
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: March 13, 2008

SUBJECT: Industrial Revenue Bond Application
Intsel Steel West, LLC

STAFF REPORT BY: Jennifer Bruno, Budget & Policy Analyst

AFFECTED COUNCIL DISTRICTS: District 2

**ADMINISTRATIVE DEPT:
AND CONTACT PERSON:** Community and Economic Development
Ed Butterfield

KEY ELEMENTS:

- A. Intsel West Properties, LLC (a subsidiary of Triple S Steel) has submitted an application to Salt Lake City for a \$6 million, tax-exempt, and a \$1.5 million taxable Industrial Revenue Bond.
1. The funds will be used for rehabilitation of an existing building and construction of a new building at their existing property at 1887 South 700 West. Their existing property encompasses 18.63 acres, and no new property will be acquired at this site.
 2. The cost of the renovation/expansion is estimated at \$9.6 million. The developer is investing \$2.1 million in equity (22% of the total construction cost).
 3. The project will bring at least 23 new jobs to Salt Lake City and another 16 jobs are planned over 5 years. The Salt Lake City facility payroll will increase by over \$1 million immediately and by another \$1.9 million over a 5-year period (this includes standard wage increases). These jobs are accessible by the Central City/Glendale neighborhoods, an underserved employment market, and will be located where there is existing City infrastructure.
 4. The expansion will increase the assessed value of the property by approximately \$4 million.
 5. Triple S steel (based in Houston) has acquired R& S Steel (currently operating in Lehi) and Alta-Steelco (operating in Salt Lake City). They will be consolidating both operations into the Intsel West Salt Lake City facility, transferring the \$24 million in annual gross sales from Lehi to Salt Lake.
- B. The property is currently zoned M-1 (Light Manufacturing). It is surrounded on the South, West, and North sides by M-1, and is bordered by rail lines on the East side.
1. The surrounding uses are predominantly light manufacturing/industrial uses.
 2. The activities on site include fabricating and distribution of steel beams, channels, tube, pipe, and plate.
- C. Triple S Steel/Intsel West Properties has secured GE Government Finance as the purchaser of the bonds. The City is acting as a conduit for this transaction, and is lending its AAA credit rating to the tax-exempt bonds.
1. This in no way obligates the City for repayments of the bond should Triple S Steel default (see background section for additional discussion of Industrial Revenue Bonds).
 2. The financial statements for Triple S Steel are available upon request.

- D. The committee reviewing this application voted unanimously to support the request. There were a couple of questions however, that have since been addressed by the applicant:
1. Wages and benefits - all employees (including hourly) receive life, health, dental, sick, vacation, and holiday benefits.
 2. Environmental issues -
 - i. The company will be replacing the use of many of its diesel forklifts with electric cranes. These are more energy efficient, better for the environment in terms of carbon emissions, and quieter.
 - ii. The Company will be hard surfacing a majority of the property, which will reduce dust from the facility.
 - iii. No materials that are used or generated on-site are considered “unstable” and many are readily recyclable.
 3. 700 West frontage - the company will install 1200 feet of drought-tolerant landscaping along the 700 West frontage.
- E. If the Council is ok with proceeding with this request, the following is a tentative timetable for approval (*see item #F in the “Background” section for more detail on these steps*):

March 13	City Council receives briefing on the plan of financing
March 18	City Council approves Inducement Resolution and schedules public hearing (TEFRA) for the proposed bond issue
March 23	Publication of “Notice of Public Hearing” in <i>Salt Lake Tribune</i>
April 8	City Council holds TEFRA Hearing and approves final Bond Resolution (tentative)
April 10	Bond Closing

BACKGROUND:

- A. Industrial Revenue Bonds (IRBs) are tax-exempt bonds issued by a qualified governmental entity for the tax benefit to a private organization - the governmental entity can lend its tax-exempt status and credit rating (if applicable) to the bond issuance, thereby securing a lower interest rate for the borrower and reducing the total cost of debt to the private entity.
- B. Repayment of these bonds relies exclusively upon revenues generated by the private entity, and is not considered an obligation of the issuing local governmental entity.
- C. The private entity enters into an agreement with a third party bank, that will be the purchaser of these bonds (in this case, GE Government Finance). This third party will be responsible should the revenue of the private entity not cover the debt service on the bond. The City is in no way liable for the private entity’s debt service.
- D. The IRS places a limit each year on the dollar amount of IRBs a State may authorize - referred to as a “volume cap.” Utah was authorized to receive \$256 million of volume cap in calendar year 2007. The State legislature then decides where this volume cap is allotted. In 2007:
 - 44% or \$112.6 million was allotted to Utah Housing Corporation for mortgages for first time homebuyers
 - 33% or \$84.5 million was allotted to the State Board of Regents for student loans
 - 11% or \$28.2 million was allotted to “affordable rental housing”



- 11% or \$28.2 million was allotted to “manufacturing” (*note: this is the category that Intsel West Properties’ request was submitted to*)
 - 1% or \$2.56 million was allotted to the “special use category” which is at the State’s discretion
- E. The private organization seeking these bonds must apply for and receive and allocation of “volume cap” from the State to request a local entity issue these bonds.
- F. Industrial Revenue Bond process steps:
1. The private entity would secure the volume cap from the state.
 2. The private entity would secure a third party bank to purchase the bonds.
 3. The private entity would complete and submit to Salt Lake City the Application for Industrial Revenue Bonds.
 - a. The application asks the private entity to identify rationale for seeking public support, what are possible positive economic, social, and physical benefits, how the development could contribute to the City’s goals, and how the development would increase jobs.
 - b. It also has the applicant provide detailed financial information, including a plan for repayment of bonds.
 4. The application is then reviewed by a committee of City staff (the committee includes representatives from the Attorney’s Office, Housing and Neighborhood Development, Economic Development, City Treasurer’s Office, the Redevelopment Agency, and the City’s financial advisor). The committee discusses the application and makes a recommendation to either forward the request to the Council or request more information.
 5. The application is presented to the Council in a work session briefing.
 6. If the Council is agreeable, they adopt an “Inducement Resolution” (which indicates the official intent to pursue a bond), and schedule a TEFRA hearing (Tax Equity and Fiscal Responsibility Act) to allow interested members of the public to express their views regarding the issuance of bonds.
 7. After the TEFRA hearing the Council may approve a final bond resolution, which would allow the funds to be released to the private entity.

cc: David Everitt, Esther Hunter, Lyn Creswell, Ed Rutan, Boyd Ferguson, LuAnn Clark, Karen Halladay, Sylvia Richards, Lehua Weaver

SALT LAKE CITY CORPORATION

DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT
OFFICE OF THE DIRECTOR
CITY COUNCIL TRANSMITTAL

MAR 07 2008

TO: David Everitt, Chief of Staff  **DATE:** March 7, 2008
FROM: Mary De la Mare-Schaefer, Acting Community Development Director 
RE: Industrial Revenue Bond Application from Intsel West Properties, LLC
CC: LuAnn Clark, Dan Mulé, Boyd Ferguson

STAFF CONTACT: Edward Butterfield, Small Business/Economic Development Manager, at 535-7941 or edward.butterfield@slcgov.com

ACTION REQUIRED: That the City Council (1) hold a briefing on March 13th (2) act on an Inducement Resolution and schedule a TEFRA Hearing on March 18th for April 8th, and (3) hold TEFRA Hearing and adopt Bond Resolution on April 8th.

DOCUMENT TYPE: Briefing and Resolution

BUDGET IMPACT: None - Intsel West Properties, LLC has paid a \$1,000 non-refundable application fee and will submit an additional \$14,000 at closing to reimburse the City for expenses entailed in issuing the bonds including City personnel time, and related expenses incurred in the evaluation process.

BACKGROUND:

Intsel West Properties, LLC (Intsel) has submitted an application to Salt Lake City for a \$7.5 million industrial revenue bond: \$6 million, tax-exempt and a \$1.5 million taxable. The funds will be used for the acquisition of land and buildings, rehabilitation of an existing building, and construction of a new building at 1887 South 700 West.

Industrial Revenue Bonds (IRB's), also referred to as Industrial Development Bonds (IDB's) or Private Activity Bonds, are tax-exempt bonds issued by a qualified governmental entity for the benefit of a private organization. IRS regulations place a "volume cap" on each state for the dollar amount of IRB's that can be issued in any one calendar year. The volume cap varies based on the population of each state. Tax-exempt debt of nonprofit, 501(c)(3) organizations is not subject to volume cap restrictions. Repayment of these bonds relies exclusively upon revenues generated by the private entity and is not considered an obligation of the issuing local governmental entity, sometimes referred to as the "conduit".

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amount of IRB's that can be issued in any one calendar year. The volume cap varies based on the population of each state. Tax-exempt debt of nonprofit, 501(c)(3) organizations is not subject to volume cap restrictions. Repayment of these bonds relies exclusively upon revenues generated by the private entity and is not considered an obligation of the issuing local governmental entity, sometimes referred to as the "conduit".

Utah was authorized for a \$256 million volume cap in calendar year 2007. The State Legislature defines the allocation of volume cap. In 2007, Utah Housing Corporation received 44% to fund mortgages for first time homebuyers; the State Board of Regents received 33% to fund student loans; the components of the "small issue account," made up of affordable rental housing and manufacturing, each received 11%; and a special use category received 1%.

