corporation of the exercise price thereunder) a cash payment, without interest, equal to $22.00 for each share of Metals USA common stock underlying such warrants. If there are any warrants that have not been exercised prior to the effective time of the merger then, at the effective time, the Company will deliver notice to the warrant agent and the holders of unexercised warrants notifying them that the Company has elected to accelerate the expiration of the warrants to the 60th day following the effective time of the merger. If a warrant has not been exercised before the effective time of the merger but is exercised before the 60th day following the merger, the warrantholder will be entitled to receive, upon surrender by such holder of the warrant and the payment by such holder thereof to the surviving corporation of the exercise price thereunder, the cash payment referenced above. Any warrant that remains unexercised for more than 60 days following the expiration acceleration notice will expire. Notwithstanding the foregoing, following the effective time of the merger and before the 60th day following the effective time of the merger, the Company anticipates that it will extend credit to the Metals USA, Inc. 401(k) Plan and Metals USA, Inc. Union 401(k) Plan (collectively, the plans) in an amount necessary to allow the plans to exercise any warrants held by the plans upon which the accounts of participants of the plans will be credited with a cash payment equal to $3.50 per warrant, which amount represents the difference between the merger consideration of $22.00 per share and the warrant exercise price of $18.50 per share.

Treatment of the Right To Receive Additional Metals USA Shares (Page 67)

At the effective time of the merger all rights to receive additional shares of Metals USA common stock under the Company s 2002 Long-Term Incentive Plan or otherwise will be cancelled and converted into the right to receive $22.00 in cash (less applicable withholding taxes), without interest, for each share of the Metals USA common stock that a holder of such rights has the right to receive under the 2002 Long-Term Incentive Plan or otherwise. At the effective time of the merger, all restrictions on the delivery and issuance of such shares will lapse and such shares will be fully vested.

Regulatory Approvals (Page 58)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 and related rules (the HSR Act) provide that transactions such as the merger may not be completed until certain information has been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice and certain waiting period requirements have been satisfied. On June 3, 2005, the Company and Merger Sub each filed a Notification and

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Report Form with the Antitrust Division and the Federal Trade Commission and requested an early termination of the waiting period. On June 17, 2005, the U.S. Federal Trade Commission granted Metals USA early termination of the waiting period under the HSR Act, and consequently this condition has been satisfied.

Except as noted above with respect to the required filings under the HSR Act and the filing of a certificate of merger in Delaware at or before the effective time of the merger, we are unaware of any material federal or state regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger.

Procedure for Receiving Merger Consideration (Page 67)

As soon as practicable after the effective time of the merger, a paying agent designated by Parent will mail a letter of transmittal and instructions to all Metals USA stockholders. The letter of transmittal and instructions will tell you how to surrender your Metals USA common stock certificates in exchange for the merger consideration, without interest. You should not return any stock certificates you hold with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

No Solicitation of Transactions; Superior Proposal (Pages 73 and 77)

The merger agreement restricts our ability to, among other things, solicit or engage in discussions or negotiations with a third party regarding specified transactions involving the Company. Notwithstanding these restrictions, under certain circumstances, our board of directors may respond to an unsolicited written bona fide proposal for an alternative acquisition or terminate the merger agreement and enter into an acquisition agreement with respect to a superior proposal, so long as the Company complies with certain terms of the merger agreement, including paying a termination fee of $17 million to Parent and reimbursement of Parent s and Merger Sub s expenses, up to $4 million.

Conditions to Closing (Page 75)

Before we can complete the merger, a number of conditions must be satisfied or waived (to the extent permitted by law). These include:

- the receipt of Company stockholder approval;
- the expiration or termination of the waiting period under the HSR Act (on June 17, 2005, the U.S. Federal Trade Commission granted early termination of the waiting period under the HSR Act, and consequently this condition has been satisfied);
- the receipt of all applicable consents or approvals required under foreign antitrust laws to complete the merger, except such consents and approvals the failure of which to obtain would not, individually or in the aggregate, either have a material adverse effect on the Company or Parent or materially adversely affect the operation of the business of the surviving corporation and its subsidiaries from and after the closing;

no provision of any applicable law and no governmental orders or other legal restraint that prohibits the closing;

the truth and correctness (disregarding all limitations relating to materiality, material adverse effect or similar words) of most of the Company s representations and warranties as of May 18, 2005 and at the effective time of the merger, except for such representations and warranties the failure of which to be true and correct would not, individually or in the aggregate, have a material adverse effect on the Company;

the truth and correctness of the Company s representations and warranties regarding the Company s capitalization as of May 18, 2005 and at the effective time of the merger (disregarding, for purposes of determining the truth and correctness of any such representation or warranty, any additional amount required to be paid by Parent as merger consideration not in excess of $100,000);

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the truth and correctness of the Company s representations and warranties as of May 18, 2005 regarding the absence of material adverse changes in the Company since December 31, 2004;

the performance, in all material respects, by the Company of its covenants and agreements in the merger agreement;

the receipt by Parent and Merger Sub of its debt financing or alternative financing; see Special Factors Financing by Parent of Merger and Related Transactions Conditions Precedent to the Debt Commitment ;

Mr. Goncalves employment agreement with Merger Sub not having been terminated and remaining in force and effect at the effective time of the merger (which employment agreement may be terminated by Merger Sub for cause, which is defined to include, among other things, the emergence of facts or developments that are reasonably likely to adversely impact (for the Company or Mr. Goncalves) a certain pending litigation involving Mr. Goncalves and the Company, or the occurrence of a materially adverse outcome in such litigation, except that for purposes of this condition, the emergence of any such facts or developments will not be deemed to constitute cause unless it is reasonably likely that such adverse impact will be significant; for a description of such pending litigation, see The Merger Agreement (Proposal No. 1) Conditions to the Closing);

not more than 10% of the Company s stockholders having demanded and validly perfected appraisal rights under Delaware law;

the receipt by the Company of certain specified third party consents and approvals and any other consents and approvals required in connection with the transactions contemplated by the merger agreement, except for such other consents and approvals the failure of which to obtain would not, individually or in the aggregate, either have a material adverse effect on the operation of the business of the surviving corporation and its subsidiaries after the effective time of the merger or result in any material liability; and

since May 18, 2005, there will not have been any material adverse effect on the Company or its subsidiaries or any event, change or development that would, individually or in the aggregate, have or reasonably be expected to have a material adverse effect on the Company or its subsidiaries.

Termination of the Merger Agreement (Page 77)

Metals USA and Parent may agree in writing to terminate the merger agreement at any time without completing the merger, even after the stockholders of Metals USA have adopted the merger agreement. The merger agreement may also be terminated in certain other circumstances, including:

by either Parent or the Company if:

the closing has not occurred on or before December 15, 2005, so long as the failure to complete the merger is not the result of the failure of the terminating party to comply with the terms of the merger agreement;

the Company stockholders do not vote to adopt the merger agreement at the meeting of the stockholders; or

any governmental authority has issued an order or entered an injunction or other ruling or taken any other action that prevents or prohibits completion of the merger;

by Parent if:

- our board of directors withdraws, qualifies or modifies its approval of the merger agreement;
- our board of directors withdraws, qualifies or modifies its recommendation that the Company s stockholders vote to adopt the merger agreement in a manner adverse to Parent;
- our board or directors recommends or approves another acquisition proposal; or

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- the Company breaches any of its representations, warranties, covenants or agreements in the merger agreement such that the applicable closing conditions to the merger would not be satisfied, which breach has not been cured within 15 days after receipt of notice;

by the Company if:

- the Parent or Merger Sub breaches any of its respective representations, warranties, covenants or agreements in the merger agreement such that the applicable closing conditions to the merger would not be satisfied, which breach has not been cured within 15 days after receipt of notice; or

- we enter into an agreement with respect to a superior proposal in accordance with the terms of the merger agreement, but only after we have provided Parent with a four business day period to negotiate adjustments to the merger agreement such that the revised terms of the merger agreement are at least as favorable as the superior proposal and we have paid the termination fee of $17 million to Parent and have reimbursed the expenses of Parent and Merger Sub up to $4 million.

Termination Fee and Expenses (Page 77 and 78)

If the merger agreement is terminated under certain circumstances:

- the Company will be obligated to pay a termination fee of $17 million to Parent; and

- the Company will be obligated to pay the expenses of Parent and Merger Sub, up to $4 million (in addition to any termination fee otherwise payable).

If the merger agreement is terminated by the Company as a result of a breach by Parent or Merger Sub of the merger agreement, Parent will be obligated to pay the expenses of the Company, up to $1 million.

Market Price of Metals USA Common Stock (Page 79)

Our common stock is quoted on the NASDAQ National Market under the trading symbol MUSA. On May 17, 2005, which was the last trading day before the announcement of the execution of the merger agreement, the Company s common stock closed at $13.89 per share. On , 2005, which was the last trading day before the date of this proxy statement, the Company s common stock closed at $ per share.

Dissenters Rights of Appraisal (Page 86 and Annex C)

Delaware law provides you, as a stockholder, with appraisal rights in the merger. This means that you are entitled to have the value of your shares determined by the Delaware Court of Chancery and to receive payment based on that valuation. The ultimate amount you receive as a dissenting stockholder in an appraisal proceeding may be more or less than, or the same as, the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must submit a written demand for appraisal to the Company before the vote is taken on the merger agreement and you must not vote in favor of the adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights.

A copy of Section 262 of the DGCL is attached to this proxy statement as Annex C.

SPECIAL FACTORS

Background of the Merger

Prior to January 2005, the board of directors of the Company considered, from time to time, various strategic alternatives to maximize stockholder value, including, but not limited to, mergers, acquisitions and the potential sale of the Company, but no definitive action was taken by the board of directors, and none of these various strategic alternatives, other than the proposed transaction with Apollo, resulted in an offer for the securities or assets of Metals USA.

The Company s senior management also conducts meetings from time to time with market analysts and investors to discuss the Company and its business. In November 2004, C. Lourenco Goncalves, our chief executive officer, and Terry L. Freeman, our chief financial officer, participated in meetings with several private investment management firms, including Apollo, to discuss the Company s business. The purpose of these meetings was to increase the Company s visibility in the Wall Street investment community and to make preliminary and exploratory investigations in order to determine whether the Company should pursue strategic transactions. These meetings were organized by a nationally recognized investment bank (which was not CIBC World Markets or Jefferies), but such investment bank was not hired or retained by Metals USA and did not receive any compensation from Metals USA in connection therewith. During these meetings general discussions took place, including with respect to the possible interest of such firms in making an investment in or entering into a strategic transaction with the Company.

Also, between September 2004 and January 2005, the Company contacted two companies in the metals and steel industry with respect to their possible interest in entering into a business combination with Metals USA. CIBC World Markets acted as the Company s financial advisor in connection with a potential business combination with one such company. Both of such companies declined to engage in any serious discussions with Metals USA and discussions with both companies had ceased by the end of January 2005.

In December 2004, representatives of Apollo visited the headquarters of the Company for general discussions with Messrs. Goncalves and Freeman. In late January 2005, representatives of Apollo contacted Mr. Goncalves to express preliminary interest in pursuing a transaction with the Company. Mr. Goncalves promptly notified Daniel W. Dienst, the non-executive Chairman of our board of directors, of Apollo s expression of interest, following which Mr. Dienst held an initial discussion with Apollo.

On January 28, 2005, the board of directors held a special meeting. At this meeting, Mr. Dienst informed the members of the board that the Company had been approached by Apollo and that Apollo had expressed preliminary interest in pursuing a transaction with the Company and requested to perform preliminary due diligence with respect to the Company, subject to a confidentiality agreement. The board of directors authorized management to enter into a confidentiality agreement with Apollo and designated Mr. Dienst as the point of contact for Apollo in connection with due diligence activities and discussions regarding a potential transaction.

On February 1, 2005, the Company entered into a confidentiality agreement with Apollo. During the month of February 2005, Apollo began to conduct its financial, legal and accounting due diligence, including meetings with Messrs. Goncalves and Freeman in Houston, Texas. Also, during this period, Mr. Dienst discussed with CIBC World Markets, the Company s financial advisor, certain matters relating to Apollo s interest in pursuing a transaction with the Company, including the possibility, if the Company deemed it appropriate, for CIBC World Markets to offer to provide debt financing to Apollo or other potential buyers should the Company decide to solicit indications of interest from other third parties. It was determined that, in such event, the Company would request an opinion from another investment banking firm as to the fairness of the consideration to be received in a sale transaction.

On February 28, 2005, Mr. Dienst met with representatives of Apollo in New York City. At that meeting, based upon its preliminary diligence, Apollo expressed its desire to continue its discussions with the Company regarding a possible sale transaction, and proposed to acquire the Company for a modest, but yet undetermined, premium to the Company s stock price. On that date, the Company s per share stock price closed at $24.37.

On March 1, 2005, the board of directors held a special meeting with respect to the proposed Apollo transaction. At this meeting, our Chairman reported that, subject to the confidentiality agreement it had signed with the Company, Apollo had performed preliminary due diligence and had met with the Company s senior management in Houston, Texas. Mr. Dienst also informed the board of directors of his meeting with Apollo on February 28, 2005, including Apollo s proposal to pay a modest, but yet undetermined, premium in excess of the stock price. In view of the fact that the Company s stock price was then trading at an historical high and that Apollo had indicated that it expected to offer a premium to that price, the board of directors authorized Mr. Dienst on behalf of the Company to continue discussions with Apollo.

At the March 1, 2005 meeting, Akin Gump Strauss Hauer & Feld LLP (Akin Gump), the Company s outside counsel, provided the board of directors with an overview of its fiduciary duties when considering a possible sale of the Company. Akin Gump also discussed with the board of directors customary provisions that would be included in a definitive agreement with respect to the sale of the Company, including a provision that would allow the board of directors to accept a superior proposal, typically upon the payment of a termination fee. CIBC World Markets reviewed with the board of directors certain preliminary financial analyses relating to the Company. CIBC World Markets also reviewed with the board of directors, among other things, the historical stock price performance and trading volumes of the Company common stock over various periods ended February 28, 2005 and an illustrative overview of a leveraged buyout of the Company, including implied leverage statistics of the Company assuming, among other things, that a 10% premium were paid over the closing price of the Company common stock on February 28, 2005 and internal rates of return for an acquiror in a leveraged buyout of the Company assuming, among other things, that up to a 30% premium were paid over the closing price of the Company common stock on February 28, 2005. Also at this meeting, CIBC World Markets discussed with the board of directors the potential for another strategic or financial buyer to be interested in acquiring the Company for a purchase price greater than the purchase price indicated by Apollo. The board of directors also considered the risk that Apollo might withdraw its interest if other potential buyers were contacted by the Company. The board of directors determined that conducting an auction at that time to sell the Company was not in the best interests of the Company or its stockholders since to do so could cause Apollo to cease its discussions and due diligence and could adversely impact the Company by signaling to its customers and competitors that the Company was for sale. The board of directors instructed Mr. Dienst to request a letter from Apollo confirming its interest in the Company.

On March 3, 2005, Apollo conveyed to Mr. Dienst Apollo s preliminary offer to purchase all of the outstanding common stock of the Company for $24.50 per share in cash. Mr. Dienst responded to Apollo that in his view the offer price did not reflect a sufficient premium to the Company s then current stock price. On March 3, 2005, the Company s stock price closed at $23.61.

On March 6, 2005, Mr. Dienst met with representatives of Apollo in New York City. At that meeting, Apollo increased its preliminary offer price from $24.50 per share to $26.00 per share. Mr. Dienst stated that $26.00 did not reflect a sufficient premium to the Company s then current stock price, but that in his view the board of directors would favorably consider an offer of $26.50 per share. A representative of Apollo explained that before increasing its price beyond $26.00 per share, Apollo needed to conduct further diligence on the steel, commodities and oil markets, in general, including engaging in discussions with Mr. Goncalves about the steel markets and the Company, and to have an opportunity to review the Company s February 2005 financial results. On Friday, March 4, 2005, the Company s stock price closed at $24.21.

On March 7, 2005, Mr. Dienst received a call from a representative of Apollo preliminarily agreeing to increase its cash offer price to $26.50 per share.

On March 10, 2005, a representative of Apollo informed Mr. Dienst that it had received a letter from Credit Suisse stating that Credit Suisse was highly confident it could provide Apollo with the debt financing necessary for Apollo s transaction with the Company.

