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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

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

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

18444 Highland Road
Baton Rouge, Louisiana 70809
(225) 756-9868
(Registrant's address of principal executive offices and telephone number)

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes o No x

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

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EDGEN GROUP INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED/COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

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

1. Organization, Basis of Presentation and General Accounting Matters

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

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

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

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

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

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

Basis of Financial Statement Presentation

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

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

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

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

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

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

Use of Estimates

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

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

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

Non-Controlling Interest

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

2. Recent Accounting Pronouncements

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

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

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

3. Supplemental Cash Flow Information

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

4. Property, Plant and Equipment

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

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

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

Our depreciation expense for the periods indicated is presented below:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Depreciation expense	$1,284	$1,400	$3,886	$4,209

5. Intangible Assets

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

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

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

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

Our amortization expense for the periods indicated is presented below:

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

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

Years ending December 31:		
2012 (remaining)	$	6,310
2013		16,232
2014		14,757
2015		14,278
2016		14,024
Thereafter		65,015
Total scheduled amortization expense	$	130,616

6. Goodwill

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

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

7. Debt Obligations

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

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

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

2015 Notes

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

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

EM Revolving Credit Facility

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

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

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

Amended and Restated BL Revolving Credit Facility

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

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

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

Borrowings under our Revolving Credit Facilities

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

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

Net availability at September 30, 2012	$89,828	$4,470	$18,000	$7,511	$119,809	$2,401	$73,000	$195,210

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

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

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

BL Term Loan

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

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

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

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

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

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

	September 30, 2012	December 31, 2011
Bank guarantees	$ 942	$ 675

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

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

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

Equity-Based Compensation Activity

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

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

Stock Option Activity

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

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

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

Restricted Stock Activity

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

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

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

9. Equity

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

Class A and Class B Common Stock

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

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

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

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

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

Non-Controlling Interest

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

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

Exchange Rights

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

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

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

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

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

10. Earnings (Loss) per Share

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

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

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

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

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