Once the City Council is briefed on a "conduit" financing project and gives their approval to proceed with the financing of the project, the next step is for them to adopt an Inducement Resolution and schedule a TEFRA (Tax Equity and Fiscal Responsibility Act) Hearing. An Inducement Resolution indicates the conduit issuer's first "official action" or evidence of official intent to issue private activity bonds, and it determines the point after which the user of the project being financed can be reimbursed for capital costs paid or incurred in connection with the acquisition and construction of the project. TEFRA requires as a precondition to excluding interest from gross income for federal income tax purposes on all qualified private activity bonds that 1) a public hearing to allow interested members of the public to express their views regarding the issuance of the bonds; and 2) that the nature of the improvements and projects for which the financing funds will be allocated are presented.

DISCUSSION:

Triple-S Steel Holdings, Inc., based in Houston, acquired Steelco, Alta Industries, Inc. of Salt Lake City and R & S Steel, Inc. of Lehi at the end of 2006. Triple-S Steel plans to merge its Lehi and Salt Lake City Facilities. The Salt Lake City facility will be expanded to accommodate the merger. The Salt Lake City facility will continue to distribute steel products including plate, sheet, bar, coil, beams, tubing and pipe.

Intsel West Properties, LLC, the borrower, is a land holding corporation of Triple S Steel. Intsel purchased the building and land that currently houses Steelco, Alta Industries at the end of January, 2008 and will lease the property back to Steelco, Alta Industries.

The expansion and modernization project will create up to 56 skilled and semi-skilled jobs increasing its annual payroll by \$3 million over the next 10 years. Annual real estate and personal property taxes are estimated to increase from \$40,000 to \$60,000 a year. Yearly sales are projected to increase from \$55 million to \$80 million within a few years.

The \$9.0 million facility purchase, renovation and expansion will enable Triple S Steel to increase production capacity and efficiency levels to meet the sales growth projection of its current customer base. The expansion of the Salt Lake City facility will include constructing a new 58,650 sq ft steel framed building and the addition of two overhead cranes.

The zoning of the Triple S Steel property is M-1 (light manufacturing). While steel operations are not specifically listed in the use table for the zoning district, the type of work that the company will perform on the property is consistent with the acceptable activities for the zone.

Historically, the environmental impact of the company's operations has been minimal. Although it conducts significant steel processing activities, those activities generally result in changing the shape or size of the steel. No coatings are added and the scrap generated by such processing activities is stable and readily recyclable. The steel is cut using a combination of electrical current and industrial gases such as propane, oxygen, acetylene, nitrogen, and argon. All tanks are above ground. These activities produce no significant odor or noise. The project will add more traffic to the Salt Lake City facility, however, hard surfacing of many key areas will result in less dust. Accessing inventories via overhead cranes instead of forklifts will also reduce dust and noise.

PUBLIC PROCESS:

The City's Industrial Revenue Bond Advisory Committee reviewed the application on February 28, 2008 and recommended favorable action by the City Council.

Attachments:

- (1) IRB Application from Intsel West Properties, LLC
- (2) Inducement Resolution

Salt Lake City, Utah

March 18, 2008

A regular meeting of the City Council of Salt Lake City, Utah, was held on Tuesday, March 18, 2008, at the hour of 7:00 p.m. at the offices of the City Council at 451 South State Street, Salt Lake City, Utah, at which meeting there were present and answering to roll call the following members who constituted a quorum:

Jill Remington-Love	Chair
Carlton Christensen	Vice Chair
Søren Dahl Simonsen	Councilmember
K. Eric Jergensen	Councilmember
Van Blair Turner	Councilmember
Luke Garrott	Councilmember
J.T. Martin	Councilmember

Also present:

Ralph Becker	Mayor
Edwin P. Rutan, II	City Attorney
	Deputy City Recorder

Absent:

After the meeting had been duly called to order and after other matters not pertinent to this resolution had been discussed, the Deputy City Recorder presented to the Council a Certificate of Compliance With Open Meeting Law with respect to this March 18, 2008, meeting, a copy of which is attached hereto as Exhibit A.

Thereupon, the following resolution was introduced in written form, discussed in full, and pursuant to motion made by Councilmember _____ and seconded by Councilmember _____, adopted by the following vote:

AYE:

NAY:

The resolution was then signed by the Mayor in open meeting and recorded by the Deputy City Recorder in the official records of Salt Lake City, Utah. The resolution is as follows:

RESOLUTION NO. _____

A RESOLUTION DECLARING THE INTENTION OF SALT LAKE CITY, UTAH, TO ISSUE INDUSTRIAL REVENUE BONDS TO BE USED FOR THE ACQUISITION AND/OR CONSTRUCTION OF A MANUFACTURING FACILITY INCLUDING EQUIPMENT AND RELATED FACILITIES FOR INTSEL WEST PROPERTIES, LLC, OR ANY RELATED COMPANY (THE "PROJECT"); AUTHORIZING THE ISSUANCE AND SALE OF SUCH BONDS IN THE TOTAL PRINCIPAL AMOUNT OF NOT TO EXCEED \$8,000,000; ESTABLISHING CONDITIONS THAT MUST BE MET AT OR PRIOR TO THE ISSUANCE OF SUCH BONDS; PROVIDING FOR THE REIMBURSEMENT FROM THE PROCEEDS OF SUCH BONDS OF EXPENDITURES FOR THE PROJECT; PROVIDING FOR A PUBLIC HEARING AND FOR PUBLICATION OF A NOTICE OF THE PUBLIC HEARING; AND RELATED MATTERS.

WHEREAS, Salt Lake City, Utah (the "Issuer"), is authorized by the Industrial Facilities and Development Act, Title 11, Chapter 17, Utah Code Annotated 1953, as amended (the "Act"), to issue revenue bonds for the purpose of defraying the cost of financing, acquiring, constructing, equipping, and furnishing land, buildings, equipment, facilities, and improvements that are suitable for use for manufacturing or other business purposes; and

WHEREAS, there has been presented to the Issuer a request from Intsel West Properties, LLC, a limited liability company (collectively with any related parties, the "Borrower"), asking the Issuer to adopt a resolution evidencing an intent to issue revenue bonds to finance the acquisition and/or construction of a manufacturing facility and the purchase of certain manufacturing equipment and related facilities (collectively, the "Project"); and

WHEREAS, the Issuer has determined that it would be in furtherance of the purpose of the Issuer and the Act to issue not more than \$6,000,000 of its Industrial Revenue Bonds (Intsel West Project), Series 2008A (Tax-Exempt) and not more than \$2,000,000 of its Industrial Revenue Bonds (Intsel West Project), Series 2008B (Taxable) (collectively, the "Bonds") to finance the Project to be owned and operated by the Borrower; and

WHEREAS, the Bonds shall be special limited obligations of the Issuer payable solely from and secured by revenues, rights, interests, and collections pledged by the Borrower and shall not constitute nor give rise to a general obligation or liability (legal or equitable) of the Issuer or of the State of Utah or of any subdivision thereof or a charge against its general credit or taxing power; and

WHEREAS, the Issuer intends to have a public hearing to give interested parties the opportunity to comment on the proposed Project of the Borrower:

NOW, THEREFORE, BE IT RESOLVED by the City Council of Salt Lake City, Utah, as follows:

Section 1. All terms defined in the foregoing recitals hereto shall have the same meanings when used herein.

Section 2. The City Council hereby finds and determines that it is in the best interests of the Issuer for the Issuer to issue the Bonds for the purpose of financing the Project to be located in Salt Lake City, Utah. The Issuer declares its intention to issue the Bonds in accordance with a final bond resolution (“Final Bond Resolution”) to be adopted at or about the time of the sale of the Bonds, and subject to the terms and conditions of related documents and agreements (the “Bond Documents”) that, in the judgment of the City Council, adequately protect the interests of the Issuer, as approved by the City Council upon the adoption of the Final Bond Resolution.

Section 3. The Issuer will lend the proceeds of the Bonds to the Borrower under terms whereby the Borrower will be obligated, among other things, (a) to make payments to the Issuer in amounts and at times sufficient to pay the principal of and premium, if any, and interest on all of the Bonds, and (b) to provide, or cause to be provided, collateral or other security to secure payment of the Bonds in such a manner and in such amounts as the purchaser of the Bonds deems appropriate. The Issuer has not authorized the pledge of its credit for the payment of the Bonds or the financing of the Project.

Section 4. The Issuer intends to reimburse certain costs of the Project from the proceeds of the Bonds. Qualified costs to be reimbursed shall be determined in accordance with the provisions of Treasury Regulation Section 1.150-2.

Section 5. Notwithstanding anything herein contained to the contrary, the Issuer shall have no liability to the Borrower for any costs or funds advanced if the Bonds are not issued.