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On March 14, 2005, Apollo provided the Company with a written non-binding indication of interest regarding its possible acquisition of the Company at a price of $26.50 per share in cash in a merger transaction. The indication of interest stated that Apollo would finance the transaction with a combination of equity from Apollo s buyout fund as well as debt financing customary for a transaction of this type. The indication of interest set forth Apollo s material terms, including that Apollo would enter into binding financing commitments at the time a merger agreement was executed. Apollo attached a draft commitment letter from Credit Suisse related to the anticipated debt financing. Completion of Apollo s proposed transaction would be subject to its receipt of such debt financing on the terms of the final financing commitments. Additionally, the indication of interest stated that as part of the transaction, Apollo would negotiate and enter into employment agreements with key management, which would include continuing equity participation for such management members. Together with its delivery of the indication of interest, Apollo provided a proposed exclusivity agreement that would restrict the Company s ability to solicit, negotiate, encourage or otherwise discuss and agree to enter into any transaction with any other person involving a sale of the Company until after April 30, 2005.

On March 15, 2005, the board of directors held a special meeting. Prior to the meeting, the Chairman provided each member of the board of directors with a copy of Apollo s indication of interest, proposed exclusivity agreement and draft debt financing commitment letter. At this meeting, Mr. Dienst reviewed these documents with the board of directors. After a discussion of the proposed exclusivity agreement, the board of directors concluded that, subject to certain changes that would be requested, the Company should grant Apollo a period of exclusivity in order to complete its diligence and negotiate a definitive merger agreement. At this meeting, Mr. Dienst also discussed CIBC World Markets potential participation in the debt financing for the transaction and, in such event, the potential engagement of another investment banking firm to render to the board of directors an opinion as to the fairness of the consideration to be received in the transaction.

At the March 15 meeting, Mr. Dienst informed the board of directors that Apollo had indicated that its interest in the transaction was predicated on Mr. Goncalves remaining as chief executive officer of the surviving corporation and rolling over a significant portion of his equity ownership in the Company into equity ownership in the surviving corporation or Parent in the merger. As a result of these conditions, the board of directors discussed the potential conflict of interest Mr. Goncalves had with respect to the Apollo transaction because he was both a member of the board of directors and could be deemed to be a potential participant in Apollo s purchase of the Company. Upon the advice of Akin Gump, the board of directors determined that Mr. Goncalves should not participate in discussions of the possible sale and that the board of directors should form a transaction committee, comprised of all of the members of the board of directors other than Mr. Goncalves, to do the following:

- evaluate and negotiate with Apollo with respect to the proposed exclusivity agreement and the indication of interest and, if the transaction committee deems appropriate, approve the execution and delivery by the Company of such documents;

- negotiate with Apollo with respect to the terms and conditions of a definitive agreement with respect to the transactions contemplated by the indication of interest, and

- make a recommendation to the full board of directors with respect to whether the transactions contemplated by the definitive agreement are fair to, and in the best interests of, the Company s stockholders and the Company.

Following the Company s board of directors meeting on March 15, 2005, Mr. Dienst and Akin Gump negotiated by telephonic conference the terms of the proposed exclusivity agreement with Apollo and Wachtell, Lipton, Rosen & Katz (Wachtell Lipton), Apollo s outside counsel, with respect to the sale transaction.

On March 17, 2005, the exclusivity agreement between Apollo and the Company was executed. The final exclusivity agreement provided that the Company would not, until 11:59 p.m. on Friday, April 29, 2005, solicit, negotiate, encourage or otherwise discuss or agree to enter into any agreement or understanding with respect to the sale of the Company. The final exclusivity agreement also provided that if, on or after April 18, 2005, the

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Company s board of directors determined that Apollo was not working in good faith with the Company to pursue a transaction as outlined in its indication of interest, or it had not made sufficient progress on other aspects of the transaction (other than due to matters within the Company s control) such that it was unlikely it would be able to complete negotiations on all aspects of the transaction by April 29, 2005, then the Company would have the right to terminate the exclusivity agreement. The final exclusivity agreement further provided that Apollo would not conduct any discussions or negotiations with management concerning the management arrangements referenced in the indication of interest until such time as Apollo was authorized to do so by the Company s board of directors.

Commencing on March 21, 2005 and continuing thereafter, Apollo, together with its advisors, conducted further business, legal, financial and industry due diligence with respect to the Company, which included meetings with Messrs. Goncalves, Freeman and Hageman.

On April 11, 2005, Wachtell Lipton delivered to Akin Gump an initial draft of the agreement and plan of merger.

On April 13, 2005, the board of directors held a special meeting. At this meeting, Mr. Dienst updated the board of directors on the status of the discussions with Apollo since the last meeting of the board of directors on March 15, 2005. Mr. Dienst informed the board of directors that a substantial amount of time had been invested by Apollo, as well as a substantial amount of expense incurred, with respect to its retention of outside legal counsel, accountants and industry consultants in conducting a comprehensive due diligence review of the Company. Mr. Dienst also informed the members of the board of directors that Apollo was continuing to engage in serious negotiations with its debt financing sources with respect to the transaction. Akin Gump then reviewed with the board of directors the terms and conditions of the draft merger agreement Apollo s counsel provided on April 11, 2005. Following discussion, the board of directors authorized Mr. Dienst to begin negotiations of the merger agreement with Apollo and authorized Mr. Goncalves to begin negotiations with Apollo regarding the terms of his participation with Apollo in the transaction. Later that week, Mr. Goncalves commenced his negotiations with Apollo concerning the terms of his employment and equity investment in Parent.

On April 19, 2005, given the progress made in the potential transaction with Apollo, and because of CIBC World Markets expected participation in Apollo s debt financing, Mr. Dienst contacted Jefferies & Company, Inc. (Jefferies), which was not participating in Apollo s debt financing, to request that Jefferies render an opinion to the board of directors with respect to the fairness of the merger consideration to be received by the Company s stockholders. Notwithstanding CIBC World Markets expected role in Apollo s debt financing, the Company s board of directors continued to seek and receive assistance throughout the transaction from CIBC World Markets based upon the board of directors confidence in CIBC World Markets knowledge of the Company and experience in the metals and steel markets.

On April 21, 2005, Akin Gump and Wachtell Lipton held a preliminary telephonic conference call pursuant to which Akin Gump discussed the Company s initial comments to the merger agreement. During this call, Wachtell Lipton notified Akin Gump that Apollo would require, prior to entering into the merger agreement, that affiliates of Citadel Investment Group, L.L.C., which collectively owned approximately 16% of the Company s common stock, enter into a support agreement pursuant to which such affiliates would agree to vote their shares in favor of the merger and against any other acquisition proposal.

Beginning on April 21, 2005 and continuing until the execution of the merger agreement on May 18, 2005, Mr. Dienst, CIBC World Markets, Akin Gump, Apollo and Wachtell Lipton engaged in a series of telephone calls and meetings to discuss the offer price and to negotiate the terms of the merger agreement, including the nature of the Company s ability to entertain third party proposals, the size of the termination fee and events triggering its payment, the amount of expense reimbursement and events triggering such reimbursement, the conditionality to Apollo s obligation to close the transaction, the definition of material adverse effect and other material terms. During this time, Mr. Dienst, CIBC World Markets and Akin Gump periodically updated the

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board of directors with respect to the status of such discussions and negotiations. Ultimately, the board of directors concluded that the merger and the merger agreement were fair to and in the best interests of the Company and its stockholders.

On May 2, 2005, Mr. Dienst had a telephonic conversation with Apollo during which Apollo informed Mr. Dienst that because of the recent downturn in the debt financing markets, the precipitous deterioration in the steel markets and the Company s declining stock price, Apollo had determined to reduce its offer price from $26.50 per share to $23.00 per share in cash. On May 2, 2005, the Company s stock price closed at $14.50. Between February 28, 2005, the date that Apollo proposed to acquire the Company for a modest premium, and May 2, 2005, the date that Apollo reduced its offer price, the price of hot rolled coil steel decreased nearly 10% from $640 per ton to $580 per ton, and the Philadelphia Steel Price Index, an equity-dollar-weighted average index consisting of 15 publicly traded steel company stocks (excluding Metals USA), decreased from $269.9 to $184.3, and the High Yield Steel Index, an index of steel industry bond yields, increased from 5.9% to 7.6%. Historically, a deterioration of the steel markets has resulted in lower steel prices. Generally, as steel prices decrease, the prices at which Metals USA is able to sell its products decreases resulting in decreased profit margins and net income. In addition, the downturn in the debt financing markets made it more expensive for Apollo to obtain its financing in order to consummate the transaction with Metals USA.

During the week of May 2, 2005, counsel to Citadel and Apollo negotiated the terms of Citadel s support agreement.

On May 3, 2005, the board of directors held a special meeting. At that meeting, Mr. Dienst updated the board with respect to the potential Apollo transaction. Mr. Dienst stated that he had been informed that Apollo had substantially completed its due diligence, and that negotiations between Mr. Goncalves and Apollo with respect to his employment and equity investment following the closing of the transaction were continuing. Mr. Dienst then addressed Apollo s progress with respect to entering into financing commitment letters with its banks. The board of directors discussed the adverse changes in the steel industry and in the Company s stock price (which had fallen to $14.50 per share as of May 2, 2005) which had occurred since the board of directors prior meeting on April 15, 2005 and discussed how the debt financing markets had become less favorable during such period. Mr. Dienst informed the board of directors that, as a result of these events, Apollo had revised its offer price to $23.00 per share. At Mr. Dienst s request, CIBC World Markets discussed with the board of directors the recent stock price performance and trading volumes of the Company common stock over various periods ended March 14, 2005 and May 2, 2005 as well as certain market trends in the metals and steel industry and the high-yield debt market since March 14, 2005. CIBC World Markets also reviewed with the board of directors, among other things, implied multiples and premiums for the Company based on $23.00 per share (Apollo s revised offer price as of May 2, 2005) and per share prices ranging from $14.50 (the closing price of the Company common stock on May 2, 2005) to $26.50 (Apollo s preliminary offer price as of March 14, 2005) and implied leverage statistics of the Company and internal rates of return for an acquiror in a leveraged buyout of the Company assuming, among other things, various hypothetical per share purchase prices between $20.00 and $26.50. In addition, CIBC World Markets again reviewed with the board of directors the preliminary financial analyses previously reviewed with the board of directors at its March 1, 2005 board of directors meeting, which analyses were updated to the extent relevant for closing prices as of May 2, 2005.

Thereafter, at the May 3, 2005 meeting, the transaction committee engaged in a lengthy discussion regarding Apollo s new offer of $23.00 per share, including whether to continue to pursue a transaction with Apollo. Following this discussion, the transaction committee noted that the price of $23.00 per share continued to represent a significant premium to the Company s current stock price, and, in light of the conditions prevailing in the debt financing market and the steel industry generally, the transaction committee determined that the price of $23.00 per share was favorable and that negotiations with Apollo should continue.

On May 4, 2005, representatives from Apollo, Wachtell Lipton, Akin Gump, and CIBC World Markets met to discuss and negotiate the terms of Wachtell Lipton s May 3, 2005 revised draft merger agreement. Later that day, a representative of Apollo telephoned Mr. Dienst to notify him that Apollo was reducing its offer from

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$23.00 per share to $22.75 per share because the professional fees and other expenses that the Company estimated it would incur in connection with the transaction were higher than Apollo had previously anticipated, thereby increasing Apollo s financing requirements. On that call, Mr. Dienst told Apollo that, in his view, a further reduction of the purchase price would not be favorably received by the board of directors. On May 4, 2005, the Company s stock price closed at $14.65.

On May 5, 2005, Apollo telephoned Mr. Dienst to propose that Apollo would keep its offer of $23.00 per share, but that the purchase price would be subject to reduction if the Company s professional fees exceeded an amount equal to approximately $0.25 per fully diluted share, or $6,225,000.

On May 6, 2005, Wachtell Lipton delivered a revised draft of the merger agreement to Akin Gump reflecting the matters discussed at the meeting on May 4, 2005 and the May 5, 2005 telephonic conversation between Mr. Dienst and Apollo.

During the period between May 6, 2005 and May 9, 2005, the Company, CIBC World Markets and Akin Gump, on the one hand, and Apollo and Wachtell Lipton, on the other hand, continued to negotiate the terms of the merger agreement. These discussions included preliminary agreement that the price reduction for the Company s transaction fees would not exceed $0.25 per share, so that the minimum transaction price would be $22.75 per share.

On May 10, 2005, a special meeting of the board of directors was held at the offices of Akin Gump in New York City. At this meeting, Mr. Dienst reviewed with the board of directors the status of negotiations with Apollo, including the key business terms. Mr. Dienst informed the board of directors that he had received a draft of Apollo s equity commitment letter, and that affiliates of Citadel had agreed to enter into a support agreement with Apollo pursuant to which it would agree, subject to certain customary limitations, to vote in favor of the transaction and against other third-party offers to acquire the Company. Mr. Dienst explained to the board of directors that Apollo continued to have difficulty obtaining its debt financing, particularly because of then current conditions in the debt financing market and in the steel industry generally, which had continued to worsen. Mr. Dienst also informed the board of directors that scrap metal prices had fallen sharply. Mr. Dienst then informed the board of directors it was his understanding that Mr. Goncalves and Apollo had not yet completed the negotiation of the terms of Mr. Goncalves employment and equity investment agreements in the surviving corporation or Parent. Mr. Dienst then explained to the board of directors that, in addition to the need to review and understand Mr. Goncalves employment and equity investment agreements and the debt commitment letters, a few issues remained unresolved with Apollo with respect to the merger agreement. Akin Gump then reviewed with the board of directors the material terms of the current draft of the merger agreement which had been distributed to the board of directors in summary form in advance of the meeting.

At the May 10, 2005 special meeting of the board of directors, CIBC World Markets reviewed with the board of directors, among other things, the historical stock price performance of the Company and selected companies in the metals and steel industry and trading volumes of the Company common stock over various periods ended May 9, 2005 and implied multiples and premiums for the Company based on Apollo s proposed $23.00 per share offer price. In addition, CIBC World Markets again reviewed with the board of directors the preliminary financial analyses previously reviewed with the board of directors at its May 3, 2005 board of directors meeting, which analyses were updated to the extent relevant for closing stock prices as of May 9, 2005 and are more fully described under SPECIAL FACTORS Financial Advisory Services of CIBC World Markets Corp. The board of directors also discussed the current debt financing market conditions and the status of Apollo s financing commitments. CIBC World Markets informed the board of directors that CIBC World Markets had been advised that one of Apollo s financing sources had declined to participate in Apollo s debt financing and that, subject to internal approvals, CIBC World Markets would increase its participation in such financing. Mr. Dienst then updated the board of directors regarding his prior discussions with Jefferies concerning rendering an opinion to the board of directors as to the fairness of the consideration to be received in the merger, and the board of directors then ratified the engagement of Jefferies. Following such ratification, Jefferies joined the meeting and made a presentation to the board of directors regarding its financial analysis of

Apollo s proposed offer at $23.00 per share, subject to pro rata reduction in the event the Company s expenses exceeded $6,225,000. Following such presentation, Jefferies indicated to the board of directors that, subject to review of the definitive agreements, it would be prepared to render its opinion to the board of directors as to the fairness of the merger consideration at such time as the board of directors formally approved the merger transaction with Apollo. Following such presentation, Jefferies, CIBC World Markets and Messrs. Goncalves, Freeman and Hageman, as well as Mr. Dienst, were requested to leave the meeting. Thereupon, the members of the Company s compensation committee raised with the transaction committee (other than Mr. Dienst) the possibility of recognizing Mr. Dienst s substantial efforts and time commitment in negotiating the transaction by providing him with a payment upon the completion of a sale transaction. After discussion, the members of the transaction committee (other than Mr. Dienst) agreed that any amount payable to Mr. Dienst should not exceed $1 million and in any event should not result in any reduction to the offer price. However, the transaction committee determined that until all matters relating to the Apollo transaction were resolved, it was premature to make any final resolution as to the payment or the amount thereof.

During the period between May 10, 2005 and May 12, 2005, Mr. Dienst, Akin Gump and CIBC World Markets, on the one hand, and Apollo and Wachtell Lipton, on the other hand, continued to negotiate the remaining open issues relating to the merger agreement.