Section 6. A public hearing concerning the Project is hereby scheduled to be held during the meeting of the City Council on April 8, 2008. The City Recorder is hereby authorized to publish in the Deseret Morning News a “Notice of Public Hearing and Bonds to be Issued” at least fourteen (14) days prior to April 8, 2008, the hearing date set forth in said Notice, and the City Council will meet in public session on April 8, 2008, to receive public comment on the proposed issuance of Bonds. The Notice of Public Hearing shall be in substantially the following form:

NOTICE OF PUBLIC HEARING
AND BONDS TO BE ISSUED

NOTICE IS HEREBY GIVEN that the City Council (the "Council") of Salt Lake City, Utah (the "City"), will meet on April 8, 2008, at 451 South State Street, in Salt Lake City, Utah, in the City Council chambers, at 7:00 p.m., or as soon thereafter as the matter may be heard, for the purpose of conducting a public hearing regarding a proposal by the City that pursuant to the provisions of Title 11, Chapter 17, Utah Code Annotated 1953, as amended (the "Act"), the City issue its Industrial Revenue Bonds, Series 2008A (Intsel West Project) in the aggregate principal amount of not to exceed \$6,000,000, and its Taxable Industrial Revenue Bonds, Series 2008B (Intsel West Project) in the aggregate principal amount of not to exceed \$2,000,000 (collectively, the "Bonds") and lend the proceeds of the Bonds to Intsel West Properties, LLC, a limited liability company, or any affiliate (the "Borrower"), to pay all or a portion of the costs of acquiring and/or constructing a manufacturing facility and acquiring manufacturing equipment and related improvements (collectively, the "Project") to be located at approximately 1887 South 700 West, Salt Lake City, Utah 84104 that will be owned and used by the Borrower.

The City is authorized to issue the Bonds pursuant to the Act. The Bonds will be special limited obligations of the City payable solely from amounts provided by the Borrower. The Bonds and the interest thereon will not be a debt of the City or of the State of Utah or any political subdivision of the State, and neither the City nor the State of Utah or any political subdivision of the State will be liable thereon. In no event will the Bonds or the interest thereon be payable out of any funds or properties of the City other than the payments received by the City from the Borrower which are pledged as security for the Bonds.

The Bonds will not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limitation or restriction.

This public hearing is required by the Tax Reform Act of 1986. Interested individuals are invited to express their views, both orally and in writing, on the proposed issue of Bonds and the location and nature of the Project. Comments at the public hearing are invited. Written comments may be submitted to the City Recorder's office located at 451 South State Street, Suite 415, in Salt Lake City, Utah, or at P.O. Box 145515, Salt Lake City, Utah 84114-5515, until 5:00 p.m. on April 7, 2008. Additional information may be obtained from the City at its office shown above or by calling (801) 535-7671. Subsequent to the hearing, the City Council will consider approving the issue of the Bonds to finance the Project.

A copy of the proceedings authorizing the issuance of the Bonds, including an authorizing resolution and a loan agreement, are on file in the office of the City Recorder of Salt Lake City at 451 South State Street, Suite 415, in Salt Lake City, Utah 84114-5515 where they may be examined during regular business hours of the City Recorder from 8:00 a.m. to 5:00 p.m. for a period of at least thirty (30) days from and after the date of publication of this notice.

NOTICE IS FURTHER GIVEN that a period of thirty (30) days from and after the date of the publication of this notice is provided by law during which any person in interest shall have the right to contest the legality of the above-referenced resolution, a loan agreement, or the Bonds, or any provision made for the security and payment of the Bonds, and that after such time, no one shall have any cause of action to contest the regularity, formality or legality thereof for any cause whatsoever.

Date: March 18, 2008

/s/
Deputy City Recorder

Section 7. The Final Bond Resolution and the Bond Documents shall obligate the Borrower to use the proceeds of the Bonds for the Project in such a manner that will preserve the tax-exempt qualification of the Series 2008A Bonds and that will not result in any responsibility for the Issuer to rebate arbitrage earnings to the Internal Revenue Service. Issuance of the Bonds shall be subject to the review and approval by the Issuer of the Bond Documents.

Section 8. If any provisions of this Resolution should be held invalid, the invalidity of such provision shall not affect the validity of any of the other provisions of this Resolution.

Section 9. The appropriate Issuer officials are hereby authorized and directed to execute and deliver on behalf of the Issuer any additional certificates or documents that they may deem necessary or appropriate in order to implement and carry out the matters authorized in this Resolution.

Section 10. No member of the City Council or employee of the Issuer has any interest, direct or indirect, in the transactions contemplated by the Issuer as described herein.

Section 11. All resolutions of the Issuer or parts thereof, inconsistent herewith, are hereby repealed to the extent only of such inconsistency.

Section 12. This Resolution shall become effective immediately upon its adoption.

PASSED AND APPROVED this March 18, 2008.

(SEAL)

By: _____
Chair

ATTEST:

By: _____
Deputy City Recorder

PRESENTATION TO THE MAYOR

The foregoing resolution was presented to the Mayor for his approval or disapproval this March _____, 2008.

(SEAL)

By: _____
Chair

MAYOR'S APPROVAL OR DISAPPROVAL

The foregoing ordinance is hereby approved this March __, 2008.

By: _____
Ralph Becker, Mayor

STATE OF UTAH)
 : ss.
COUNTY OF SALT LAKE)

I, _____, the duly appointed and qualified Deputy City Recorder of Salt Lake City, Utah, do hereby certify that the above and foregoing is a full, true, and correct copy of the record of proceedings had by the City Council of Salt Lake City, Utah, at its meeting held on Tuesday, March 18, 2008, insofar as the same relates to or concerns the issuance of Salt Lake City, Industrial Revenue Bonds, Series 2008A and 2008B, as the same appears of record in my office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of Salt Lake City this the March 18, 2008.

(SEAL)

By: _____
Deputy City Recorder

STATE OF UTAH)
 : ss.
COUNTY OF SALT LAKE)

I, _____, the duly appointed and qualified Deputy City Recorder of Salt Lake City, Utah, do hereby certify that pursuant to the foregoing Resolution there was published once in the Deseret Morning News, a newspaper having general circulation in Salt Lake City, Utah, a Notice of Public Hearing and Bonds to be Issued, the affidavit of which publication, when available, will be attached hereto.

IN WITNESS WHEREOF, I have hereunto subscribed my signature and impressed hereon the official seal of the City on March _____, 2008.

(SEAL)

By: _____
Deputy City Recorder

EXHIBIT A

CERTIFICATE OF COMPLIANCE WITH OPEN MEETING LAW

I, _____, the undersigned Deputy City Recorder of Salt Lake City, Utah (the "City"), do hereby certify, according to the records of the City in my official possession, and upon my own knowledge and belief, that in accordance with the requirements of Section 52-4-202, Utah Code Annotated 1953, as amended, I gave not less than twenty-four (24) hours public notice of the agenda, date, time and place of the March 18, 2008, public meeting held by the City as follows:

(a) By causing a Notice, in the form attached hereto as Schedule A, to be posted at the City's offices at 451 South State Street, Salt Lake City, Utah, on March 14, 2008, at least twenty-four (24) hours prior to the convening of the meeting, said Notice having continuously remained so posted and available for public inspection until the completion of the meeting; and

(b) By causing a copy of such Notice, in the form attached hereto as Schedule A, to be delivered to the Deseret Morning News on March 14, 2008, at least twenty-four (24) hours prior to the convening of the meeting.

IN WITNESS WHEREOF, I have hereunto subscribed my official signature this March 18, 2008.

(SEAL)

By: _____
Deputy City Recorder

SCHEDULE A
NOTICE OF MEETING

Affidavit of Publication of Notice of Public Hearing
and Bonds to be Issued



**Salt Lake City Corporation
INDUSTRIAL REVENUE BOND APPLICATION**

PART A: APPLICANT INFORMATION

1. Name of applicant:

Triple S Steel Holdings, Inc. as sponsor/guarantor
Intsel Steel West, LLC as facility operator – owned by Triple S Steel Holdings

2. Address of applicant:

Official business name	Triple S Steel Holdings, Inc.
Contact person	Gary W. Stein, President
Mailing Address	6000 Jensen Drive, Houston, TX 77026
Telephone/Fax	Ph: 713-697-7105 Fx: 713-354-4182
E-mail	garys@sss-steel.com

3. **Attachment A: Include a brief history of your company.** Attached.

4. Name and address of all other major business officers and investors supporting this application:

Local Contact: **Steelco, Alta Industries, Inc., Alta Metal Processing, R&S Steel**

Contact person	Robert (Bob) E. Elkington, SVP&Mgr
Mailing Address	1887 South 700 West Salt Lake City, UT 84104
Telephone/Fax	Ph: 801-072-8160 Fx: 801-973-8687
E-mail	Bob.elkington@alta-steelco.com

5. Name and address of bond counsel (bond counsel must be retained before application is considered complete for processing):

Name of firm	Ballard Spahr Andrews & Ingersoll, LLP
Name of Attorney	Blaine Carlton
Mailing Address	201 South Main Street, Suite 600 Salt Lake City, UT 84111
Telephone/Fax	801-531-3020 Fx: 801-321-9020
E-mail	carltonb@ballardspahr.com

6. Name and address of proposed underwriter or purchaser of bonds:

GE Government Finance, Inc. will be the purchaser of the bonds in private placement transaction. An underwriter will not be required by the purchaser.

Name of Firm	GE Government Finance, Inc
Mailing Address	8400 Normandale Lake Blvd., Suite 470 Minneapolis, MN 55437-1079

Name of Contact	R. Stephen Crawford
Mailing Address	16479 Dallas Parkway, 3 rd Floor Addison, Texas 75001
Telephone/Fax	Ph: 972-713-2517 Fax: 972-767-4213
E-mail	stephen.crawford@ge.com

Name of Contact	Phil Long
Mailing Address	8400 Normandale Lake Blvd., Suite 470 Minneapolis, MN 55437-1079
Telephone/Fax	Ph: 952-897-5640 Fx: 052-897-5601
E-mail	phil.long@ge.com

Attorneys for GE	Kutak Rock LLP
Name of Attorney	Brad Nielson
Mailing Address	1650 Farnam St. Omaha, NE 68102
Telephone/Fax	402-346-6000

PART B: PROJECT INFORMATION

1. Name and description of the project (minimum of one page):

Name: **Triple S Steel Project**

Triple-S Steel was formed in 1960 in Houston, Texas. The Triple-S family consists of Triple-S Steel Supply Co., Intsel Steel Distributors, R&S Steel, and Steelco. There are eight facilities located in Houston, TX, San Antonio, TX, Knoxville, TN, Denver, CO, Lehi, UT and Salt Lake City, UT. Annual sales of these companies exceed \$500,000,000.

The Triple-S companies distribute steel products including plate, sheet, bar, coil, beams, tubing, and pipe. These products are saw cut, rolled and formed, flame cut, sheared, leveled, slit and/or bent to customer specifications.

The Alta Industries-Steelco Salt Lake facility is on 18.63 acres just west of I-15 and north of 2100 South at 1887 South 700 West. The site has an office building and four large fabricating buildings with approx. 177,000 sq. ft. The buildings are steel framed with 30 ft. high ceilings and cement floors. They have overhead cranes to move the steel products, and various ramps, lifts and overhead doors. The buildings hold large equipment systems for cutting, bending, slicing, shearing and forming steel. Steel is delivered in sheets and rolls, then processed and shipped back out. There is a rail spur through the property and a rail line runs next to the property.

Triple S began the acquisition of Alta Industries - Steelco in Salt Lake City at the end of 2006 and has been operating the facilities under a lease from the prior owner. Triple S is now exercising an option to purchase the Salt Lake facility for approx. \$5.3 million.

R&S Steel also operated a steel fabricating and distribution facility in Lehi, UT. However, the lease on the Lehi facility has expired and will not be renewed - the owner is selling the land for other development. The Lehi facility has consisted of approx. 12.75 acres with a 15,000 sq. ft. metal building for fabrication and distribution. The business has employed 22-24 people and generated sales in the \$24 million range annually. Lehi's products include steel beams, channels, tube, pipe and plate. Its equipment consists mainly of band saws and large fork lifts.

Along with the purchase of the Salt Lake City facilities, Triple S is expanding those facilities to allow for the merger of the Lehi operations onto the Salt Lake property. The jobs from the Lehi facility are being moved to the Salt Lake plant. This will include 23 employees with an annual payroll of over \$1.0 million.

The proposed expansion project at Alta-Steelco in Salt Lake City will add two outdoor overhead crane systems and a 58,650 sq ft steel framed building which will house fabrication and production operations, as well as storage. The expansion and equipment will total approx. \$4.0mm. The facility purchase and the expansion will total over \$9.0mm

Please see the company website at www.sss-steel.com for additional information on the Triple S Steel family of companies.

2. Address of project:

Project address	1887 South 700 West Salt Lake City, UT 84014
Type of project	Acquisition, rehab and new construction/expansion

18.63 acres site at 1887 South 700 West, Salt Lake City, UT

Office Building: 8,800 sq. ft.

Fabrication Building 1A: 68,946 sq. ft.

Fabrication Building 1B: 35,100 sq. ft.

Fabrication and Storage Building 1C: 26,260 sq. ft.

Fabrication Building 2: 46,940 sq. ft.

Fabrication buildings are steel frame buildings with cement floors, high ceilings (30') and overhead cranes. The buildings have cutting, slicing, bending and other fabrication equipment in them. The buildings have room to maneuver large pieces and rolls of steel as they are worked.

3. Type of Industry:

- Hotel/Tourism
- Light Industry
- Heavy Industry
- Regional Scale Retail
- Community Scale Retail
- Neighborhood Scale Retail
- Commercial/Office
- Research and Development
- High Density Housing
- Low Density Housing/Infill
- Other (Specify) _____

4. Rationale for seeking public support for Industrial Revenue Bond approval:

This project will immediately bring at least 23 new jobs to the Salt Lake City area and then will add another 16 jobs (mainly skilled and semi-skilled) over 5 years. Coupled with wage increases, the Salt Lake facility payroll will increase by over \$1 million immediately and by another \$1.9 million over a 5-year period. These jobs are accessible by the Central City / Glendale area, an underserved employment market. On-site job training is provided through company apprenticeship programs.

The expansion project will increase the asset value of the facilities by approximately \$4.0 million, which translates to additional property taxes annually. By merging the Lehi operations into the Salt Lake facility, its gross sales of approx. \$24 million will be moved to Salt Lake. Total sales of approximately \$55 million are subsequently expected to increase to approximately \$80 million within a few of years.

5. Will the project have a positive economic impact on the community?

Yes - The project will create up to 56 skilled and semi-skilled jobs (and 1 professional/management position) in the City. These jobs will increase the payroll of the Salt Lake facility by over \$3 million over the next 10 years.

Jobs and economic growth are being provided in the Central City / Glendale area where the median household income is 80% or less of the statewide average.

The expansion of the fabricating facilities and addition of new equipment creates an increase in the tax base with an estimated increase of \$48,000 to \$60,000 in annual real estate and personal property taxes.

6. What social and physical benefits will be realized by the City?

Creation of jobs creates social benefits though decreasing un-employment, increasing wages and providing greater opportunity for marginally skilled workers to be productive citizens in an underserved employment area of the City.

The main physical benefit to the City will be a more modernized, improved and expanded fabricating facility in an established industrial area of town where growth is limited by physical restrictions. The expansion building and the overhead cranes will allow more materials to be fabricated and temporarily stored in the buildings instead of out on the open ground. The expansion is utilizing open area of the property that has been exposed to the elements and used as short-term storage and generally un-manicured.

7. Does the project contribute to the development of underutilized property in the City?

The improvements and expansion are within the existing property boundaries of the Alta-Steelco property. The expansion is on an underutilized area of the property. The expansion and improvements will create growth in a generally land locked facility.

8. Does the project generate synergies for the development of surrounding properties?

Surrounding properties are industrial and are substantially developed. The utilization density of the Atla-Steelco property has been less than the surrounding properties in general and this expansion will increase the utilization of the land.

In the case where the proposed bonds are to be sold on a private placement basis to a sophisticated investor or group of sophisticated investors, the City's credit enhancement requirement will be waived once the City has received written confirmation from a sophisticated investor that it understands the risks associated with this type of investment and that under no circumstance will non-payment or a default on the bonds constitute or impose upon the City any financial obligation or liability.

Sophisticated Investor: GE Government Finance, Inc. (formerly GE Capital Public Finance, Inc.)

6. Anticipated method and terms of bonding:

The transaction will be a private placement with GE Government Finance, Inc.
Proposed date of bond issuance: approx. **March 14, 2008**

Proposed terms:

15 year financing

Fixed interest rate

Up to \$6.0mm of tax exempt bonds and \$1.5mm of taxable.

Private Placement with GE Capital – GE Government Finance, Inc.

Secured by 1st lien mortgage on property and facilities

Property and facilities to be owned by principal owners of Triple S Steel Holdings, Inc.

Facilities operated by Instel Steel West, LLC (owned by Triple S Steel)) under long-term lease with Owner

Financing to be guaranteed by parent corporation - Triple S Steel Holdings, Inc

7. What impact will the proposed expansion have on your company?

The expansion will provide the ability to merge the Lehi facility to Salt Lake, thereby maintaining those revenues while creating better utilization of the Salt Lake property. Combined annual revenue is planned to increase by \$10 million in the short-term and by \$25 million in just a few years. The expansion and improvements will also generate more efficiency in the combined operations.

The Salt Lake facility is the company's foothold to the fast growing western states steel market. The ability for growth and efficiency is critical to serving that market.

8. Identify your sources and uses of funds:

Sources	Amount	% of Total
Tax-exempt bonds	6,000,000	62.5%
Taxable bonds	1,500,000	15.5%
Equity contribution	2,100,000	22%
City/County grant/assistance		
Other – Cash from Borrower		
Total	9,600,000	100%

USES	Amount Paid from PAB Bond Proceeds	Amount Paid from Other Sources
Acquisition of land	1,500,000	123,000
Acquisition of buildings	3,686,000	
Fees & other charges related to sale		
Rehabilitation of existing building(s)	134,000	417,000
Site preparation		250,000
Construction Cost of new building(s)	500,000	2,000,000
Utility connections		50,000
Acquisition of Equipment		
a. New		700,000
b. Used		
Installation equipment costs		
a. New		60,000
b. Used		
Invoices		
Architect/Engineer	30,000	
Permits and Fees	60,000	
Bond Issuance Expenses (including any discount)	90,000	
Letter of Credit or Bond Insurance Fees		
Interest during construction		
From: To:		
Interest income during construction		
From: To:		
Other: (please explain)		
Total Project Costs:	6,000,000	3,600,000
Total Overall Costs:	9,600,000	

9. How will the bond be repaid?

Bonds will be repaid through the cash flow of the facilities, backed by the strength of the consolidated company – Triple S Holdings, Inc.