On May 12, 2005, a representative of Apollo and Mr. Dienst had a telephone call with respect to the price per share to be offered by Apollo in the transaction. Apollo advised Mr. Dienst that it was reducing its offer price from $23.00 per share to $22.00 per share. Apollo explained to Mr. Dienst that the reduction of its offer price was due to, among other things, continued weakness in the debt financing markets, and the requirement by Credit Suisse that Apollo increase its equity investment in the transaction. On this date, the price of hot rolled coil steel was $560 per ton (or approximately 12.5% lower than on February 28th, the date Apollo first proposed to acquire the Company, and 3.5% lower than on May 2nd, the date Apollo reduced its offer from $26.50 per share to $23.00 per share), the Philadelphia Steel Price Index was $180.2 (or approximately 33% lower than on February 28th, the date Apollo first proposed to acquire the Company, and 2.2% lower than on May 2nd, the date Apollo reduced its offer from $26.50 per share to $23.00 per share), and the High Yield Steel Index was 7.5% (or approximately 27% higher than on February 28th, the date Apollo first proposed to acquire the Company, and 1.3% lower than May 2nd, the date Apollo reduced its offer price from $26.50 per share to $23.00 per share). Following discussion, Apollo agreed that its offer price of $22.00 per share would not be subject to reduction, even if the Company s professional fees and expenses exceeded the threshold of $6,225,000. Later that day, Apollo informed Mr. Dienst that Credit Suisse had executed Apollo s debt commitment letter and that Apollo expected that CIBC World Markets would execute such letter within the next couple of days. Following the call, Apollo sent Mr. Dienst a copy of Apollo s debt commitment letter executed by Credit Suisse, which specified the purchase price at $22.00 per share in cash. On May 12, 2005, the Company s stock price closed at $14.05 per share.

Later on May 12, 2005, a special meeting of the transaction committee of the board of directors was held. Mr. Dienst discussed with the committee the fact that the metals and steel markets continued to deteriorate and that the Company s stock price continued to fall, having traded as low as $13.88 earlier in the day. Mr. Dienst summarized to the committee his recent discussion with Apollo, and indicated that Apollo had reduced its offer to $22.00 per share, but that such price would no longer be subject to reduction, even if the Company s professional fees and expenses exceeded a certain threshold. Mr. Dienst also told the board that Credit Suisse had executed Apollo s debt commitment letter and that CIBC World Markets was expected to do so shortly. At Mr. Dienst s request, CIBC World Markets discussed with the committee the adverse conditions that continued to exist in the debt financing market and the steel industry generally. Akin Gump then reviewed the open issues with respect to the merger agreement that were raised in a call earlier in the day with Wachtell Lipton.

During the period between May 12, 2005 and May 17, 2005, the Company, Akin Gump and CIBC World Markets, on the one hand, and Apollo and Wachtell Lipton, on the other hand, finalized the terms of the merger agreement.

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On May 13, 2005, Apollo executed the debt commitment letter with Credit Suisse and CIBC World Markets for the financing of the transaction at a purchase price of $22.00 per share in cash.

On May 14, 2005, Apollo informed Mr. Dienst that Mr. Goncalves had executed his employment agreement and equity participation agreements with Apollo. Apollo also informed the Company that, prior to entering into the merger agreement with the Company, it would require each of Messrs. Terry L. Freeman, chief financial officer of the Company, and John A. Hageman, chief legal officer of the Company, to enter into an employment agreement and other agreements requiring the rollover of a substantial portion of their equity in the Company into Parent at the effective time of the merger.

On May 17, 2005, Apollo informed Mr. Dienst that Messrs. Freeman and Hageman had executed their employment and equity participation agreements.

On May 18, 2005, the board of directors held a special meeting for purposes of obtaining final approval of the merger agreement. Mr. Dienst informed the board of directors that all issues relating to the merger agreement had been resolved, and that the merger agreement reflected a price of $22.00 per share in cash without any provision for reduction. He also informed the board of directors that Citadel s support agreement had been finalized, Messrs. Goncalves, Freeman and Hageman had each executed their respective employment and equity participation agreements, and that Apollo had provided Mr. Dienst with a copy of the debt commitment letter executed by Apollo, Credit Suisse and CIBC World Markets. At Mr. Dienst s request, Akin Gump reviewed with the board of directors the terms of the final merger agreement, a copy of which was distributed to the members of the board of directors in advance of the meeting, as well as how certain outstanding issues were resolved since the last meeting of the transaction committee of the board of directors on May 12, 2005. CIBC World Markets then confirmed that the final purchase price of $22.00 per share did not materially impact the preliminary financial analyses which CIBC World Markets previously reviewed with the board of directors at its May 10, 2005 meeting. Jefferies then joined the meeting and reviewed with the board of directors its financial analysis of the merger consideration, noting that the per share consideration had been reduced to $22.00 per share since its presentation at the May 10, 2005 meeting. Following its presentation, Jefferies delivered to the board of directors its opinion as investment bankers to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth in its written opinion, the consideration to be received by the holders of shares of the Company s common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, other than Apollo and its affiliates and other than any members of the Company s management who may be given the opportunity to obtain equity interests in Parent or the surviving corporation from and after consummation of the merger. Following discussions, the Company s board of directors, by unanimous vote (other than Mr. Goncalves who abstained from voting) approved and declared advisable the merger agreement and the merger and resolved to recommend that the Company s stockholders adopt the merger agreement. Following such action, the members of the compensation committee recommended that the board of directors, in recognition of his substantial efforts and time commitment in negotiating the transaction with Apollo, and for coordinating the efforts of the Company s management, financial advisors, attorneys and accountants involved in the transaction, approve the payment to our Chairman of $500,000 upon the closing of the sale transaction. Thereupon, the board of directors approved (with Mr. Dienst and Mr. Goncalves abstaining) that Mr. Dienst receive $500,000 upon completion of the transaction with Apollo (or a transaction that constitutes a superior proposal as permitted by the merger agreement). For a discussion of the reasons for the merger, see Special Factors Purposes, Reasons and Plans for Metals USA after the Merger ; and for a discussion of the effects of the merger on Metals USA, see Special Factors Certain Effects of the Merger.

After the conclusion of the May 18, 2005 meeting of the Company s board of directors, the Company, Parent and Merger Sub executed the merger agreement and affiliates of Citadel and Parent executed the Support Agreement. Thereupon, the Company and Apollo issued a press release announcing the merger agreement.

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Reasons for the Merger

After careful consideration, the Company s board of directors (excluding C. Lourenco Goncalves, who abstained), by unanimous vote called for that purpose, approved and determined the merger agreement advisable and declared that the merger agreement and the merger, on the terms and conditions set forth in the merger agreement, are fair to and in the best interests of the Company and its stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). In the course of reaching its decision to approve the merger agreement and the merger, the Company s board of directors consulted with the Company s legal and financial advisors and considered a number of factors that it believed supported its decision, including the following:

the price being paid for each share of Metals USA common stock in the merger represents a substantial premium to historic trading prices, including a premium of over 58% over the closing sale price of $13.89 on the NASDAQ National Market on May 17, 2005 (the trading day immediately prior to the date on which the Company announced the execution of the merger agreement) and over 35% over the preceding 30-trading day average, 14% over the preceding 60-trading day average, 17% over the preceding 90-trading day average, 21% over the preceding 180-trading day average, and 98% over the trading day average since November 5, 2002 (the first trading day since the Company s emergence from bankruptcy);

its belief that the merger was more favorable to stockholders than any other alternative reasonably available to the Company and its stockholders, including a business combination with another company in the metals and steel industry (based on the Company s discussions with certain such companies in late 2004 and early 2005 and its belief that no company in the metals and steel industry with the ability to acquire the Company was likely to be interested in pursuing a business combination with the Company and that no other private investment management firm or financial buyer was likely to offer a purchase price greater than the purchase price offered by Apollo), and including continuing to operate the business, because of the uncertain returns to such stockholders in light of the Company s business, operations, financial condition, strategy and prospects, as well as the risks involved in achieving those prospects, the nature of the steel and metals industry on which the Company s business depends, and general industry, economic and market conditions, both on an historical and on a prospective basis;

the financial matters reviewed with our board of directors by the Company s financial advisor, CIBC World Markets, in connection with the proposed merger (see Special Factors Background of the Merger);

the opinion dated May 18, 2005 of Jefferies, as investment bankers, to the board of directors to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth therein, the merger consideration to be received by holders of Metals USA common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, other than Parent and its affiliates and other than the Participating Investors. The full text of the Jefferies opinion dated May 18, 2005, which sets forth the assumptions made, matters considered and limitations on the scope of review undertaken by Jefferies in rendering its opinion, is attached to this proxy statement as Annex B. Metals USA and its board of directors encourage stockholders to read the Jefferies opinion carefully and in its entirety;

the financial and other terms and conditions of the merger agreement as reviewed by our board of directors (see The Merger Agreement (Proposal No. 1)) and the fact that they were the product of extensive negotiations between the parties;

the fact that the merger consideration is all cash, so that the transaction allows the Company s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent) to immediately realize fair value, in cash, for their investment and provides such stockholders certainty of value for their shares;

the fact that, subject to compliance with the terms and conditions of the merger agreement, the Company is permitted, prior to stockholder approval, to furnish information to and conduct negotiations with third parties that make an acquisition proposal as defined in the merger agreement;

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the fact that, subject to compliance with the terms and conditions of the merger agreement, the Company is permitted to terminate the merger agreement, prior to stockholder approval, in order to approve an alternative transaction proposed by a third party that is a superior proposal as defined in the merger agreement, upon the payment to Parent of a $17 million termination fee (representing approximately 3.25% of the total equity value of the Company) and payment of Parent s and Merger Sub s expenses of up to $4 million (see The Merger Agreement (Proposal No. 1) Termination of the Merger Agreement , The Merger Agreement (Proposal No. 1) Termination Fee and The Merger Agreement (Proposal No. 1) Reimbursement of Expenses);

its belief that the adverse conditions prevailing in the debt financing markets and the metals and steel markets generally could negatively impact the ability of Parent and Merger Sub or other potential acquirors to purchase the shares of Metals USA common stock at a price greater than $22.00 per share;

the availability of appraisal rights to holders of our common stock who comply with all of the required procedures under Delaware law, which allows such holders to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery (see Dissenters Rights of Appraisal and Annex C); and

the board of directors understanding, after consultation with its professional advisors, that both the $17 million termination fee (and the circumstances when such fee is payable) and the requirement to reimburse Parent and Merger Sub for certain expenses, up to a limit of $4 million, in the event that the merger agreement is terminated under certain circumstances are reasonable and customary in light of the benefits of the merger, commercial practice and transactions of this size and nature.

In addition, the board of directors believed that sufficient procedural safeguards were and are present to ensure the fairness of the merger and to permit the board of directors to represent effectively the interests of Metals USA s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). These procedural safeguards include the following:

the fact that, other than the acceleration of the right to receive shares or options to acquire shares of Metals USA common stock held by each director, the indemnification of and provision of directors and officers liability insurance for each director for six years from and after the effective time, the equity investment and employment arrangement by Mr. Goncalves in and with the surviving corporation or Parent, and the $500,000 cash payment payable to our Chairman, the directors will not receive any consideration in connection with the merger that is different from that received by any other stockholder of Metals USA (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent);

the fact that our compensation committee did not recommend, and the board of directors (other than Messrs. Dienst and Goncalves who abstained) did not approve, the award to our Chairman of a cash payment of $500,000 until after the board of directors had approved of the merger agreement and that, if paid, such payment will not reduce the amount to be paid to our stockholders in the merger, but will be paid with Company funds at the effective time of the merger or the closing of a superior transaction;

the fact that the board of directors negotiated the terms of the merger agreement, including the amount of the merger consideration, without the participation of Mr. Goncalves;

the fact that the board of directors made its evaluation of the merger agreement and the merger based upon the factors discussed in this proxy statement, independent of Mr. Goncalves, and with knowledge of the interests of Mr. Goncalves and the other management participants in the merger;

the fact that the Company is permitted under certain circumstances to respond to inquiries regarding acquisition proposals and to furnish information, and to terminate the merger agreement in order to complete a superior transaction; and the fact that under Delaware law, the stockholders of the Company have the right to demand appraisal of their shares.

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In light of the procedural safeguards discussed above and the fact that as of , the record date, members of management held and are entitled to vote, in the aggregate, less than 1.0% of the Company s outstanding common stock, the board of directors did not consider it necessary to require adoption of the merger agreement by at least a majority of the Company s unaffiliated stockholders.

The Company s board of directors also considered a variety of risks and other potentially negative factors concerning the merger agreement and the merger, including the following:

the risk that the merger might not be completed in a timely manner or at all, including the risk that the merger will not occur if the financing contemplated by Merger Sub s debt commitment letter is not obtained;

the fact that Merger Sub s financing under the terms of its debt commitment letter is conditioned upon the absence of any disruptions or adverse changes in the financial, banking or capital markets generally, or in the market for new issuances of leveraged loans of high-yield securities in particular, that could, in the lenders judgment, reasonably be expected to impair the syndication of the facilities provided or the placement of the notes related to the financing;

the fact that Parent s obligation to complete the merger is conditioned upon Mr. Goncalves employment agreement with Merger Sub not being terminated as of the effective time of the merger, and that Mr. Goncalves employment agreement may be terminated by Merger Sub before the completion of the merger for cause which is defined for purposes of the merger agreement to include the emergence of facts or developments that are reasonably likely to significantly adversely impact (for the Company or Mr. Goncalves) a certain pending litigation involving Mr. Goncalves and the Company, or the occurrence of a materially adverse outcome in such litigation; see The Merger Agreement (Proposal No. 1) Conditions to Closing;

the fact that Parent s obligation to complete the merger is conditioned upon the Company receiving specified third party consents and approvals and certain other third party consents and approvals the failure of which to obtain would not, individually or in the aggregate, either have a material adverse effect on the operation of the business of the surviving corporation and its subsidiaries after the effective time of the merger or result in any material liability;

the fact that Parent s obligation to complete the merger is conditioned upon its representations and warranties (other than representations and warranties relating to the Company s capitalization and to the absence of any material adverse effect since December 31, 2004) under the merger agreement being true and correct as of May 18, 2005 and at the effective time of the merger, except where the failure to be so true and correct would not individually or in the aggregate, have a material adverse effect on the Company;

the fact that Parent s obligation to complete the merger is conditioned upon its representations and warranties relating to the Company s capitalization as of May 18, 2005 and at the effective time of the merger being true in all respects, except where Parent and Merger Sub would not be required to expend monies in excess of $100,000;

the fact that the price being paid for each share of Metals USA common stock in the merger is 14.9% below the recent historical high of Metals USA common stock of $25.85 on March 7, 2005;

the fact that an all cash transaction generally would be a taxable transaction to the Company s stockholders for U.S. federal income tax purposes;

the risks and costs to the Company if the merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential effect on business and customer relationships;

the fact that the Company s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent) will lose the opportunity to participate in any future earnings or growth of Metals USA and will not benefit from any future appreciation in value of Metals USA;

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the terms of management participation in the merger and the fact that Mr. Goncalves and certain of the Company s executive officers have interests in the transaction that are different from, or in addition to, those of the Company s other stockholders;

the restrictions on the conduct of the Company s business prior to the completion of the merger, requiring the Company to conduct its business only in the ordinary course, subject to specific limitations, which may delay or prevent the Company from undertaking business opportunities that may arise pending completion of the merger; and

the fact that the Company is entering into a merger agreement with newly-formed corporations with essentially no assets, and the fact that the Company s remedy under the merger agreement for monetary damages in connection with a breach of the merger agreement by Parent or Merger Sub is limited to up to $1 million in reimbursement for certain expenses.

In the course of reaching its decision to approve the merger agreement, the Company s board of directors did not consider the liquidation value of the Company because it considered the Company to be a viable, going concern business and therefore did not consider liquidation value to be a relevant methodology. Further, the board of directors did not consider net book value, which is an accounting concept, as a factor because it believed that net book value is not a material indicator of the value of Metals USA as a going concern but rather is indicative of historical costs. The Company s net book value per share as of March 31, 2005 and June 30, 2005 was $16.55 and $17.33, respectively, or approximately 25% and 21%, respectively, lower than the $22.00 per share cash merger consideration.

The foregoing discussion summarizes the material factors considered by our board of directors in its consideration of the merger. After considering these factors, the board of directors concluded that the positive factors relating to the merger agreement and the merger outweighed the negative factors. In view of the wide variety of factors considered by our board of directors, our board of directors did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of our board of directors may have assigned different weights to various factors. Our board of directors approved and recommends the merger agreement and the merger based upon the totality of the information presented to and considered by it.

Recommendation of the Company s Board of Directors

After careful consideration, the Company s board of directors, by unanimous vote of the board of directors (excluding C. Lourenco Goncalves, who abstained):

has determined that the merger agreement and the merger, upon the terms and conditions set forth in the merger agreement, are advisable, fair to and in the best interests of the Company and its stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent);

has approved the merger agreement; and

recommends that the Company s stockholders vote FOR the adoption of the merger agreement.