The project is currently making base monthly lease payments for the existing facilities of approx. \$32,765 (Salt Lake City facility) and \$25,600 (Lehi facility) for a total of \$58,365. These payments will be replaced by a consolidated debt payment of approx. \$54,100 for the expanded Salt Lake facility.

10. Estimated annual tax revenue generated by project:

Total Payroll Value

Total Current Payroll (SLC facilities only)	Estimated in 1 Yr. (Including merger of Lehi ops)	Estimated in 5 Yrs.
<u>\$3,451,916</u>	<u>\$4,971,330</u>	<u>\$6,899,760</u>

Property Valuations

Total Valuation	Estimated in 1 Yr. (After expansion)	Estimated in 5 Yrs.
<u>\$5,309,000</u> (purchase price)	<u>\$8,500,000</u>	<u>\$9,200,000</u>

Gross Taxable Sales

Current Taxable Sales (SLC facilities only)	Estimated in 1 Yr. (Includes merger of Lehi ops)	Estimated in 5 Yrs.
<u>\$31,000,000</u>	<u>\$65,000,000</u>	<u>\$85,000,000</u>

11. Description of all collateral required to finance the project:

18.63 acres site at 1887 South 700 West, Salt Lake City, UT

Site includes:

Office Building: 8,800 sq. ft.

Fabrication Building 1A: 68,946 sq. ft.

Fabrication Building 1B: 35,100 sq. ft.

Fabrication and Storage Building 1C: 26,260 sq. ft.

Fabrication Building 2: 46,940 sq. ft.

New 58,650 sq. ft. enclosed steel building for fabrication, processing and storage to be constructed on site.

Additional 100,000 sq. ft. of outside overhead crane-ways being constructed

Overhead crane-ways include 4 15-Ton Cranes and crane rails

1 HEM Steel cutting band saw system

Fabrication buildings are steel frame buildings with cement floors, high ceilings (30') and overhead cranes.

PART D: EMPLOYMENT INFORMATION

1. How many new jobs will be created, at what levels, and what percentage of the applicant's total payroll will they comprise?

Initially 23-24 new jobs will be created in Salt Lake City as the Lehi operations are moved to the 1887 South 700 West facilities.

Lehi Jobs to SLC	current		Upon completion of SLC expansion	
	# of employees	average hourly wage	# of employees	Average hourly wage
total employment	23		24	
management	1	48	1	51.36
Skilled	4	35	4	37.45
semi-skilled	18	14	19	14.98
Unskilled				
total payroll	1,022,684.00		1,094,271.88	
	19.7% of UT payroll		19.7% of UT payroll	

Over and above the 23 jobs that are moving from Lehi to Salt Lake City, the project will create another 8 jobs immediately, 16 jobs within 5 years of the project completion and 34 in 10 years.

	Current		Upon Completion		5 Years after Completion	
	Total # of Employees (Includes Lehi)	Average Hourly Wage	Total # of Employees	Average Hourly Wage	Total # of Employees	Average Hourly Wage
Total Employment:	120		128		136	
Management:	2	60	2	64	2	72
Skilled:	26	25	28	27	28	30
Semi-Skilled:	92	18	98	19	106	22
Unskilled:						
Total Payroll:	4,474,600		4,971,330		6,899,760	
Weighted Average Hourly Wage		20.80		21.64		24.97

2. Specify the classification and number of **permanent** jobs created:

Classification	Present Employment (SLC Only)	Proposed Employment (after Lehi merg)	5 Year Projected	10 Year Projected
Executives/Mgrs.	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>
Professionals	_____	_____	_____	_____
Craftsmen (Skilled)	<u>22</u>	<u>28</u>	<u>28</u>	<u>30</u>
Laborers (Unskilled)	_____	_____	_____	_____
Office/Clerical	<u>6</u>	<u>9</u>	<u>12</u>	<u>14</u>
Services/Sales	<u>16</u>	<u>20</u>	<u>24</u>	<u>28</u>
Other (Semi-Skilled)	<u>52</u>	<u>63</u>	<u>70</u>	<u>80</u>
Total Employees	<u>97</u>	<u>128</u>	<u>136</u>	<u>154</u>

3. For each type of employment classification, specify the average annual wage:

<u>Classification</u>	Current Average Annual Wage
Executives/Mgrs.	\$124,500
Professionals	_____
Craftsmen (Skilled)	\$40,000
Laborers (Unskilled)	_____
Office/Clerical	\$45,000
Services/Sales	\$44,500
Other (Specify) Semi-Skilled	\$30,000

4. Specify the classification and number of **temporary** jobs created:

There are no specific plans for temporary positions. All created jobs will be permanent in nature. There may occasionally be needs for temporary workers due to a single production order size, however, such a temporary increase is not projected at this time.

PART E: SIGNATURE(S)

By *Paul F. Kruppa*
(Signature of Authorized Representative)

Paul F. Kruppa
(Please Print Name)

By *Brian Copeland*
(Signature of Authorized Representative)

Brian Copeland
(Please Print Name)

Date: _____

Please enclose a \$1,000 nonrefundable application fee and send application package to:

Ed Butterfield
Small Business/Economic Development Manager
Mayor's Office
Salt Lake City Corporation
451 South State Street, Room 306
Salt Lake City, Utah 84111

If you have questions, call 801/535-6306.

FEE SCHEDULE

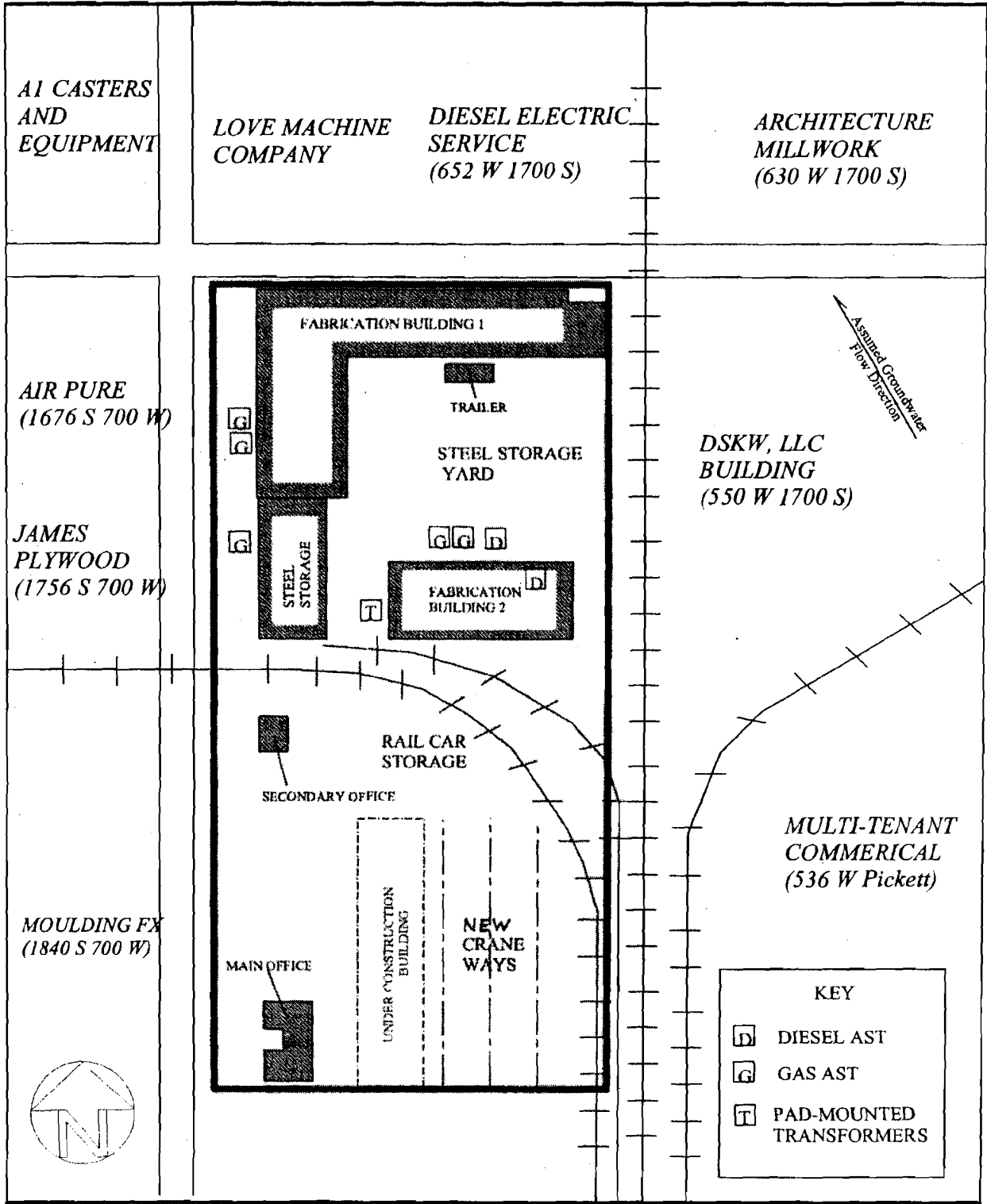
The applicant shall pay to the City, at the time of filing, an application fee that is nonrefundable even if the bonds are not issued. The application fee for a new issue is \$1,000 and for a refunding issue is \$500. This fee may be applied to the following fee schedule.