Opinion of Jefferies & Company, Inc.

Metals USA engaged Jefferies & Company, Inc. solely to render an opinion to Metals USA s board of directors as to the fairness, from a financial point of view, to holders of Metals USA common stock of the merger consideration to be received by such holders pursuant to the merger agreement, other than Parent and its affiliates and other than any members of Metals USA s management who may be given the opportunity to obtain equity interests in Parent or the surviving corporation from and after consummation of the merger, whom are referred to as the Participating Investors. On May 18, 2005, Jefferies rendered to Metals USA s board of directors its

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opinion as investment bankers to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth therein, the merger consideration to be received by holders of Metals USA common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, other than Parent and its affiliates and other than the Participating Investors.

The full text of the Jefferies opinion, which sets forth the assumptions made, matters considered and limitations on the scope of review undertaken by Jefferies in rendering its opinion, is attached to this proxy statement as Annex B. Metals USA and its board of directors encourage stockholders to read the Jefferies opinion carefully and in its entirety.

The Jefferies opinion was provided to Metals USA s board of directors in connection with its consideration of the merger and addresses only the fairness, from a financial point of view and as of the date of the Jefferies opinion, of the merger consideration to be received by the holders of Metals USA common stock, other than Parent and its affiliates and other than the Participating Investors, and does not address any other aspect of the merger. The Jefferies opinion does not constitute a recommendation as to how any stockholder should vote on the merger or any matter relevant to the merger agreement.

In connection with its opinion, Jefferies, among other things:

- reviewed the merger agreement;
- reviewed Metals USA s operations and prospects;
- reviewed certain financial and other information about Metals USA that was publicly available;
- reviewed information furnished by Metals USA s management, including certain internal financial analyses, budgets, reports and other information;
- held discussions with various members of senior management of Metals USA concerning historical and current operations, financial conditions and prospects, including recent financial performance;
- reviewed certain financial forecasts prepared by Wall Street research analysts who report on Metals USA;
- reviewed the share trading price history of Metals USA for a period Jefferies deemed appropriate, both on a stand-alone basis and relative to certain companies Jefferies deemed relevant;
- reviewed the valuation of Metals USA implied by the merger consideration;
- reviewed the valuations of publicly traded companies that Jefferies deemed comparable in certain respects to Metals USA;

reviewed the financial terms of selected acquisition transactions involving companies in lines of business that Jefferies deemed comparable in certain respects to the business of Metals USA;

reviewed the premiums paid in selected acquisition transactions; and

prepared a discounted cash flow analysis of Metals USA.

In addition, Jefferies conducted such other quantitative reviews, analyses and inquiries relating to Metals USA as Jefferies considered appropriate in rendering its opinion.

In its review and analysis and in rendering its opinion, Jefferies assumed and relied upon, but did not assume any responsibility to independently investigate or verify, the accuracy, completeness and fair presentation of all financial and other information that was provided to Jefferies by Metals USA or that was publicly available (including, without limitation, the information described in the bullet points above), or that was otherwise reviewed by Jefferies. Jefferies opinion was expressly conditioned upon such information, whether written or oral, being complete, accurate and fair in all respects material to its analysis.

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With respect to the financial forecasts provided to and examined by Jefferies, Jefferies noted that projecting future results of any company is inherently subject to uncertainty. Metals USA informed Jefferies, however, and Jefferies assumed, that such financial forecasts were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Metals USA as to the future performance of Metals USA. Jefferies expressed no opinion as to Metals USA s financial forecasts or the assumptions on which they were made. In addition, in rendering its opinion Jefferies assumed that Metals USA will perform in accordance with such financial forecasts for all periods specified therein. Although such financial forecasts did not form the principal basis for Jefferies opinion, but rather constituted one of many items that it employed, changes to such financial forecasts could affect its opinion.

In its review, Jefferies did not obtain any independent evaluation or appraisal of the assets or liabilities of, nor did it conduct a comprehensive physical inspection of any of the assets of, Metals USA, nor was Jefferies furnished with any such evaluations or appraisals or reports of such physical inspections, nor did Jefferies assume any responsibility to obtain any such evaluations, appraisals or inspections. Jefferies opinion was based on economic, monetary, regulatory, market and other conditions existing and which could be evaluated as of the date thereof. Jefferies expressly disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion of which Jefferies becomes aware after the date of its opinion. Jefferies made no independent investigation of any legal or accounting matters affecting Metals USA, and Jefferies assumed the correctness in all respects material to its analysis of all legal and accounting advice given to Metals USA, and its board of directors, including, without limitation, advice as to the legal, accounting and tax consequences of the terms of, and transactions contemplated by, the merger agreement to Metals USA, and its stockholders. In addition, in preparing its opinion Jefferies did not take into account any tax consequences of the transaction to any holder of Metals USA common stock.

In rendering its opinion, Jefferies also assumed with the consent of Metals USA s board of directors that:

- the transactions contemplated by the merger agreement will be consummated on the terms described in the merger agreement without any waiver of any material terms or conditions which would affect the amount or timing of receipt of the merger consideration;

- there was not, and there will not as a result of the consummation of the transactions contemplated by the merger agreement be, any default, or event of default, under any indenture, credit agreement or other material agreement or instrument to which Metals USA or any of its subsidiaries or affiliates is a party; and

- all material assets and liabilities (contingent or otherwise, known or unknown) of Metals USA were as set forth in the consolidated financial statements provided to Jefferies by Metals USA, as of the dates of such financial statements.

In addition, Jefferies was not requested to and did not provide advice concerning the structure, the specific amount of the merger consideration, or any other aspects of the merger, or to provide services other than the delivery of its opinion. Jefferies was not authorized to and did not solicit any expressions of interest from any other parties with respect to the sale of all or any part of Metals USA, or any other alternative transaction. Jefferies did not participate in negotiations with respect to the terms of the merger and related transactions. Consequently, Jefferies assumed that such terms were the most beneficial terms from Metals USA s perspective that could under the circumstances be negotiated among the parties to such transactions, and Jefferies expressed no opinion whether any alternative transaction might produce consideration for Metals USA s stockholders in an amount in excess of that contemplated in the merger.

Jefferies opinion was for the use and benefit of Metals USA s board of directors in its consideration of the merger, and its opinion did not address the relative merits of the transactions contemplated by the merger agreement as compared to any alternative transactions that might be available to Metals USA, nor did it address the underlying business decision by Metals USA to engage in the merger or the terms of the merger agreement or the documents referred to therein. Jefferies expressed no opinion as to the price at which Metals USA common stock will trade at any future time.

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In preparing its opinion, Jefferies performed a variety of financial and comparative analyses. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analysis and the applications of those methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Jefferies believes that its analyses must be considered as a whole. Considering any portion of its analyses and of the factors considered by it, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the conclusion expressed in its opinion. In addition, Jefferies may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuation resulting from any particular analysis described below should not be taken to be Jefferies view of Metals USA s actual value. Accordingly, the conclusions reached by Jefferies are based on all analyses and factors taken as a whole and also on the application of Jefferies own experience and judgment.

In performing its analyses, Jefferies made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond Metals USA s and Jefferies control. The analyses performed by Jefferies are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses or assets do not purport to be appraisals or to necessarily reflect the prices at which businesses or assets may actually be sold and are inherently subject to uncertainty. The analyses performed were prepared solely as part of Jefferies analysis of the fairness, from a financial point of view, of the merger consideration and were provided to Metals USA s board of directors in connection with the delivery of Jefferies opinion.

The following is a summary of the material financial and comparative analyses performed by Jefferies that was presented to the Metals USA board of directors on May 18, 2005 in connection with the delivery of its opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand Jefferies financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data described below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Jefferies financial analyses. The summary below is qualified by reference to the complete written presentation, a copy of which has been filed as an exhibit to the Rule 13e-3 Transaction Statement on Schedule 13E-3 filed with the Securities and Exchange Commission in connection with the merger. A complete copy of Jefferies presentation also will be available for inspection and copying at the Company s principal executive offices during regular business hours by any interested stockholder of the Company or any representative of such stockholder who has been so designated in writing and also may be inspected and copied at the office of, and obtained by mail from, the Securities and Exchange Commission.

Transaction Overview. Based upon the merger consideration of $22.00 per share, approximately 21.5 million shares outstanding of Metals USA common stock as of May 16, 2005 on a fully diluted basis (calculated using the treasury stock method), and approximately $264.1 million of net debt, Jefferies noted that the merger consideration implied a net offer value of approximately $473.3 million, and a transaction value of approximately $737.4 million. Jefferies also noted that the merger consideration of $22.00 per share represented:

- a premium of 58.4% to the closing price per share of Metals USA common stock on May 17, 2005, which was the last full trading day prior to public announcement of the merger agreement,
- a premium of 78.0% to the closing price per share of Metals USA common stock on May 17, 2004 of $12.36, which was the lowest closing price of the Metals USA common stock during the 52-week period ending May 17, 2005, and
- a discount of 14.9% to the closing price per share of Metals USA common stock on March 7, 2005 of $25.85, which was the highest closing price of the Metals USA common stock during the 52-week period ending May 17, 2005.

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Historical Trading Analysis. Jefferies reviewed the share price trading history of Metals USA common stock for the one year period ending May 17, 2005 on a stand-alone basis and also in relation to the S&P 500 Index and to a composite index consisting of the following steel service center and processor companies:

- A.M. Castle & Co.
- Worthington Industries, Inc.
- Earle M. Jorgensen Company
- Harris Steel Group Inc.
- Novamerican Steel Inc.
- Olympic Steel, Inc.
- Reliance Steel & Aluminum Co.
- Shiloh Industries, Inc.
- Steel Technologies Inc.
- Ryerson Tull, Inc.

Comparable Company Analysis. Using publicly available information and information provided by Metals USA management, Jefferies analyzed the trading multiples of Metals USA common stock and the corresponding trading multiples of the group of companies listed above under Historical Trading Analysis. In its analysis, Jefferies derived and compared multiples for Metals USA and the selected companies, calculated as follows:

- the enterprise value divided by estimated earnings before interest, taxes, depreciation and amortization, or EBITDA, for calendar year 2005, which is referred to as Enterprise Value/CY 2005E EBITDA, and
- the enterprise value divided by EBITDA for the latest-twelve-month period, or LTM, which is referred to as Enterprise Value/LTM EBITDA.

This analysis indicated the following:

Comparable Public Companies Multiples

	High	Low	Mean	Median
Enterprise Value/CY 2005E EBITDA*	5.0x	4.0x	4.5x	4.6x
Enterprise Value/LTM EBITDA**	4.8x	3.3x	4.1x	4.0x

* The following companies were excluded because their multiples were either not meaningful (due to EBITDA numbers resulting in multiples that, in Jefferies judgment, were not reflective on a comparative basis of the valuation of the other companies) or not available: A.M. Castle & Co., Earle M. Jorgensen Co., Novamerican Steel Inc., Olympic Steel Inc., Shiloh Industries, Inc. and Ryerson Tull Inc.

** The following companies were excluded because their multiples were not meaningful (due to EBITDA numbers resulting in multiples that, in Jefferies judgment, were not reflective on a comparative basis of the valuation of the other companies): A.M. Castle & Co., Olympic Steel Inc., and Ryerson Tull Inc.

Using a reference range of 4.0x to 5.0x Metals USA s estimated 2005 EBITDA of approximately $113.1 million and a reference range of 3.3x to 4.8x Metals USA s LTM EBITDA of approximately $175.4 million, Jefferies determined an implied enterprise value for Metals USA by multiplying the amount of Metals USA s EBITDA (estimated 2005 EBITDA or LTM EBITDA, as the case may be) by the applicable reference range, then subtracted debt of approximately $278.4 million and added cash of approximately $14.3 million to

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determine an implied equity value. Based upon approximately 20.3 million shares of Metals USA common stock outstanding as of May 16, 2005 and taking into account the warrants and the vesting of in-the-money options, this analysis indicated a range of implied values per share of Metals USA common stock of approximately $9.25 to $14.50 using the estimated 2005 EBITDA multiples, and approximately $15.25 to $26.25 using the LTM EBITDA multiples, in each case compared to the merger consideration of $22.00.

No company utilized in the comparable company analysis is identical to Metals USA. In evaluating the selected companies, Jefferies made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond Metals USA s and Jefferies control. Mathematical analysis, such as determining the mean or median, is not in itself a meaningful method of using comparable company data.

Selected Precedent Transactions Analysis. Using publicly available information, Jefferies examined the following eight transactions involving steel service center and processor companies. The transactions considered and the month and year each transaction was announced were as follows:

Target	Acquiror	Month and Year Announced
Edgen Corporation	Jefferies Capital Partners	January 2005
Integris Metals Corporation	Ryerson Tull, Inc.	October 2004
J&F Steel, LLC (Arcelor)	Ryerson Tull, Inc.	June 2004
Precision Strip	Reliance Steel and Aluminum Co.	June 2003
Acier Leroux, Inc. (f.k.a. Leroux Steel, Inc.)	Russel Metals, Inc.	April 2003
Milwaukee Plates Division of Metals USA, Inc.	Russel Metals, Inc.	August 2002
A.J. Forsyth and Company, Ltd.	Russel Metals, Inc.	October 2001
Assets of Cold Metal Products, Inc.	Maksteel Inc.	March 1999

Using publicly available estimates for each of these transactions, Jefferies reviewed the transaction value as a percentage of the target company s LTM Revenue immediately preceding announcement of the transaction, which is referred to below as Transaction Value/LTM Revenue. This analysis indicated the following:

Selected Precedent Transactions Multiples

	High	Low	Mean	Median
Transaction Value/LTM Revenue*	202%	32%	63%	39%

* Excludes Russel Metals, Inc. s acquisition of A.J. Forsyth and Company, Ltd. because such information was not available.

Using a reference range of 35% to 60% of Metals USA s LTM revenue of approximately $1,618.2 billion, Jefferies determined an implied enterprise value for Metals USA by multiplying the amount of Metals USA s LTM revenues by the reference range, then subtracted debt of approximately $278.4 million and added cash of approximately $14.3 million to determine an implied equity value. Based upon approximately 20.3 million shares of Metals USA common stock outstanding as of May 16, 2005 and taking into account the warrants and the vesting of in-the-money options, this analysis indicated a range of implied values per share of Metals USA common stock of approximately $14.50 to $31.25, compared to the merger consideration of $22.00.

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No transaction utilized as a comparison in the precedent transaction analysis is identical to the merger. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond Metals USA s and Jefferies control. Mathematical analysis, such as determining the average or the median, is not in itself a meaningful method of using comparable transaction data.

Discounted Cash Flow Analysis. Jefferies performed a discounted cash flow analysis to estimate the present value of the free cash flows of Metals USA through the fiscal year ending December 31, 2009 using Metals USA management s financial projections. Jefferies also calculated the terminal value of the enterprise at December 31, 2009 by multiplying projected EBITDA in the fiscal year ending December 31, 2009 by multiples ranging from 4.0x to 5.0x, based upon EBITDA trading multiples for the selected comparable companies noted above. To discount the projected free cash flows and the terminal value to present value, Jefferies used discount rates ranging from 10% to 12%, based upon Metals USA s estimated weighted average cost of capital. To determine the implied total equity value for Metals USA, Jefferies subtracted debt and added cash to the implied enterprise value for Metals USA. After accounting for the warrants and the vesting of in-the-money options, this analysis indicated a range of implied values per share of Metals USA common stock of approximately $12.75 to $18.00, compared to the merger consideration of $22.00.

Premiums Paid Analysis. Using publicly available information, Jefferies analyzed the premiums offered in 79 public merger and acquisition transactions involving a target company in a manufacturing industry announced from January 1, 2000 to May 7, 2005 with transaction values between $250 million and $750 million.

For each of these transactions, Jefferies calculated the premium represented by the offer price over the target company s closing share price one day, one week and four weeks prior to the transaction s announcement. This analysis indicated the following mean premia for those time periods prior to announcement:

Premiums Analysis

Time Period Prior to Announcement	Mean
1 day	30.6%
1 week	35.6%
4 weeks	42.5%

Using a reference range of a premium of 30% to 43% over the target company s share price, and the closing price per share of Metals USA common stock on May 17, 2005 of $13.89, this analysis indicated a range of implied prices per share of Metals USA common stock of approximately $18.25 to $19.75, compared to the merger consideration of $22.00.

Jefferies opinion was one of many factors taken into consideration by Metal USA s board of directors in making its determination to approve the merger and should not be considered determinative of the views of Metals USA s board of directors or management with respect to the merger or the merger consideration.

Jefferies was selected by Metal USA s board of directors based on Jefferies qualifications, expertise and reputation. Jefferies is an internationally recognized investment banking and advisory firm. Jefferies, as part of its investment banking business, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, financial restructurings and other financial services.

In the ordinary course of business, Jefferies and its affiliates may trade or hold such securities of Metals USA for its own account and for the accounts of its customers and, accordingly, may at any time hold long or short positions in those securities.

Jefferies has not provided financial advisory or financing services to Apollo or its affiliates during the last two years. In the ordinary course of business, Jefferies makes a market in the equity securities of certain companies in which Apollo or one of its affiliates is a significant shareholder and also sells high-yield and other securities from time to time for certain affiliates of Apollo.

Pursuant to an engagement letter between Metals USA and Jefferies dated May 2, 2005, Metals USA has paid Jefferies a fee in the amount of $500,000 upon delivery of the Jefferies opinion to Metal USA s board of directors. Jefferies will also be reimbursed for reasonable expenses incurred, including the fees and disbursements of Jefferies counsel. Metals USA has agreed to indemnify Jefferies against liabilities arising out of or in connection with the services rendered or to be rendered by it under its engagement.

Financial Advisory Services of CIBC World Markets Corp.

The Company retained CIBC World Markets to act as its exclusive financial advisor in connection with a possible sale or other transfer of all or substantially all of the assets or securities of the Company or any extraordinary corporate transaction involving a change of control of the Company. CIBC World Markets was retained by the Company subsequent to the January 28, 2005 board meeting at which the Company s board of directors authorized discussions with Apollo regarding the proposed transaction and began providing financial advisory services to the Company in connection with the proposed transaction on or about February 1, 2005. The Company selected CIBC World Markets as its financial advisor based on CIBC World Markets reputation, experience and familiarity with the Company and its business and the metals and steel industry generally. CIBC World Markets previously had provided financial advisory services to the Company in September 2004 under a separate engagement in connection with a possible business combination by the Company which was not ultimately pursued.

In connection with the merger, CIBC World Markets reviewed certain financial matters with the Company s board of directors at meetings of the board held on March 1, 2005, May 3, 2005 and May 10, 2005. A copy of CIBC World Markets written presentations to the Company s board have been filed as exhibits to the Rule 13e-3 Transaction Statement on Schedule 13E-3 filed with the Securities and Exchange Commission in connection with the merger and also will be available for inspection and copying at the Company s principal executive offices during regular business hours by any interested stockholder of the Company or any representative of such stockholder who has been so designated in writing and also may be inspected and copied at the office of, and obtained by mail from, the Securities and Exchange Commission.

Given CIBC World Markets participation in the financing of the merger, CIBC World Markets was not requested to, and it did not, deliver an opinion in connection with the merger. CIBC World Markets presentations do not address the fairness of the consideration to be received in the merger or the Company s underlying business decision to effect the merger, and the presentations do not address the relative merits of the merger as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage. In addition, the presentations made by CIBC World Markets do not constitute a recommendation as to how any stockholder should vote or act with respect to any matters relating to the merger.

In preparing its presentations, CIBC World Markets relied on and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial and other information provided to or discussed with CIBC World Markets by the Company and its employees, representatives and affiliates or otherwise reviewed by CIBC World Markets. With respect to financial forecasts and estimates relating to the Company which were provided to or discussed with CIBC World Markets by the Company s management, CIBC World Markets assumed, at the direction of the Company s management, without independent verification or investigation, that the financial forecasts and estimates were reasonably prepared on bases reflecting the best available information, estimates and judgments of the Company s management as to the Company s future financial condition and operating results. CIBC World Markets did not express any opinion as to the Company s underlying valuation, future performance or long-term viability and did not make or obtain any independent evaluations or appraisals of the assets or liabilities, contingent or otherwise, of the Company.

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CIBC World Markets presentations were necessarily based on the information available to CIBC World Markets and general economic, financial and stock market conditions and circumstances as they existed and could be evaluated by CIBC World Markets as of the respective dates of the presentations. CIBC World Markets does not have any obligation to update, revise or reaffirm its presentations. Except as described above, the Company imposed no other instructions or limitations on CIBC World Markets with respect to the investigations made or the procedures followed by it in preparing the presentations.

The following is a summary of the preliminary financial analyses included in CIBC World Markets May 10, 2005 presentation, which was the last presentation made by CIBC World Markets to the Company s board of directors. In these analyses, financial data for Metals USA were based on internal estimates of Metals USA management and public filings, and financial data for selected companies and selected transactions were based on publicly available research analysts estimates, public filings and other publicly available information. CIBC World Markets performed the following analyses:

a selected companies analysis in which selected trading multiples of latest 12 months and estimated calendar years 2005 and 2006 earnings before interest, taxes, depreciation and amortization, or EBITDA, derived from the following five publicly traded companies in the metals and steel industry, Earle M. Jorgensen Company, Novamerican Steel Inc., Olympic Steel, Inc., Reliance Steel & Aluminum Co., Russel Metals Inc. and Ryerson Tull, Inc., were applied to corresponding financial data of Metals USA. This analysis indicated a mean implied per share equity reference range for Metals USA of approximately $9.36 to $26.55;

a selected transactions analysis in which, to the extent information was publicly available, selected implied transaction value multiples of latest 12 months and forward 12 months EBITDA derived from the following five publicly announced merger or acquisition transactions in the metals and steel industry, Ryerson Tull, Inc./Integris Metals, Inc., Reliance Steel & Aluminum Co./Precision Strip, Inc., Russel Metals Inc./Leroux Steel, Inc., Inland Steel Industries, Inc./Ryerson Tull, Inc. and Reliance Steel & Aluminum Co./Chatham Steel Corp., were applied to Metals USA s latest 12 months and estimated calendar year 2005 EBITDA, respectively. This analysis indicated a mean implied per share equity reference range for Metals USA of approximately $21.47 to $36.23;

a premiums paid analysis in which 46 merger or acquisition cash transactions publicly announced since January 1, 2001 with transaction values of between $500 million and $1 billion were reviewed and selected premiums derived from the last closing stock prices of the target companies prior to public announcement of the relevant transaction were applied to the closing per share price of Metals USA common stock on May 9, 2005. This analysis indicated an implied per share equity reference range for Metals USA of approximately $16.78 to $20.79; and

a discounted cash flow analysis based on the net present value, using discount rates ranging from 9.0% to 11.0%, of the future cash flows that the Company could generate in fiscal years 2005 through 2009 as projected by the Company s management and of terminal values, which terminal values were derived by applying EBITDA terminal value multiples ranging from 5.0x to 6.5x to the Company s fiscal year 2009 estimated EBITDA. This analysis indicated an implied per share equity reference range for Metals USA of approximately $17.33 to $25.08.

The preparation of financial analyses is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, financial analyses are not readily susceptible to summary description. In performing its analyses, CIBC World Markets considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its presentation, many of which are beyond the control of the Company. No company, transaction or business segment used in the analyses as a comparison is identical to the Company or the proposed transaction, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, transactions or business segments analyzed.

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The estimates contained in CIBC World Markets analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, CIBC World Markets analyses are inherently subject to substantial uncertainty.

The summaries of CIBC World Markets presentations described in this proxy statement are included only because the presentations were received by the Company s board of directors. As noted above, CIBC World Markets presentations did not relate to the $22.00 per share consideration to be received in the merger and were provided to give the board a general and preliminary sense of market conditions prevailing during the course of the Company s discussions with Apollo and other factors that could affect valuation. In presenting its analyses to the board of directors, CIBC World Markets did not draw, in isolation, any conclusions from or with regard to any one factor or method of analysis or with respect to the factors and analyses considered as a whole, and none of the analyses performed by CIBC World Markets was assigned greater significance by CIBC World Markets than any other. CIBC World Markets presentations should not be viewed as determinative of the views of the board of directors with respect to the merger or the consideration payable in the merger. The type and amount of consideration payable in the merger was determined through negotiation between the Company and Apollo and the decision to enter into the merger was solely that of the Company s board of directors.

Miscellaneous

Pursuant to the terms of CIBC World Markets engagement, the Company has agreed to pay CIBC World Markets for its financial advisory services an aggregate fee currently estimated to be approximately $5.7 million, of which all but $100,000 is contingent upon consummation of the merger. The Company also has agreed to reimburse CIBC World Markets for reasonable expenses, including reasonable fees and expenses of its legal counsel, and to indemnify CIBC World Markets and related parties against certain liabilities, including liabilities under the federal securities laws, arising out of CIBC World Markets engagement. As more fully described under Special Factors Financing by Parent of Merger and Related Transactions, CIBC World Markets will serve as joint bookrunner with Credit Suisse with respect to the issuance by Merger Sub of floating rate notes and and senior notes, and if Merger Sub is unable to consummate such issuance, CIBC World Markets has committed to provide bridge financing, if necessary, for the merger, for which services it expects to receive compensation.

In the ordinary course of business, CIBC World Markets and its affiliates may actively trade or hold the securities of the Company and certain of its affiliates for their own account or for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities. As of March 31, 2005, an affiliate of CIBC World Markets held for its own account 154,710 shares of the Company s common stock. In addition, Daniel W. Dienst, Chairman of the Company s board of directors, was a managing director of CIBC World Markets from May 2000 to January 2004. Mr. Dienst is not currently an employee of CIBC World Markets. CIBC World Markets provided financial advisory services to the Company in September 2004 in connection with a possible business combination by the Company which was not ultimately pursued. CIBC World Markets also has provided during the past two years and in the future may provide financial advisory services to Metal Management, Inc. Mr. Dienst is the chairman, chief executive officer and president of Metal Management, Inc. Other than as described above, Mr. Dienst does not currently have a business relationship with CIBC World Markets.

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Position of C. Lourenco Goncalves, Terry L. Freeman and John A. Hageman as to Fairness

Under a potential interpretation of the Exchange Act rules governing going private transactions, each of C. Lourenco Goncalves, Terry L. Freeman and John A. Hageman may be deemed to be an affiliate of Metals USA. Metals USA is making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. Going private means that shares of Metals USA common stock will no longer be quoted on NASDAQ National Market, Metals USA will be a privately held corporation, and there will be no public market for its common stock. In addition, as a result of going private, the registration of the shares of Metals USA common stock under the Exchange Act will be terminated. See Special Factors Certain Effects of the Merger.

Messrs. Goncalves, Freeman and Hageman have interests in the merger different from, and in addition to, the other stockholders of Metals USA. These interests are described under Special Factors Interests of the Company s Directors and Executive Officers in the Merger.

None of Messrs. Goncalves, Freeman and Hageman undertook a formal evaluation of the fairness of the merger or engaged a financial advisor for such purposes. However, each of Messrs. Goncalves, Freeman and Hageman believes that the merger agreement and the merger are substantively and procedurally fair to the stockholders of Metals USA (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent) and each has adopted the conclusions of the Company s board of directors based upon the reasonableness of those conclusions and his respective knowledge of Metals USA, as well as the findings of the Company s board of directors with respect to the fairness of the merger to such stockholders (see Special Factors Reasons for the Merger and Special Factors Recommendation of the Company s Board of Directors). While Mr. Goncalves is a director of Metals USA, because of his differing interests in the merger he did not participate in the negotiation of the merger agreement or the evaluation or approval of the merger agreement and the merger. While Messrs. Goncalves, Freeman and Hageman are executive officers of Metals USA, because of their differing interests in the merger none of them participated in the negotiation of the merger agreement or the evaluation or approval of the merger agreement and the merger. For these reasons, each of Messrs. Goncalves, Freeman and Hageman does not believe that his respective interests in the merger influenced the decision of the board of directors with respect to the merger agreement or the merger.

The foregoing discussion of the information and factors considered and given weight by each of Messrs. Goncalves, Freeman and Hageman in connection with the fairness of the merger agreement and the merger is not intended to be exhaustive. However, none of Messrs. Goncalves, Freeman and Hageman found it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching his respective position as to the fairness of the merger agreement and the merger. Each of Messrs. Goncalves, Freeman and Hageman believes that these factors provide a reasonable basis for his belief that the merger is fair to the stockholders of Metals USA (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). This belief should not, however, be construed in any way as a recommendation to any stockholder of Metals USA as to whether such stockholder should vote in favor of the adoption of the merger agreement.

Position of Merger Sub, Parent, Apollo and the Apollo Affiliates as to Fairness

Under a potential interpretation of the Exchange Act rules governing going private transactions, each of Merger Sub, Parent, Apollo and the Apollo Affiliates may be deemed to be an affiliate of the Company. Merger Sub, Parent, Apollo and the Apollo Affiliates are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The position of Merger Sub, Parent, Apollo and the Apollo Affiliates as to the fairness of the merger is not a recommendation to any stockholder as to how the stockholder should vote on the merger.

None of Merger Sub, Parent, Apollo or the Apollo Affiliates participated in the deliberations of the Company s board of directors regarding, or received advice from the Company s legal or financial advisors as to,

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the substantive or procedural fairness of the merger, nor did Merger Sub, Parent, Apollo or the Apollo Affiliates undertake any independent evaluation of the fairness of the merger or engage a financial advisor for these purposes. However, Merger Sub, Parent, Apollo and the Apollo Affiliates believe that the merger agreement and the merger are substantively and procedurally fair to the Company s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). In particular, Merger Sub, Parent, Apollo and the Apollo Affiliates considered the following material positive factors:

- the price being paid for each share of Metals USA common stock in the merger represents a substantial premium to historic trading prices, including a premium of over 58% over the closing sale price of $13.89 on the NASDAQ National Market on May 17, 2005 (the trading day immediately prior to the date on which the Company announced the execution of the merger agreement) and over 35% over the preceding 30-trading day average, 14.1% over the preceding 60-trading day average, 17% over the preceding 90-trading day average, 21% over the preceding 180-trading day average, and 98% over the preceding trading day average since November 5, 2002 (the first trading day since the Company s emergence from bankruptcy);

- the fact that holders of the Company s common stock who do not vote in favor of adopting the merger agreement and who otherwise comply with all of the required procedures under Delaware law will be allowed to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery;

- the fact that the merger consideration is all cash, so that the transaction allows the Company s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent) to immediately realize a fair value, in cash, for their investment and provides such stockholders certainty of value for their shares;

- the fact that the Company s board of directors determined, by unanimous vote (excluding C. Lourenco Goncalves, who abstained), that the merger agreement and the merger, upon the terms and conditions set forth in the merger agreement, are advisable, fair to and in the best interests of the Company and its stockholders;

- the $22.00 per share merger consideration and other terms and conditions of the merger agreement resulted from extensive negotiations between the parties;

- the fact that the Company is permitted under certain circumstances to respond to inquiries regarding acquisition proposals and to terminate the merger agreement in order to complete a superior transaction; and

- the fact that the Company s board of directors received the opinion, dated May 18, 2005, of Jefferies, as investment bankers, to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth therein, the merger consideration to be received by holders of Metals USA common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, other than Parent and its affiliates and other than the Participating Investors.

In addition, Merger Sub, Parent, Apollo and the Apollo Affiliates considered the following material negative factors:

- the fact that the Company s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent) will not participate in any future earnings or growth of Metals USA and will not benefit from any future appreciation in value of Metals USA;

- the terms of management participation in the merger and the fact that Mr. Goncalves and certain of the Company s executive officers have interests in the transaction that are different from, or in addition to, those of the Company s other stockholders;

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the fact that the price being paid for each share of Metals USA common stock in the merger is 14.9% below the recent historical high of Metals USA common stock of $25.85 on March 7, 2005;

the risk that the merger might not be completed in a timely manner or at all, including the risk that the merger will not occur if the financing contemplated by Merger Sub s debt commitment letter is not obtained;

the risks and costs to the Company if the merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential effect on business and customer relationships; and

the fact that an all cash transaction would be a taxable transaction to the Company s stockholders for U.S. federal income tax purposes.