The applicant shall also pay to the City, at the time of closing, an industrial revenue bond fee that shall be calculated as follows:

\$7,500 plus
.15% of the principal face amount of the bonds for the first \$5,000,000
.10% for the second \$5,000,000
.075% for the third \$5,000,000
.05% for the fourth \$5,000,000

The minimum fee for any issue shall be \$15,000 and the maximum fee shall be \$25,000.

In addition, the applicant shall pay to the City's Financial Advisor at closing \$1.75 per \$1,000 par amount of the bonds, with a minimum of \$7,500 for financial advisory services associated with the issuance of the proposed bonds.



AI CASTERS
AND
EQUIPMENT

LOVE MACHINE
COMPANY

DIESEL ELECTRIC
SERVICE
(652 W 1700 S)

ARCHITECTURE
MILLWORK
(630 W 1700 S)

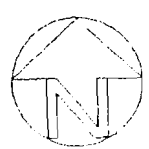
AIR PURE
(1676 S 700 W)

JAMES
PLYWOOD
(1756 S 700 W)

DSKW, LLC
BUILDING
(550 W 1700 S)

MOULDING FX
(1840 S 700 W)

MULTI-TENANT
COMMERCIAL
(536 W Pickett)



KEY

- D DIESEL AST
- G GAS AST
- T PAD-MOUNTED TRANSFORMERS

SITE SCHEMATIC

Instel Steel Inc.
1887 South 700 West
Salt Lake City, Utah

SCALE: NOT TO SCALE

January 2008

VERTEX PROJ. NO. 11625

VERTEX

ATTACHMENT B-C

FINANCIAL STATEMENTS

**TRIPLE-S STEEL HOLDINGS, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

CONTENTS

	<u>Page</u>
Independent Auditors' Report	2
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

12 Greenway Plaza
Suite 1202
Houston, TX 77046

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Web www.uhy-us.com

Independent Auditors' Report

To the Board of Directors
Triple-S Steel Holdings, Inc. and Subsidiaries
Houston, Texas

We have audited the accompanying consolidated balance sheets of Triple-S Steel Holdings, Inc., (formerly Triple-S Steel Supply Co.) and Subsidiaries as of August 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Triple-S Steel Holdings, Inc. and Subsidiaries as of August 31, 2007 and 2006, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Houston, Texas
December 11, 2007

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	August 31,	
	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,606,702	\$ 5,507,384
Accounts receivable, net of allowance for doubtful accounts of \$619,760 and \$652,624 at August 31, 2007 and 2006, respectively	68,217,980	71,186,735
Inventory, net	101,568,986	87,125,526
Federal income tax receivable	5,013,434	-
Deferred income taxes	1,390,114	1,433,143
Prepaid expenses	772,389	467,046
TOTAL CURRENT ASSETS	<u>187,569,605</u>	<u>165,719,834</u>
PROPERTY AND EQUIPMENT, net	34,172,787	25,477,220
OTHER NON-CURRENT ASSETS		
Notes receivable-affiliates	2,495,218	2,309,178
Goodwill	1,500,000	1,500,000
Identifiable intangible, net	7,672,171	-
Other assets	1,550,341	1,593,988
TOTAL OTHER NON-CURRENT ASSETS	<u>13,217,730</u>	<u>5,403,166</u>
TOTAL ASSETS	<u>\$ 234,960,122</u>	<u>\$ 196,600,220</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 6,484,685	\$ 1,973,749
Accounts payable	21,716,682	25,558,997
Accrued expenses	25,678,999	29,737,699
Customer deposits	918,325	1,726,669
Dividends payable	5,904	110,250
TOTAL CURRENT LIABILITIES	<u>54,804,595</u>	<u>59,107,364</u>
LONG-TERM DEBT, less current maturities	115,164,485	58,009,208
DEFERRED INCOME TAXES	<u>1,376,334</u>	<u>1,090,800</u>
TOTAL LIABILITIES	171,345,414	118,207,372
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, \$10 par value, 100,000 shares authorized, 4,920 shares issued and outstanding	49,200	49,200
Common stock, \$.10 par value, 1,000,000 shares authorized, 4,410 shares issued, 3,160 and 4,410 outstanding at August 31, 2007 and 2006, respectively	316	441
Retained earnings	<u>101,354,454</u>	<u>78,343,207</u>
	101,403,970	78,392,848
Less: Treasury stock, at cost	<u>(37,789,262)</u>	-
TOTAL STOCKHOLDERS' EQUITY	<u>63,614,708</u>	<u>78,392,848</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 234,960,122</u>	<u>\$ 196,600,220</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended August 31.	
	2007	2006
SALES, net	\$ 535,115,522	\$ 458,898,180
COST OF GOODS SOLD	<u>432,787,187</u>	<u>358,762,176</u>
GROSS PROFIT	102,328,335	100,136,004
GENERAL AND ADMINISTRATIVE EXPENSES	<u>60,633,565</u>	<u>55,220,907</u>
INCOME FROM OPERATIONS	41,694,770	44,915,097
OTHER INCOME (EXPENSE)		
Interest expense	(6,830,701)	(3,252,076)
Interest income	191,153	187,613
Other income (expense)	<u>711,971</u>	<u>(14,325)</u>
TOTAL OTHER EXPENSE	<u>(5,927,577)</u>	<u>(3,078,788)</u>
INCOME BEFORE INCOME TAX EXPENSE	35,767,193	41,836,309
INCOME TAX EXPENSE (BENEFIT)		
Current federal	11,860,830	15,048,696
Current state	560,649	413,947
Deferred federal	<u>328,563</u>	<u>(646,630)</u>
TOTAL INCOME TAX EXPENSE	<u>12,750,042</u>	<u>14,816,013</u>
NET INCOME	<u>\$ 23,017,151</u>	<u>\$ 27,020,296</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED AUGUST 31, 2007 AND 2006

	Convertible Preferred Stock		Common Stock		Retained Earnings	Treasury stock		Total
	Shares	Amount	Shares	Amount		Stock	Amount	
Balance, September 1, 2005	4,920	\$ 49,200	4,410	\$ 441	\$ 51,439,065	-	\$ -	\$ 51,488,706
Dividends on preferred stock	-	-	-	-	(5,904)	-	-	(5,904)
Dividends on common stock	-	-	-	-	(110,250)	-	-	(110,250)
Net income	-	-	-	-	27,020,296	-	-	27,020,296
Balance, August 31, 2006	4,920	49,200	4,410	441	78,343,207	-	-	78,392,848
Dividends on preferred stock	-	-	-	-	(5,904)	-	-	(5,904)
Treasury stock acquired	-	-	(1,250)	(125)	-	1,250	(37,789,262)	(37,789,387)
Net income	-	-	-	-	23,017,151	-	-	23,017,151
Balance, August 31, 2007	4,920	\$ 49,200	3,160	\$ 316	\$ 101,354,454	1,250	\$ (37,789,262)	63,614,708

See notes to consolidated financial statements.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended August 31,</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 23,017,151	\$ 27,020,296
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,376,454	3,100,798
Gain on sale of property and equipment	(19,399)	(1,089,149)
Deferred income tax expense (benefit)	328,563	(646,630)
Change in LIFO reserve	11,494,376	5,988,878
Provision for bad debts	242,711	632,253
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable, net	2,726,044	(23,350,327)
Inventory, net	(22,344,967)	(33,833,664)
Federal income tax payable (receivable)	(6,800,374)	3,071,440
Prepaid expenses	(286,927)	233,470
Other assets	13,872	428,813
Accounts payable	(3,842,315)	6,116,972
Accrued expenses	(2,288,760)	12,055,926
Customer deposits	(808,344)	(2,211,182)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>5,808,085</u>	<u>(2,482,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	79,690	186,092
Additions to notes receivable	(265,730)	(821,509)
Proceeds from the sale of property and equipment	147,985	2,492,741
Purchase of property and equipment	(2,810,970)	(3,060,019)
Net cash paid for acquisition of business	(17,444,871)	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(20,293,896)</u>	<u>(1,202,695)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term obligations	(48,661,132)	(16,379,559)
Net borrowings under long-term obligations	83,356,511	23,166,650
Cash paid for treasury stock	(15,000,000)	-
Payment of dividends	(110,250)	(122,058)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>19,585,129</u>	<u>6,665,033</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,099,318	2,980,232
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,507,384</u>	<u>2,527,152</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,606,702</u>	<u>\$ 5,507,384</u>