Based on information provided by the Company, Merger Sub, Parent, Apollo and the Apollo Affiliates believe that sufficient procedural safeguards were and are present to ensure the fairness of the merger to Metals USA s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). These procedural safeguards identified by the Company include the following:

the fact that, other than the acceleration of the right to receive shares or options to acquire shares of Metals USA common stock held by each director, the indemnification of and provision of directors and officers liability insurance for each director for six years from and after the effective time, the equity investment and employment arrangement by Mr. Goncalves in and with the surviving corporation or Parent, and the $500,000 payment payable to our Chairman, the directors will not receive any consideration in connection with the merger that is different from that received by any other stockholder of Metals USA (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent);

the fact that the board of directors made its evaluation of the merger agreement and the merger based upon the factors discussed in this proxy statement, independent of Mr. Goncalves, and with knowledge of the interests of Mr. Goncalves and the other management participants in the merger;

the fact that the board of directors negotiated the terms of the merger agreement, including the amount of the merger consideration, without the participation of Mr. Goncalves;

the fact that the Company is permitted under certain circumstances to respond to inquiries regarding acquisition proposals and to terminate the merger agreement in order to complete a superior transaction; and

the fact that under Delaware law, the stockholders of the Company have the right to demand appraisal of their shares; and

the fact that the Company s board of directors received the opinion dated May 18, 2005 of Jefferies, as investment bankers, to the effect that, as of that date and based upon and subject to the various considerations and assumptions set forth therein, the merger consideration to be received by holders of Metals USA common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, other than Parent and its affiliates and other than the Participating Investors.

In the course of reaching its decision as to the fairness of the proposed transaction to the Company s stockholders, Merger Sub, Parent, Apollo and the Apollo Affiliates did not consider the liquidation value of the Company because they considered the Company to be a viable, going concern business and therefore did not consider liquidation value as a relevant methodology. Further, Merger Sub, Parent, Apollo and the Apollo Affiliates did not consider net book value, which is an accounting concept, as a factor because they believed that net book value is not a material indicator of the value of Metals USA as a going concern but rather is indicative

of historical costs. The Company s net book value per share as of March 31, 2005 and June 30, 2005 was $16.55 and $17.33, respectively, or approximately 25% and 21%, respectively, lower than the $22.00 per share cash merger consideration.

The foregoing discussion of the information and factors considered and given weight by Merger Sub, Parent, Apollo and the Apollo Affiliates in connection with the fairness of the merger agreement and the merger is not intended to be exhaustive. However, none of Merger Sub, Parent, Apollo or the Apollo Affiliates found it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their respective position as to the fairness of the merger agreement and the merger. Each of Merger Sub, Parent, Apollo and the Apollo Affiliates believes that these factors provide a reasonable basis for its belief that the merger is fair to the stockholders of Metals USA (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). This belief should not, however, be construed in any way as a recommendation to any stockholder of Metals USA as to whether such stockholder should vote in favor of the adoption of the merger agreement. Apollo and the Apollo Affiliates do not make any recommendation as to how the stockholders of Metals USA should vote their shares relating to the merger.

While Merger Sub, Parent, Apollo and the Apollo Affiliates believe that the merger is substantively and procedurally fair to the Company s stockholders (other than certain members of management who will invest in equity securities of the surviving corporation or its parent), Merger Sub and Parent, Apollo and the Apollo Affiliates attempted to negotiate the terms of a transaction that would be most favorable to them, and not to the Company s stockholders. Accordingly, Merger Sub, Parent, Apollo and the Apollo Affiliates did not negotiate the merger agreement with the goal of obtaining terms that were fair to the Company s stockholders. Instead, Merger Sub, Parent, Apollo and the Apollo Affiliates negotiated the merger agreement with an objective which is potentially in conflict with the goal of obtaining a transaction that is fair to the Company s stockholders.

Purposes, Reasons and Plans for Metals USA after the Merger

The purpose of the merger for Metals USA is to enable its stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent) to immediately realize the value of their investment in Metals USA through their receipt of the per share merger price of $22.00 in cash, representing a premium of approximately 58% to the $13.89 closing market price of Metals USA common stock on May 17, 2005, the last trading day before the Company announced the execution of the merger agreement. The board of directors of Metals USA has determined, based upon the reasons discussed under Special Factors Reasons for the Merger, that the merger agreement and the merger, upon the terms and conditions set forth in the merger agreement, are advisable, fair to and in the best interests of the Company and its stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent).

For Merger Sub, Parent, Apollo and the Apollo Affiliates, the purpose of the merger is to allow their investors to own the Company and to benefit from any increases in the value of the Company and to bear any losses resulting from a decrease in the value of the Company after the Company s common stock ceases to be publicly traded. The transaction has been structured as a cash merger in order to provide the stockholders of the Company (other than members of the Company s management who will invest in equity securities of the surviving corporation or Parent) with cash for all of their shares and to provide a prompt and orderly transfer of ownership of the Company with transaction costs that are lower than they would be in a two-step transaction. Parent does not intend to grant unaffiliated security holders access to its corporate files or to obtain counsel or appraisal services at its expense.

It is expected that, upon consummation of the merger, the operations of the Company will be conducted substantially as they currently are being conducted except that the Company will not be subject to the obligations and constraints, and the related direct and indirect costs and personnel requirements, associated with having

publicly traded equity securities, such as conducting proxy solicitations and holding meetings of stockholders. The Company estimates that its annual direct expenses associated with having publicly traded equity securities are approximately [$950,000]. Parent has advised the Company that it does not have any current plans or proposals that relate to or would result in an extraordinary corporate transaction following completion of the merger involving the Company s corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations or sale or transfer of a material amount of assets. We expect, however, that following the merger, the Company s management and Parent will continuously evaluate and review the Company s business and operations and may develop new plans and proposals that they consider appropriate to maximize the value of the Company. Parent expressly reserves the right to make any changes it deems appropriate in light of such evaluation and review or in light of future developments.

Certain Effects of the Merger

If the merger agreement is adopted by the Company s stockholders, certain other conditions to the closing of the merger are either satisfied or waived, and Parent has obtained its financing or alternative financing for the merger, Merger Sub will be merged with and into Metals USA, with Metals USA being the surviving corporation. Following the merger, the entire equity in Metals USA will be owned by Parent, which in turn will be owned by the Apollo Funds, Messrs. Goncalves, Freeman and Hageman and, subject to Parent s election described below, other employees of the Company or its subsidiaries that enter into an employment agreement or other arrangement with Parent or Merger Sub (such employees, the future management participants). Parent expects that any equity investment of each future management participant will be less than the equity investment of each of Messrs. Goncalves, Freeman and Hageman.

When the merger is completed, each share of Metals USA common stock issued and outstanding immediately prior to the effective time of the merger (other than shares owned by the Company, Merger Sub or Parent or any of their respective direct or indirect wholly-owned subsidiaries or held by stockholders who are entitled to and who properly exercise appraisal rights in compliance with all of the required procedures under Delaware law) will be converted into the right to receive $22.00 in cash without interest.

The merger agreement provides that immediately prior to the effective time of the merger, all outstanding options to acquire Metals USA common stock will become fully vested and immediately exercisable unless otherwise agreed between the holder of any such options and Merger Sub. All such options (other than certain options held by Messrs. Goncalves, Freeman and Hageman and the future management participants) not exercised prior to the merger will be converted into a right to receive, upon the exercise of the option, an amount of cash equal to $22.00 multiplied by each share of Metals USA common stock subject to the option, less the applicable exercise price of such option. Any option not so exercised will, immediately following such conversion, be cancelled in exchange for an amount in cash (without interest), equal to the product of (1) the total number of shares of Metals USA common stock subject to the option multiplied by (2) the excess of $22.00 over the exercise price per share of Metals USA common stock under such option, less any applicable withholding taxes. All or a portion of the options to purchase shares of Metals USA common stock held by Messrs. Goncalves, Freeman and Hageman and the future management participants will be converted at the effective time of the merger into options to purchase shares of Parent.

The merger agreement provides that from and after the effective time of the merger, all of the outstanding warrants to acquire Metals USA common stock will represent the right to receive (upon surrender by the holder thereof of the warrant and the payment by the holder thereof to the surviving corporation of the exercise price thereunder) a cash payment, without interest, equal to $22.00 for each share of Metals USA common stock underlying such warrants. If there are any warrants that have not been exercised prior to the effective time of the merger then, at the effective time, the Company will deliver notice to the warrant agent and the holders of unexercised warrants notifying them that the Company has elected to accelerate the expiration of the warrants to

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the 60th day following the effective time of the merger. If a warrant has not been exercised before the effective time of the merger but is exercised before the 60th day following the merger, such warrantholder will be entitled to receive, upon surrender by such holder of the warrant and the payment by such holder to the surviving corporation of the exercise price thereunder, the cash payment referenced above. Any warrant that remains unexercised for more than 60 days following the expiration acceleration notice will expire. Once expired, the warrants will have no value. Notwithstanding the foregoing, following the effective time of the merger and before the 60th day following the effective time of the merger, the Company anticipates that it will extend credit to the Metals USA, Inc. 401(k) Plan and Metals USA, Inc. Union 401(k) Plan (collectively, the plans) in an amount necessary to allow the plans to exercise any warrants held by the plans upon which the accounts of participants of the plans will be credited with a cash payment equal to $3.50 per warrant, which amount represents the difference between the merger consideration of $22.00 per share and the warrant exercise price of $18.50 per share. See The Merger Agreement Treatment of Stock Options, Warrants and Rights to Receive Shares of Metals USA Common Stock.

The merger agreement provides that at the effective time of the merger all rights to receive additional shares of Metals USA common stock under the Company s 2002 Long-Term Incentive Plan or otherwise will be cancelled and converted into the right to receive from Parent or the Surviving Corporation, $22.00 in cash (less applicable withholding taxes), without interest, for each share of the Metals USA common stock that a holder of such rights has the right to receive under the 2002 Long-Term Incentive Plan or otherwise. At the effective time of the merger, all restrictions on the delivery and issuance of such shares will lapse and such shares will be fully vested.

In connection with the merger, Messrs. Goncalves, Freeman and Hageman will receive benefits and be subject to obligations that are different from, or in addition to, the benefits and obligations of Metals USA stockholders generally. These incremental benefits include the right and obligation to make an agreed upon equity investment in Parent by exchanging a portion of their shares of Metals USA common stock, warrants, options to purchase shares of Metals USA common stock, and/or their rights to receive shares of Metals USA common stock, into equity interests in Parent. For a description of the amounts of the respective equity investments of Messrs. Goncalves, Freeman and Hageman, see Special Factors Interests of the Company s Directors and Executive Officers in the Merger; Management Agreements. These equity interests will be illiquid and subject to an investor rights agreement restricting the ability of Messrs. Goncalves, Freeman and Hageman and the future management participants to sell such equity. Additional incremental benefits with respect to Messrs. Goncalves, Freeman and Hageman include that Mr. Goncalves will continue as chief executive officer and as a director, Mr. Freeman will continue as chief financial officer, and Mr. Hageman will serve as chief administrative officer, of the surviving corporation. Additionally, Messrs. Goncalves, Freeman and Hageman have each entered into an employment agreement with Merger Sub. Moreover, each of Messrs. Goncalves, Freeman and Hageman has executed related agreements with respect to his equity participation in Parent.

At the effective time of the merger, current Metals USA stockholders, other than Messrs. Goncalves, Freeman and Hageman and the future management participants, will cease to have ownership interests in Metals USA or rights as Metals USA stockholders. Therefore, such current stockholders of Metals USA (other than Messrs. Goncalves, Freeman and Hageman and the future management participants) will not participate in any future earnings or growth of Metals USA and will not benefit from any appreciation in value of Metals USA.

Metals USA s common stock is currently registered under the Exchange Act and is quoted on the NASDAQ National Market under the symbol MUSA. Metals USA s warrants are quoted on the NASDAQ National Market under the symbol MUSAW. As a result of the merger, Metals USA will be a privately held corporation, and there will be no public market for its common stock. After the merger, the common stock and warrants will cease to be quoted on the NASDAQ National Market. In addition, registration of the common stock under the Exchange Act will be terminated. This termination will make certain provisions of the Exchange Act, such as the requirement of furnishing a proxy or information statement in connection with stockholders meetings, no longer applicable to Metals USA. After the effective time of the merger, Metals USA will also no longer be required to file periodic reports with the SEC on account of its common stock.

At the effective time of the merger, the directors of Merger Sub and Lourenco Goncalves will become the directors of the surviving corporation and the officers of the surviving corporation will be the current officers of Metals USA. The certificate of incorporation of Metals USA will be amended to be the same as the certificate of incorporation of Merger Sub as in effect immediately prior to the effective time of the merger, except that the name of the surviving corporation shall continue to be Metals USA, Inc. The bylaws of Merger Sub in effect immediately prior to the effective time of the merger will become the bylaws of the surviving corporation.

A benefit of the merger to Parent and Merger Sub, Messrs. Goncalves, Freeman and Hageman and the future management participants is that our future earnings and growth will be solely for their benefit and not for the benefit of our current stockholders. These equity interests will be illiquid and subject to an investor rights agreement restricting the ability of Messrs. Goncalves, Freeman and Hageman and the future management participants to sell such equity. The detriments to these investors are the lack of liquidity for Metals USA s capital stock following the merger, the risk that Metals USA will decrease in value following the merger, the incurrence by it of significant additional debt as described below under Special Factors Financing by Parent of Merger and Related Transactions and the payment by the Company of approximately $9.5 million in estimated fees and expenses related to the merger and financing transactions. See Special Factors Fees and Expenses of the Merger.

The benefit of the merger to our stockholders (other than Messrs. Goncalves, Freeman and Hageman and the future management participants) is the right to receive $22.00 in cash per share for their shares of Metals USA common stock. The detriments are that our stockholders, other than Messrs. Goncalves, Freeman and Hageman and the future management participants, will cease to participate in our future earnings and growth, if any, and that the receipt of the payment for their shares generally will be a taxable transaction for United States federal income tax purposes. See Special Factors Material U.S. Federal Income Tax Consequences on page 53.

Also, a benefit to Mr. Dienst, our Chairman, if the merger is completed, is his receipt from the Company of a cash payment of $500,000 to be paid upon the completion of the transaction. The Company s compensation committee has recommended, and board of directors (other than Messrs. Dienst and Goncalves, who abstained) has approved, this payment to Mr. Dienst, our Chairman, in recognition for his substantial efforts and time commitment in negotiating the transaction with Apollo, and for coordinating the efforts of the Company s management, financial advisors, attorneys and accountants involved in the transaction. This payment will be paid upon the completion of the transaction or a superior proposal approved by our board of directors. This payment, if paid, will not reduce the amount to be paid to our stockholders in the merger, but will be paid with Company funds at the effective time of the merger.

In addition, under the terms of the merger agreement, Parent and Merger Sub have generally agreed to indemnify current officers and directors of the Company for any acts or omissions in their capacity as an officer or director occurring on or before the effective time of the merger and provide for liability insurance for a period of six years from and after the effective time of the merger, subject to certain conditions.

Effects on the Company if the Merger is Not Completed

In the event that the merger agreement is not adopted by Metals USA s stockholders or if the merger is not completed for any other reason, stockholders will not receive any payment for their shares in connection with the merger. Instead, Metals USA will remain an independent public company and its common stock will continue to be quoted and traded on the NASDAQ National Market. In addition, if the merger is not completed, we expect that management will operate the business in a manner similar to that in which it is being operated today and that Metals

USA stockholders will continue to be subject to the same risks and opportunities as they currently are, including, among other things, the nature of the steel and metals industry on which the Company s business depends, and general industry, economic and market conditions.

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Accordingly, if the merger is not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of your shares of Metals USA common stock. From time to time, Metals USA s board of directors will evaluate and review the business operations, properties, dividend policy and capitalization of Metals USA, among other things, make such changes as are deemed appropriate and continue to seek to identify strategic alternatives to maximize stockholder value. If the merger agreement is not adopted by Metals USA s stockholders or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to Metals USA will be offered, or that the business, prospects or results of operations of Metals USA will not be adversely impacted.

If the merger agreement is terminated under certain circumstances, the Company will be obligated to pay Parent a termination fee of $17 million (representing approximately 3.25% of the total equity value of the Company) and reimbursement of Parent s and Merger Sub s expenses incurred up to $4 million. For a description of the circumstances triggering payment of the termination fee and reimbursement of Parent s and Merger Sub s expenses, see The Merger Agreement (Proposal No. 1) Termination Fee and The Merger Agreement (Proposal No. 1) Reimbursement of Expenses.

If the merger agreement is terminated as a result of an uncured breach of a representation, warranty or covenant by Parent or Merger Sub, Parent must pay to the Company, its transaction expenses up to a maximum of $1 million.

Financing by Parent of Merger and Related Transactions

The total amount of funds necessary to complete the merger and the related transactions is anticipated to be approximately $700 million, consisting of (i) approximately $474 million to pay Metals USA s stockholders, option holders and warrant holders the amounts due to them under the merger agreement, assuming that no Metals USA stockholder validly exercises and perfects its appraisal rights, (ii) approximately $200 million to pay off existing indebtedness, and (iii) approximately $35 million to pay related fees and expenses in connection with the merger, the financing arrangements and the transactions described in this paragraph.

The above expenditure for payment of the merger consideration estimated by Metals USA and Parent will be reduced by the amount of shares or stock options held by employees that will be converted into stock or stock options of the surviving corporation or Parent and the amount of shares that seek appraisal rights under Delaware law.

The following arrangements are intended to provide the necessary financing for the merger:

Equity Financing

Pursuant to an equity commitment letter from Apollo on behalf of the Apollo Funds, the proceeds of which would constitute the equity portion of the merger financing, Apollo has agreed to contribute or cause to be contributed to Parent up to $165 million in cash. The source of such funds will come from equity contributions from investors in the Apollo Funds in the ordinary course of business.

Apollo s equity commitment is subject to:

- the execution of the merger agreement;
- the completion of the merger; and
- the completion of the debt financing.

Apollo s equity commitment will terminate upon the earlier of:

- the effective time of the merger; and
- termination of the merger agreement.

If Parent is obligated under the merger agreement to reimburse Metals USA for its expenses, Apollo has committed to make a contribution of up to $1 million.

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Debt Financing

Merger Sub entered into a debt commitment letter dated May 13, 2005 (the original debt commitment letter), provided by Credit Suisse (formerly known as Credit Suisse First Boston) and CIBC World Markets whereby, subject to the terms and conditions thereof, (a) Credit Suisse committed to provide up to $450 million in the aggregate of a senior secured asset-based revolving credit facility, and (b) Credit Suisse and CIBC World Markets severally committed, if the Company is unable to issue at least $250 million of senior secured floating rate notes and/or senior secured fixed rate notes in a public offering or in a Rule 144A or other private placement on or before the effective time of the merger, to provide at least $250 million in the aggregate of senior secured increasing rate bridge loans. Thereafter, on June 8, 2005, Credit Suisse, Cayman Islands Branch, CIBC World Markets, CIBC Inc., Bank of America, N.A. and Banc of America Securities LLC (collectively, the debt providers) entered into an amended and restated debt commitment letter to provide that, subject to the terms and conditions thereof, (1) Bank of America, N.A. would severally commit to provide up to 30% of the $450 million senior secured asset-based revolving credit facility, thereby reducing the commitment of Credit Suisse to 70% of such facility, and (2) Credit Suisse would be sole bookrunner, Credit Suisse and Banc of America Securities LLC would be joint lead arrangers, Banc of America Securities LLC would be a co-syndication agent and Bank of America, N.A. would be sole collateral agent, for the senior secured asset-based revolving credit facility. Subject to the conditions set forth therein, in such debt commitment letter:

Credit Suisse, Cayman Islands Branch (together with its affiliates, Credit Suisse) and Bank of America, N.A. severally agreed to provide to Merger Sub, a senior secured asset-based revolving credit facility (senior secured facility) of up to $450 million for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Metals USA and its subsidiaries, paying fees and expenses incurred in connection with the merger and providing ongoing working capital and for other general corporate purposes of the surviving corporation and its subsidiaries;

Credit Suisse and CIBC World Markets severally agreed to provide to Merger Sub, if Merger Sub is unable to issue at least $250 million of its senior secured floating rate notes (floating rate notes) and senior fixed rate secured notes (senior notes) in a public offering or in a Rule 144A or other private placement on or before the closing date, at least $250 million of senior secured increasing rate bridge loans under a senior secured credit facility (bridge facility) for the purpose of financing the merger, refinancing certain existing indebtedness of Metals USA and its subsidiaries, and paying fees and expenses incurred in connection with the merger.

The commitments in respect of the senior secured facility are allocated 70% to Credit Suisse and 30% to Bank of America, N.A. The commitments in respect of the bridge facility are allocated 60% to Credit Suisse and 40% to CIBC World Markets. Such commitments may be syndicated to other financial institutions or lenders, subject to certain terms and conditions in the debt commitment letter.

The debt commitments expire on December 15, 2005. The documentation governing the senior secured facility and the bridge facility has not been finalized and, accordingly, their actual terms may differ from those described in this proxy statement.

Conditions Precedent to the Debt Commitment

The availability of the senior secured facility and the bridge facility are subject, among other things, to satisfaction of the following conditions:

each of the debt providers not having discovered or otherwise becoming aware of any information not previously disclosed to them that is inconsistent in a material and adverse manner with the information provided to them with respect to the business, assets, liabilities, operations, condition (financial or otherwise) or operating results of Metals USA and its subsidiaries, taken as a whole, in each case that, in the debt providers judgment, to the extent such inconsistency would cause certain representations made in the commitment letter to be incorrect in any respect;

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- since December 31, 2004, there having not been any event, change, circumstance, effect or state of facts that, individually or in the aggregate, has had, or could reasonably be expected to have, a material adverse effect on the business, assets, liabilities, results of operations or financial condition of Metals USA and its subsidiaries, taken as a whole;

- the absence of a disruption or adverse change in financial, banking or capital markets generally, or in the market for new issuances of leveraged loans or high-yield securities in particular, in each case that, in the debt providers judgment, could reasonably be expected to impair the syndication of the senior secured facility and the bridge facility or the placement of the floating rate notes or the senior notes;

- the debt providers having at least 30 consecutive days prior to the closing of the merger to syndicate the senior secured facility and the bridge facility;

- that the Company s consolidated earnings before interest, tax, depreciation and amortization (EBITDA) for the four-fiscal quarter period most recently ended before the effective time of the merger will be not less than $146 million if such four-fiscal quarter period ended on June 30, 2005 and $117.5 million if such four-fiscal quarter period ended on September 30, 2005. The Company s consolidated EBITDA for the four-fiscal quarter period ended on June 30, 2005 was approximately $146.3 million, exceeding the minimum required amount by approximately $300,000. The Company s most recent forecast as of early July 2005 indicates that its EBITDA for the four-fiscal quarter period ended on September 30, 2005 will be approximately 2% to 3% below the minimum required amount under the debt commitment letter. If the effective time of the merger occurs after September 30, 2005 and the Company s actual EBITDA for the four-fiscal quarter period ended on September 30, 2005 fails to meet this $117.5 million minimum required amount, the debt providers will not be obligated under the debt commitment letter to provide the financing;

- the Company will have excess borrowing capacity of at least $75 million at the effective time of the merger. The debt commitment letter provides that the borrowing base under the senior secured facility at any time must equal the sum of (a) 90% of the net amount of eligible accounts receivable plus (b) the lesser of (i) 70% of the lesser of the original cost or market value of eligible inventory and (ii) the sum of (x) 90% of the net orderly liquidation value of the Company s flat rolled inventory plus (y) 85% of the net orderly liquidation value of all other inventory of the Company. Based on a preliminary valuation recently conducted by the debt providers third party appraisers, the orderly liquidation value of the Company s inventory is projected to be approximately 12% less than originally anticipated. As a result, based on this preliminary valuation, the Company would have excess capacity less than the minimum amount required by the debt commitment letter. If such excess capacity with respect to the Company is less than $75 million at the effective time of the merger, then the debt providers will not be obligated to provide the senior secured facility or the bridge facility;

- the negotiation, execution and delivery of definitive documentation; and

- other customary conditions for leveraged acquisition financings.

If any portion of the debt financing under the debt commitment letter becomes unavailable, Parent will be required to use its reasonable best efforts to obtain alternative financing on substantially comparable or more favorable terms from other sources within 30 days after all of the other conditions to the merger agreement have been satisfied. If Parent is unable to obtain such alternative financing within such 30 day period, Parent will not be obligated to close the transaction because Parent s obligation under the merger agreement to close the transaction is conditioned upon Parent having obtained its debt financing or alternative debt financing. Accordingly, if the debt providers, in their sole discretion, do not waive any condition that is not otherwise satisfied, and Parent is unable to obtain alternative financing within the 30 day period as described above, Parent will not be obligated to close the merger transaction, and the merger transaction may terminate as a result. We cannot assure you that the debt providers will waive any condition or that Parent will obtain alternative debt financing.

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Based on our discussions with Parent, Apollo and the debt providers to date, if one or both of the minimum EBITDA condition and minimum excess capacity condition discussed above are not satisfied, there is a reasonable possibility that the debt providers will not provide the debt financing under the debt commitment letter and that, depending on the condition of the metals and steel industry (and of the Company in particular) and the debt financing markets at such time, it may be difficult, or not possible, for Parent to obtain alternative financing on comparable terms. In that event, Parent would not be obligated to close the merger transaction, and the merger transaction may terminate as a result, in which case you would not receive any of the merger consideration and your ownership interest in the Company would continue. Alternatively, if Parent is unable to obtain its debt financing and is consequently not obligated to close the merger transaction, it is possible that Parent and the Company may engage in discussions about entering into a revised transaction on different terms than those in the merger agreement. In the event we agree to such a revised transaction with Parent on materially different terms than those in the merger agreement, the Company will disseminate a new proxy statement to its stockholders disclosing, among other things, the terms of such revised transaction and submit such revised transaction to a vote at a special meeting called for that purpose.

Senior Secured Asset-Based Credit Facility

General. The borrower under the senior secured facility will be Merger Sub, initially, and the surviving corporation, upon consummation of the merger. The senior secured facility will be comprised of a $450 million revolving credit facility, of which $100 million will be available in the form of letters of credit and $15 million will be available in the form of short-term swingline loans. Credit Suisse has been appointed as sole and exclusive administrative agent, sole bookrunner and joint lead arranger, Banc of America Securities LLC has been appointed as joint lead arranger and a co-syndication agent and Bank of America, N.A. has been appointed as collateral agent for the senior secured facility.

Interest Rate and Fees. Loans under the senior secured facility will, at the option of the borrower, bear interest at (1) a rate equal to LIBOR (London interbank offer rate) or (2) a rate equal to the higher of (a) the prime rate of Credit Suisse and (b) the federal funds effective rate plus 0.50%, in each case plus (or minus) an applicable margin based upon a fixed charge coverage ratio at the time. In addition, the surviving corporation will pay customary commitment fees and letter of credit fees under the senior secured facility.

Prepayments. The borrower will be permitted to make voluntary prepayments, in minimum principal amounts to be agreed upon, at any time, without premium or penalty, and required to make mandatory prepayments if the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the senior secured facility exceeds the lesser of the senior secured facility commitment amount and the borrowing base in effect at such time.

Guarantors. All obligations under the senior secured facility will be unconditionally guaranteed by Parent and by each existing and subsequently acquired or organized material domestic, and to the extent no adverse tax consequences to the borrower would result therefrom, material foreign subsidiary of the borrower.

Security. The obligations of the borrower and the guarantors under the senior secured facility will be secured by (1) perfected first-priority security interests in all accounts receivable, inventory, cash and proceeds of Parent, the borrower and the subsidiary guarantors; and (2) second-priority security interests in, and mortgages on, the collateral that is subject to first-priority security interests under the bridge facility.

Other Terms. The senior secured facility will contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, limitations on dividends on, and redemptions and repurchases of, capital stock, prepayments, redemptions and repurchases of debt, indebtedness, investments, guarantees and hedging arrangements, limitations on mergers, acquisitions, and asset sales, transactions with affiliates, changes in the business conducted by borrower and its subsidiaries, ability of subsidiaries to pay dividends or make distributions, amendments of debt, and capital expenditures. The senior secured facility will also include customary events of defaults, including a change of control to be defined.

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Private Offering of Debt Securities

The issuer of any debt securities will be Merger Sub, initially, and the surviving corporation, upon consummation of the merger. The issuer is expected to issue at least $250 million aggregate principal amount of senior secured floating rate notes and/or senior secured fixed rate notes. These notes may be issued in a public offering or in Rule 144A or other private placement. If these notes are issued in an offering pursuant to Rule 144A, the notes will be offered to qualified institutional buyers, as defined in Rule 144A under the Securities Act and to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. This proxy statement is not an offer to sell any debt securities and is not soliciting an offer to buy any debt securities.

Bridge Facilities

If Merger Sub is unable to complete an offering of debt securities, then Merger Sub is expected to borrow at least $250 million in loans under a senior secured increasing rate bridge facility. After consummation of the merger, the surviving corporation will be the borrower under the bridge facility.

If the bridge loans are not paid in full on or before the first anniversary of the effective time of the merger, the outstanding bridge loans will automatically be converted into a senior secured second lien term loan due seven years after the effective time of the merger.

Credit Suisse has been appointed as sole administrative agent for the bridge facility, Credit Suisse and CIBC World Markets have been appointed as joint bookrunners and joint lead arrangers for the bridge facility, and CIBC World Markets has been appointed as syndication agent.

Interest Rate and Fees. Loans under the bridge facility will bear interest at a rate equal to LIBOR (London interbank offer rate) plus a margin, and will increase from time to time thereafter in accordance with the terms of the commitment letter, subject to an overall cap in the interest rate and a cap on the portion of interest that must be paid in cash.

Prepayments. The borrower will be permitted to make voluntary prepayments at any time, without premium or penalty, and required to make mandatory prepayments, with certain exceptions, with the net proceeds from (1) the public or private sale of debt of borrower or Parent required to be completed by them; (2) the issuance of any refinancing debt or equity securities by Parent or any of its subsidiaries or (3) any asset sales (to be defined) by Parent or any of its subsidiaries in excess of the amount required to be paid to the lenders under the senior secured facility. Mandatory prepayment is also required following the occurrence of a change of control (to be defined) of the borrower.

Guarantors. All obligations of the borrower under the bridge facility will be unconditionally guaranteed by Parent and by each existing and subsequently acquired or organized domestic subsidiary of Parent that is a guarantor of the senior secured facility.

Security. The obligations of the borrower and the guarantors under the bridge facility will be secured by (1) subject to certain exceptions, first-priority security interests in substantially all of the assets of Parent, borrower and the subsidiary guarantors, including a first-priority pledge of all of the capital stock of borrower (other than collateral which is subject to a first-priority security interest under the senior secured facility); and (2) second-priority security interests in the collateral that is subject to first-priority security interests under the senior secured facility.

Other Terms. The bridge facility will contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, dividends and redemptions and repayment of subordinated debt, sale of assets, business activities, transactions with affiliates, mergers or consolidation, liens, refinancing of bridge loans and investments and acquisitions. The bridge facility will contain the same events of defaults as the senior secured facility, with exceptions as may be appropriate for bridge facilities.

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Bank of America

On October 31, 2002, Metals USA and its subsidiaries entered into a loan and security agreement with Bank of America, National Association, as administrative agent, and the other lenders named in that agreement. Under the terms of the merger agreement, Parent has agreed to provide the necessary funds to allow Metals USA to repay at the effective time of the merger in full all obligations outstanding under the loan and security agreement. The total amount outstanding under the loan and security agreement as of______ (the last date prior to the filing of this proxy statement that such information was available) is $______.

Mortgage Note

On October 31, 2002, Metals USA Carbon Flat Rolled, Inc., a subsidiary of Metals USA, executed a promissory note in the principal amount of $8,100,000 in favor of Bank One, NA, which we refer to in this document as the Mortgage Note. On the same date, Metals USA Carbon Flat Rolled, Inc. and Bank One, NA also entered into a corresponding loan agreement intended to supplement the terms of the Mortgage Note. The Mortgage Note was subsequently assigned by Bank One NA to General Electric Capital Corporation.

The merger agreement requires that Metals USA either prepay in full all amounts due under the promissory note (including the prepayment penalty premium required by the terms of promissory note) on June 30, 2005, or to obtain General Electric Capital Corporation s consent on or before June 30, 2005 to permit Metals USA to prepay the promissory note at the effective time of the merger. On May 31, 2005, Metals USA prepaid in full all amounts due under the promissory note to General Electric Capital Corporation. Specifically, Metals USA paid to General Electric Capital Corporation an aggregate amount of $6,784,756.81, of which $6,642,171.69 represented payment in full of the outstanding principal due under the promissory note, $76,163.40 represented payment in full of the accrued but unpaid interest due under the promissory note and $66,421.72 represented payment of the prepayment fee due under the promissory note.