	<u>Year Ended August 31,</u>	
	<u>2007</u>	<u>2006</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 6,518,975</u>	<u>\$ 3,261,440</u>
Income taxes	<u>\$ 16,850,000</u>	<u>\$ 11,760,000</u>
 NON-CASH INVESTING AND FINANCING ACTIVITIES		
Investment in affiliate converted to accounts receivable	<u>\$ -</u>	<u>\$ 250,000</u>
Property and equipment acquired through debt	<u>\$ 6,970,834</u>	<u>\$ -</u>
Debt assumed with business acquisition	<u>\$ 2,500,000</u>	<u>\$ -</u>
Treasury stock acquired through debt	<u>\$ 17,500,000</u>	<u>\$ -</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE A - ORGANIZATION AND NATURE OF BUSINESS

Triple-S Steel Holdings, Inc. (formerly Triple-S Steel Supply Co.) and its subsidiaries (the "Company") are primarily engaged in the sale of steel and other industrial products, and the rental of real estate. The Company was established in 1960 and incorporated in 1978. Corporate offices are in Houston, Texas, with sales offices and distribution centers in Houston and San Antonio, Texas, Knoxville, Tennessee, Denver, Colorado and Salt Lake City and Lehi, Utah. Effective June 30, 2007, the Company completed its plan of merger whereby Triple-S Steel Supply Co. and Subsidiaries were merged to become Triple-S Steel Holdings, Inc. and Subsidiaries. The merger had no impact on the consolidated financial position of the Company.

During 2006, the Company sold all the assets of Holmes Road Venture I, L.P. and distributed the proceeds as a charitable contribution. Additionally, during 2006, the Company acquired certain assets and assumed certain liabilities from Alta Industries, Ltd. ("Alta"). See Note C for further discussion of these transactions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Triple-S Steel Holdings, Inc. and its subsidiaries and commonly-controlled companies, including those consolidated under FIN 46 ("Fin 46R"), *Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51*. All significant intercompany accounts have been eliminated upon consolidation.

Revenue Recognition: Revenue from product sales is recognized upon shipment of merchandise to the customer. Revenue from rental real estate is recognized at the time services are rendered. Rent received in advance is deferred until earned.

Cash and Cash Equivalents: The Company includes cash equivalents as cash in the consolidated financial statements. The Company considers all highly liquid instruments with original maturities of three months or less from the date of purchase to be cash equivalents.

Concentrations of Credit Risk: The Company maintains its cash and cash equivalents in financial institutions, which at times, may exceed federally insured limits. The Company monitors the financial condition of these financial institutions and has not experienced any losses associated with these accounts.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is maintained at an adequate level to absorb losses in the Company's accounts receivable. Management of the Company continually monitors the accounts receivable from its customers for any collectibility issues. An allowance for doubtful accounts is established based on a review of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. Provisions for bad debts and recoveries on accounts previously charged-off are added to the allowance. All accounts outstanding more than 30 days are considered past due.

Inventory: Inventory, primarily consisting of raw materials for sale, is stated at the lower of last-in, first-out ("LIFO") cost or market. Inventory would have been higher by approximately \$40,353,000 and \$28,859,000 in 2007 and 2006, respectively, had the first-in, first-out ("FIFO") method of inventory valuation been used. Additionally, net income (net of applicable income taxes) would have been higher by approximately \$7,471,000 and \$3,950,000 for the years ended August 31, 2007 and 2006, respectively, had the FIFO method of inventory valuation been used.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using accelerated and straight-line methods over the estimated useful lives of the various assets, ranging from 3 to 39 years.

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the assets. In such case, the impairment loss would be equal to the amount by which the carrying value exceeds fair market value of the related asset.

Goodwill: Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. The Company applies the provisions of Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and other Intangible Assets" in accounting and reporting for goodwill and other intangible assets. Under SFAS No. 142, goodwill and other intangible assets with indefinite useful lives are tested for impairment annually. The Company performed its impairment test for goodwill and determined that there was no impairment loss related to the net carrying value of recorded goodwill. The Company intends to reevaluate goodwill on an annual basis, or when events or circumstances indicate an impairment test is necessary.

Identifiable Intangible: As of August 31, 2007 the Company's intangible consists of a customer list related to the acquisition of Alta as further discussed in Note C. Of the purchase price, \$8,123,475 was allocated to the customer list. At August 31, 2007, the customer list, net of related amortization, was \$7,672,171. The intangible is being amortized on a straight-line basis over the estimated useful life of 15 years.

The following is a summary of future minimum amortization expense:

<u>Year Ending August 31,</u>	
2008	\$ 541,565
2009	541,565
2010	541,565
2011	541,565
2012	541,565
Thereafter	<u>4,964,346</u>
	<u>\$ 7,672,171</u>

Amortization expense totaled \$451,304 in 2007.

Income Taxes: Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. A valuation allowance on deferred tax assets is recognized if the Company believes it is more likely than not that such assets will not be recoverable.

Deferred taxes result primarily from the use of accelerated methods of depreciation, capitalization of additional inventory costs, valuation of inventory at the lower of cost or market and purchase price adjustments on LIFO inventory and goodwill recognized in a business combination.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2007 AND 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Acquisition Costs: Loan acquisition costs are amortized over the term of the related debt and are included in "other non-current assets" in the accompanying consolidated balance sheets. Loan acquisition costs, net of related amortization, total approximately \$113,000 and \$142,000 at August 31, 2007 and 2006, respectively.

The following is a summary of future minimum amortization expense:

<u>Year Ending August 31,</u>	
2008	\$ 30,000
2009	30,000
2010	30,000
2011	<u>23,000</u>
	<u>\$ 113,000</u>

Amortization expense totaled \$29,775 and \$30,328 during 2007 and 2006, respectively.

Derivative Financial Instruments: Financial derivatives are used as part of the Company's overall risk management strategy. These instruments are used to manage risk related to changes in interest rates. The portfolio of derivative financial instruments consists of an interest rate swap agreement. The interest rate swap agreement is used to modify a variable rate obligation to a fixed rate obligation, thereby reducing the exposure to higher interest rates. Amounts paid or received under the interest rate swap agreement are accrued as interest rates change with the offset recorded in interest expense. The Company's interest rate swap has not been designated as a hedging instrument; therefore, changes in fair value are recognized in current earnings.

Vendor rebates: The Company enters into agreements with certain vendors providing for inventory purchase rebates. The Company records vendor purchase rebates when realized as a reduction of cost of sales, as prescribed by Emerging Issues Task Force ("EITF") Issue No. 02-16, *Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor*.

Shipping and Handling Fees and Costs: Shipping and handling fees, if billed to customers, are included in net sales. Shipping and handling costs are classified as cost of sales.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the Company's 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

Investments in unconsolidated affiliates: The Company accounts for its investment in unconsolidated affiliates by the equity method. The Company records its share of such earnings (loss) in the consolidated statements of income as "other income (expense)" and the carrying value of the Company's investment in unconsolidated affiliates is recorded in the consolidated balance sheets as "other assets."

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2007 AND 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in unconsolidated affiliates included as other assets are as follows:

	Ownership Interest	August 31,	
		2007	2006
GBDS Investments Ltd.	1%	\$ 4,103	\$ 3,628
Amelia St. Partners	2%	773,941	773,941
Liberty Works Property Co L.P.	4%	28,288	28,288
Eleven Ten Lockwood, L.P.	1%	12,116	11,426
		<u>\$ 818,448</u>	<u>\$ 817,283</u>

Condensed financial information for investments in unconsolidated affiliates is as follows:

	August 31,	
	2007	2006
Current assets	\$ 1,441,514	\$ 1,446,936
Net property and equipment	6,294,408	6,165,103
Noncurrent assets	22,533	16,175
Current liabilities	1,596,202	2,382,961
Long-term liabilities	1,710,823	179,824
Equity	4,451,430	5,065,429
	Year Ended August 31,	
	2007	2006
Revenues	\$ 3,746,185	\$ 2,703,378
Operating expenses	2,432,094	1,392,540
Net income	1,314,091	1,310,838

New Accounting Pronouncements: In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006; however, the FASB has agreed to defer the effective date for non-public entities. The Company is currently evaluating the impact the adoption of this interpretation will have on its future financial statements.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurement." This standard provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. Prior to SFAS No. 157, the methods for measuring fair value were diverse and inconsistent, especially for items that are not actively traded. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the company's mark-to-model value. SFAS No. 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact the adoption of this statement will have on its future financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB SFAS No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not determined the effect, if any, that the adoption of SFAS No. 159 will have on its financial position and results of operations.

In December 2007, FASB issued SFAS No. 141R, "Business Combinations". SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. In addition, SFAS No. 141R will change the accounting treatment for certain specific items, including, but not limited to, acquisition costs, non-controlling interests, acquired contingent liabilities, in-process research and development, restructuring costs and changes in deferred tax asset valuation allowances and income tax uncertainties. SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

NOTE C - BUSINESS ACQUISITION AND DISPOSITION

On October 24, 2005, the Company sold all the assets of Holmes Road Venture I, L.P. held by the Company's wholly-owned subsidiary, Triple-S Holding LLC, for \$505,000 and then distributed the sale proceeds, net of expenses, to an unrelated charitable organization as a charitable contribution in the amount of approximately \$482,000.