Interests of the Company s Directors and Executive Officers in the Merger

In considering the recommendations of the board of directors, Metals USA s stockholders should be aware that some of Metals USA s executive officers and members of its board of directors have interests in the transaction that are different from, and/or in addition to, the interests of Metals USA s stockholders generally. Although the unvested stock options and rights to receive shares of Metals USA common stock held by each director will vest as a result of the merger, the members of the board of directors (excluding Mr. Goncalves) are independent of and have no economic interest or expectancy of an economic interest in Merger Sub or its affiliates, and will not retain an economic interest in the surviving corporation following the merger. These members of the board of directors (excluding Mr. Goncalves) evaluated the merger agreement and evaluated whether the merger is in the best interests of Metals USA s stockholders (other than certain members of the Company s management who will invest in equity securities of the surviving corporation or Parent). The board of directors was aware of these differing interests and considered them, among other matters, in evaluating and negotiating the merger agreement and the merger and in recommending to the stockholders that the merger agreement be adopted.

Management Agreements

In connection with entering into the merger agreement and in contemplation of the merger, Messrs. Goncalves, Freeman and Hageman entered into certain agreements with Parent and Merger Sub. The terms of these agreements are substantially identical, other than with respect to certain economic terms which are described below.

Upon the closing of the merger, each of Messrs. Goncalves, Freeman and Hageman has agreed to make an equity investment in Parent in the amount specified in his respective employment and/or equity participation agreement.

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Each of Messrs. Goncalves, Freeman and Hageman has been granted stock options to purchase shares of Parent under the terms of Parent s stock option incentive plan and their respective non-qualified stock option agreements. In the aggregate, these option grants represent approximately 3% of the shares of common stock of the Parent on a fully diluted basis immediately following the merger. Specifically, Mr. Goncalves has been granted options to purchase up to approximately 2%, Mr. Freeman has been granted options to purchase up to approximately 0.5%, and Mr. Hageman has been granted options to purchase up to approximately 0.4%, of the common stock of Parent on a fully diluted basis immediately following the merger.

Additionally, each of Messrs. Goncalves, Freeman and Hageman has subscribed to purchase shares of Parent. In the aggregate, these shares represent approximately 3% of the shares of common stock of Parent on a fully diluted basis immediately following the merger. Specifically, Mr. Goncalves has subscribed to purchase shares representing approximately 2%, Mr. Freeman has subscribed to purchase shares representing approximately 0.5%, and Mr. Hageman has subscribed to purchase shares representing approximately 0.4%, of the common stock of Parent on a fully diluted basis immediately following the merger. Messrs. Goncalves, Freeman and Hageman will be required to make their equity investment by converting a portion of their shares of Metals USA common stock, their rights to receive shares of Metals USA common stock, and/or their options and warrants for Metals USA common stock into equity in Parent. Merger Sub has agreed to reasonably assist each of Messrs. Goncalves, Freeman and Hageman to contribute their equity investment in a tax efficient manner, such that each of them will individually receive the economic value of the shares of Parent common stock as if their respective investment was a tax free exchange. The results of any mechanism, such as a deferred compensation plan or otherwise, that may be employed to achieve this objective may affect the amount or structure of their respective equity participation. The terms and conditions of these equity investments are more fully described below under Special Factors Interests of the Company s Directors and Executive Officers in the Merger Equity Investment in Parent by Messrs. Goncalves, Freeman and Hageman.

The total aggregate equity investment agreed to by Messrs. Goncalves, Freeman and Hageman in Parent is expected to represent approximately 6% of the shares of common stock of Parent on a fully diluted basis immediately following the merger.

Each of Messrs. Goncalves , Freeman s and Hageman s equity investment in Parent will be illiquid and subject to an investor rights agreement restricting the ability of the management participants to sell such equity.

Upon the closing of the merger, Parent will grant option awards under Parent s option plan to each of Messrs. Goncalves, Freeman and Hageman in a percentage interest specified in each respective employment agreement.

The surviving corporation and each of Messrs. Goncalves, Freeman and Hageman have entered into definitive employment agreements and related agreements to be effective as of the effective time of the merger, which contain the terms and conditions of each such person s employment after the closing of the merger, and the terms and conditions relating to each such person s equity investment and option awards. Certain of these terms and conditions are more fully described below under Special Factors Interests of the Company s Directors and Executive Officers in the Merger Employment Agreements with Merger Sub.

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Effective at the effective time of the merger, and subject to the closing of the merger and the effectiveness of his employment agreement and related agreements with Merger Sub and Parent, Mr. Goncalves employment agreement with Metals USA, dated as of February 18, 2003, will be terminated.

Effective at the effective time of the merger, each of Messrs. Goncalves, Freeman and Hageman will become a party to an investor rights agreement which provides for, among other things, a restriction on the transferability of each such person s equity ownership in Parent, tag-along rights, come-along rights, piggyback registration rights, repurchase rights by Parent in certain circumstances, and the grant of an irrevocable proxy to Apollo with respect to the voting rights associated with his respective ownership, and certain restrictions on each such person s ability to compete with or solicit employees or customers of the surviving corporation.

Additional members of management of the Company and its subsidiaries that enter into employment agreements or arrangements with Parent or Merger Sub before the closing of the merger may also, at Parent s election, at the effective time of the merger, have their stock options of Metals USA common stock converted into options to purchase shares of either Parent or Merger Sub. Parent must make this election not later than three business days prior to the effective time of the merger. Parent expects that any equity investment of each of these additional individuals will be less than the equity investment of each of Messrs. Goncalves, Freeman and Hageman.

Metals USA Stock Options, Warrants and Rights to Receive Shares of Metals USA Common Stock

Stock Options. The merger agreement provides that as of the effective time of the merger, all outstanding options to purchase shares of Metals USA common stock (including those held by our directors and executive officers) under the Metals USA, Inc. 2002 Long-Term Incentive Plan or otherwise will become fully vested and immediately exercisable.

The table below sets forth, as of May 18, 2005, for each of Metals USA s directors and executive officers, (a) the number of shares subject to vested options for Metals USA common stock, (b) the value of such vested options, calculated by multiplying (i) the excess of $22.00 over the per share exercise price of the option by (ii) the number of shares subject to the option, and without regard to deductions for income taxes and other withholding, (c) the number of additional options that are currently unvested and/or unexercisable and that will vest and become exercisable upon effectiveness of the merger, (d) the value of such additional options, calculated by multiplying (i) the excess of $22.00 over the per share exercise price of the option by (ii) the number of shares subject to the option, and without regard to deductions for income taxes and other withholding, (e) the aggregate number of shares subject to vested options and options that will vest as a result of the merger for such person and (f) the aggregate value of all such vested options and options that will vest as a result of the merger, calculated by multiplying (i) the excess of $22.00 over the per share exercise price of the option by (ii) the number of shares subject to the option, and without regard to deductions for income taxes and other withholding.

	Vested Options		**Options that will vest as a result of the Merger**		**Totals**	
	Shares	**Value**	**Shares**	**Value**	**Shares**	**Value**
Directors (exclusive of Mr. Goncalves):						
Daniel W. Dienst (Chairman)	58,334	$ 1,040,090.86	66,666	$ 777,159.14	125,000	$ 1,817,250.00
Eugene I. Davis	17,500	$ 312,025.00	20,000	$ 233,150.00	37,500	$ 545,175.00
John T. DiLacqua, Jr.	17,500	$ 312,025.00	20,000	$ 233,150.00	37,500	$ 545,175.00
John G. Leckie	17,500	$ 312,025.00	20,000	$ 233,150.00	37,500	$ 545,175.00
Gerald E. Morris	17,500	$ 312,025.00	20,000	$ 233,150.00	37,500	$ 545,175.00
Charles P. Sanida	17,500	$ 312,025.00	20,000	$ 233,150.00	37,500	$ 545,175.00
James E. Bolin(1)	7,500	$ 59,925.00	15,000	$ 119,850.00	22,500	$ 179,775.00
Scott M. Tepper	7,500	$ 59,925.00	15,000	$ 119,850.00	22,500	$ 179,775.00

Subtotal	160,834	$ 2,720,065.86	196,666	$ 2,182,609.14	357,500	$ 4,902,675.00

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	Vested Options		Options that will vest as a result of the Merger		Totals	
	Shares	Value	Shares	Value	Shares	Value
Executive Officers:						
C. Lourenco Goncalves (CEO)	200,001	$ 2,500,012.50	122,746	$ 1,358,718.16	322,747	$ 3,858,730.66
Terry L. Freeman	16,667	$ 287,505.75	46,331	$ 637,124.69	62,998	$ 924,630.44
John A. Hageman	16,667	$ 287,505.75	45,031	$ 630,910.69	61,698	$ 918,416.44
William R. Bennett	8,334	$ 143,761.50	29,231	$ 347,549.20	37,565	$ 491,310.70
Robert C. McPherson III	5,000	$ 86,250.00	22,132	$ 230,490.96	27,132	$ 316,740.96
Roger Krohn	1,667	$ 28,755.75	15,465	$ 115,485.21	17,132	$ 144,240.96
Subtotal	248,336	$ 3,333,791.25	280,936	$ 3,320,278.91	529,272	$ 6,654,070.16
Total	409,170	$ 6,053,857.11	477,602	$ 5,502,888.05	886,772	$ 11,556,745.16

(1) Pursuant to a letter agreement, dated November 22, 2004, between Mr. Bolin and Citadel Equity Fund Ltd. (CEF) and Citadel Credit Trading Ltd. (CCT), Mr. Bolin agreed to hold these options for the benefit of and solely as the nominee of CEF and CCT, and disclaims all legal, beneficial, economic or other interest in such options. At the time this letter agreement was executed, Mr. Bolin was a managing director of Citadel Investment Group, L.L.C., which is affiliated with CEF and CCT.

All directors and executive officers will receive cash in respect of their options in the amounts set forth above, less applicable withholding taxes, other than Messrs. Goncalves, Freeman and Hageman and the future management participants. Messrs. Goncalves, Freeman and Hageman and the future management participants will also be able to receive cash in respect of their vested options in the amounts set forth above (less applicable withholding taxes) by exercising their options immediately prior to the completion of the merger, and receiving in the merger the $22.00 per share merger consideration for the shares received upon such exercise, unless otherwise agreed between the holder of any such options and Merger Sub or Parent.

Right to Receive Shares of Metals USA Common Stock. The merger agreement provides that immediately at the effective time of the merger, each outstanding and unvested right to receive one share of Metals USA common stock (including those held by our directors and executive officers) under the Metals USA, Inc. 2002 Long-Term Incentive Plan or otherwise will be cancelled and converted into the right to receive an amount in cash equal to $22.00. The table below sets forth for each director and executive officer of Metals USA (a) the number of shares that will fully vest and be converted into the right to receive $22.00 per share as a result of the merger (excluding any current rights to receive shares of Metals USA that are scheduled to vest other than as a result of the merger), and (b) the total payment to the directors and executive officers with respect to those shares, calculated by multiplying (i) the $22.00 per share merger consideration by (ii) the number of shares described in clause (a).

Name of Director and Executive Officer	Shares that will vest and be converted into the right to receive $22.00 per share as a result of the merger	Payment
C. Lourenco Goncalves	11,622	$ 255,684
Terry L. Freeman	6,355	$ 139,810
John A. Hageman	5,920	$ 130,240
Daniel W. Dienst		
Charles P. Sanida		
Robert C. McPherson, III	6,065	$ 133,430

William R. Bennett	6,210	$ 136,620
Roger Krohn	6,065	$ 133,430
John G. Leckie		
Gerald E. Morris		
Eugene I. Davis		
John T. DiLacqua, Jr.		
Scott M. Tepper		
James E. Bolin		
All executive officers as a group (14 persons)	42,237	$ 929,214

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Warrants. The merger agreement provides that as of the effective time of the merger, each warrant to purchase shares of Metals USA common stock (including those held by our directors and executive officers) issued pursuant to the Warrant Agreement, dated as of October 31, 2002, by and between Metals USA and Equiserve Trust Company, N.A. or otherwise will no longer represent the right to receive shares of MUSA common stock upon exercise and will thereafter represent the right to receive (upon surrender of the warrant and the payment by the holder thereof to the surviving corporation of the $18.50 exercise price thereunder) a cash payment, without interest, equal to $22.00 for each share of Metals USA common stock underlying such warrants. If any warrants remained unexercised at the effective time of the merger then, at the effective time of the merger, Metals USA will deliver notice to the warrant agent and the holders of unexercised warrants notifying them that Metals USA has elected to accelerate the expiration of the warrants to the 60th day following the effective time and, upon surrender of the warrant by the holder thereof and the payment by the holder thereof to the surviving corporation of the exercise price thereunder, such holders will be entitled to receive the cash payment on such 60th day. Holders of warrants exercised after the effective time of the merger but before the 60th day following the effective time of the merger will be entitled to receive, upon surrender of the warrant by such holder and the payment by such holder thereof to the surviving corporation of the exercise price thereunder, the cash payment referenced above. Once expired, the warrants will have no value. Notwithstanding the foregoing, following the effective time of the merger and before the 60th day following the effective time of the merger, the Company anticipates that it will extend credit to the Metals USA, Inc. 401(k) Plan and Metals USA, Inc. Union 401(k) Plan (collectively, the plans) in an amount necessary to allow the plans to exercise any warrants held by the plans upon which the accounts of participants of the plans will be credited with a cash payment equal to $3.50 per warrant, which amount represents the difference between the merger consideration of $22.00 per share and the warrant exercise price of $18.50 per share.

The table below sets forth for each director and executive officer of Metals USA (a) the number of shares subject to warrants for Metals USA common stock, and (b) the value of such warrants calculated by multiplying (i) the excess of $22.00 over the $18.50 per share exercise price of the warrant by (ii) the number of shares subject to the warrant, and without regard to deductions for income taxes and other withholding.

	Warrants Beneficially Owned	
	Number	**Value**
Directors (exclusive of Mr. Goncalves):		
Daniel W. Dienst (Chairman)	0	$ 0.00
Eugene I. Davis	0	$ 0.00
John T. DiLacqua, Jr.	0	$ 0.00
John G. Leckie	0	$ 0.00
Gerald E. Morris	10,053	$ 35,185.50
	Warrants Beneficially Owned	
	Number	**Value**
Charles P. Sanida	2,000	$ 7,000.00
James E. Bolin	0	$ 0.00
Scott M. Tepper	0	$ 0.00
Subtotal	12,053	$ 42,185.50
Executive Officers:		
C. Lourenco Goncalves (CEO)	0	$ 0.00
Terry L. Freeman	6,817	$ 23,859.50
John A. Hageman	7,254	$ 25,389.00
William R. Bennett	0	$ 0.00
Robert C. McPherson, III	0	$ 0.00
Roger Krohn	24,326	$ 85,141.00

Subtotal	38,397	$ 134,389.50
Total	50,450	$ 176,575.00

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Equity Investment in Parent by Messrs. Goncalves, Freeman and Hageman

Pursuant to the management agreements described above, each of Messrs. Goncalves, Freeman and Hageman has agreed to participate in the merger by making an equity investment in Parent by acquiring shares of common stock and options to acquire such shares in Parent.

Messrs. Goncalves, Freeman and Hageman will be required to make their equity investment by converting a portion of their shares of Metals USA common stock, their rights to receive shares of Metals USA common stock, and/or their options and warrants for Metals USA common stock into equity in Parent. Merger Sub has agreed to reasonably assist each of Messrs. Goncalves, Freeman and Hageman to contribute their equity investment in a tax efficient manner, such that each of them will individually receive the economic value of the shares of Parent common stock as if their respective investment was a tax free exchange. The results of any mechanism, such as a deferred compensation plan or otherwise, that may be employed to achieve this objective may affect the amount or structure of their respective equity participation. The total aggregate equity investment agreed to be made by Messrs. Goncalves, Freeman and Hageman is approximately $4.6 million, or approximately 6% of the shares of common stock of Parent on a fully diluted basis immediately following the merger.

The table below sets forth the approximate amount of the agreed upon equity investment for each of Messrs. Goncalves, Freeman and Hageman. These amounts assume that all of the agreed upon investment will be made on a tax deferred basis.

Executive Officers:	Agreed Upon Equity Investment:
C. Lourenco Goncalves	$ 3,130,000
Terry L. Freeman	$ 800,000
John A. Hageman	$ 625,000
Total	$ 4,555,000

Option Awards in Parent

In connection with the merger, Parent will adopt an option plan under which Messrs. Goncalves, Freeman and Hageman and the future management participants will be eligible to receive awards of stock options for common stock of Parent. The number of options to be granted to each of Messrs. Goncalves, Freeman and Hageman are specified in their respective employment agreements, which are described below. Under the option plan, awards may be granted to employees or directors of, or consultants to, the surviving corporation or any of its su