On October 30, 2006, the Company completed the purchase of certain assets and assumption of certain liabilities of Alta for approximately \$19,945,000. The results of Alta's operations have been included in the consolidated financial statements since that date.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2007 AND 2006

NOTE C - BUSINESS ACQUISITION AND DISPOSITION (Continued)

The following table summarizes the approximated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Inventory	\$ 8,825,000
Other current assets	19,000
Property and equipment	2,978,000
Customer list	8,123,000
Current liabilities	<u>(2,500,000)</u>
Net assets acquired	<u>\$ 17,445,000</u>

Effective January 15, 2007, the Company entered into an agreement with a shareholder of the Company to sell certain assets of the Company's ornamental parts business in exchange for a portion of the shareholder's ownership in the Company. The agreement included cash consideration of \$15,000,000, a note payable to the shareholder in the amount of \$17,500,000, and inventory and other assets valued at approximately \$5,289,000. Since the Company is still active in this market, the Company does not believe such sale constituted discontinued operations.

NOTE D - NOTES RECEIVABLE - AFFILIATES

Notes receivable-affiliates consist of the following:

	<u>August 31,</u>	
	<u>2007</u>	<u>2006</u>
Notes receivable from stockholders, interest ranging from 3.30% to 4.19%; interest due August 31 of each year and principal due through August 2008; unsecured.	\$ 1,460,512	\$ 1,530,581
Other notes receivable (including from stockholders)	<u>1,034,706</u>	<u>778,597</u>
	<u>\$ 2,495,218</u>	<u>\$ 2,309,178</u>

All notes receivable-affiliates have been included as long-term assets on the accompanying consolidated balance sheets due to the fact that the Company intends to allow the borrower to extend the notes on a long-term basis when they become due, if requested. Interest earned from related party notes in 2007 and 2006 totaled approximately \$81,000 and \$92,000, respectively.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	August 31,	
	2007	2006
Land	\$ 2,785,084	\$ 2,785,084
Buildings and leasehold improvements	20,972,476	20,625,930
Transportation equipment	8,680,876	1,485,327
Furniture and fixtures	4,257,938	3,653,977
Machinery and equipment	15,397,557	11,390,512
Equipment under capital leases	359,700	359,700
	<u>52,453,631</u>	<u>40,300,530</u>
Less: accumulated depreciation	<u>18,555,567</u>	<u>14,908,175</u>
	33,898,064	25,392,355
Construction in progress	<u>274,723</u>	<u>84,865</u>
	<u>\$ 34,172,787</u>	<u>\$ 25,477,220</u>

Depreciation expense totaled \$3,895,375 and \$3,070,470 during 2007 and 2006, respectively.

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following:

	August 31,	
	2007	2006
Line of credit from a bank (up to \$80,000,000 at August 31, 2007 and \$45,000,000 at August 31, 2006), with interest payable monthly at the lower of the prime rate or a LIBOR based rate at the date of draw, maturing October 2009, collateralized by inventory and accounts receivable.	\$ 62,944,871	\$ 38,000,000
Note payable to a bank, with interest payable monthly at LIBOR plus 1.25%, principal payable quarterly in installments of \$200,000, maturing June 2015, collateralized by certain real estate.	14,400,000	15,600,000
Note payable to a bank, with interest payable quarterly at prime minus 2.1%, principal payable quarterly in installments of \$535,714, maturing January 2014, collateralized by inventory and accounts receivable.	13,928,571	-

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE F - LONG-TERM DEBT (Continued)

	August 31,	
	2007	2006
Note payable to a financing company, payable in monthly installments of \$33,664 including interest at 7.55%, maturing August 2016, collateralized by land and buildings in Houston, Texas.	2,632,766	2,829,812
Note payable to a financing company, payable in monthly installments of \$25,630 including interest at LIBOR plus 2.5%, maturing September 2019, collateralized by land and buildings in Houston, Texas.	2,419,367	2,546,495
Note payable to an officer, payable in quarterly principal installments of \$110,000 plus interest at LIBOR plus 1.5%, maturing September 2008, unsecured.	516,650	956,650
Note payable to a bank in quarterly principal installments of \$25,000 plus interest at 8.1%, maturing January 2007, unsecured.	-	50,000
Note payable to a bank, payable in monthly principal installments of \$29,167 plus interest at 6.27%, maturing November 2013, collateralized by an aircraft.	6,737,500	-
Note payable to a third party, payable in two equal non-interest bearing payments of \$1,250,000, maturing October 2007. During October, 2007, the Company paid off this note payable in full.	1,250,000	-
Note payable to a stockholder, payable in monthly principal installments of \$97,222 plus interest at 6.0%, maturing February 2012.	16,819,445	-
	121,649,170	59,982,957
Less: current maturities	6,484,685	1,973,749
	<u>\$ 115,164,485</u>	<u>\$ 58,009,208</u>

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2007 AND 2006

NOTE F - LONG-TERM DEBT (Continued)

Certain of the Company's debt arrangements contain various restrictive covenants, including the maintenance of certain financial ratios. As of August 31, 2007, the Company was in compliance with these financial covenants.

Interest incurred in related party debt totaled \$710,120 and \$70,259 during the years ended August 31, 2007 and 2006, respectively.

The following are maturities of long-term debt:

<u>Year Ending August 31,</u>	
2008	\$ 6,484,685
2009	4,897,889
2010	67,794,768
2011	4,880,828
2012	4,914,209
Thereafter	<u>32,676,791</u>
	<u>\$ 121,649,170</u>

NOTE G - RELATED PARTY TRANSACTIONS

The Company leases land and other facilities from affiliates. Rent expense with affiliates totaled \$486,400 and \$448,900 for the years ended August 31, 2007 and 2006, respectively. Purchases from companies affiliated through ownership of the Company were \$9,245,226 and \$1,840,264 for the years ended August 31, 2007 and 2006, respectively. Sales to affiliated companies were \$3,744,278 and \$2,174,407 for the years ended August 31, 2007 and 2006, respectively.

Included in accounts receivable at August 31, 2007 and 2006 are \$6,485,710 and \$5,619,872, respectively, of amounts due from affiliated companies. Included in accounts payable and accrued liabilities at August 31, 2007 and 2006 are \$293,545 and \$268,132, respectively, of amounts due to affiliated companies.

NOTE H - BENEFIT PLANS

The Company has a 401(k) tax deferred savings plan (the Plan) covering all employees, subject to certain age and service requirements. Under the Plan, a participating employee may allocate up to 10% of the employee's salary, and the Company, at its discretion, may make matching contributions of up to 6% thereof. Additionally, the Company may elect to make additional discretionary contributions. Such additional contributions accrue to employee accounts regardless of whether they have elected to participate in the salary deferral option of the Plan. The Company contributed approximately \$2,440,000 and \$2,330,000 to the Plan for the fiscal years ended August 31, 2007 and 2006, respectively.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE I - OPERATING LEASES

The Company has operating leases covering various equipment. Rent expense charged to operations for the years ended August 31, 2007 and 2006 was \$3,031,529 and \$3,013,464, respectively. Minimum rental payments under operating leases for the five years following August 31, 2007 are as follows:

<u>Year Ending August 31,</u>	
2008	\$ 1,595,788
2009	1,505,083
2010	1,353,807
2011	1,240,088
2012	848,842
Thereafter	<u>49,809</u>
	<u>\$ 6,593,417</u>

NOTE J - CONVERTIBLE PREFERRED STOCK

Dividends on the 12% convertible preferred stock are non-cumulative. The stock is convertible at anytime into common stock equal in value to \$100 per share of preferred stock. The Company, at anytime with the consent of or upon the death of the shareholder, may redeem the preferred stock at \$100 per share. The preferred stock may be put to the Company at \$100 per share at anytime following the failure of the Company to pay dividends.

NOTE K - INCOME TAXES

Deferred income taxes result primarily from the following:

	<u>August 31,</u>	
	<u>2007</u>	<u>2006</u>
Deferred tax assets (liabilities) (current):		
Allowance for doubtful accounts	\$ 216,916	\$ 228,418
LIFO	144,063	115,623
Section 263A cost adjustment	926,149	800,345
Accrued expenses	304,676	278,153
Prepaid expenses	(201,690)	-
Other	-	10,604
	<u>1,390,114</u>	<u>1,433,143</u>
Valuation allowance for deferred tax assets	-	-
Deferred tax assets (current)	<u>\$ 1,390,114</u>	<u>\$ 1,433,143</u>
Deferred tax assets (liabilities) (long-term):		
Property and equipment	\$ (1,430,056)	\$ (1,138,222)
Intangible assets	51,712	51,727
Other, net	2,010	(4,305)
Deferred tax liabilities (long-term)	<u>\$ (1,376,334)</u>	<u>\$ (1,090,800)</u>

The Company believes it is more likely than not that deferred tax assets will be realized and accordingly, a valuation allowance for such assets has not been recognized.

TRIPLE-S STEEL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2007 AND 2006

NOTE L - DERIVATIVE FINANCIAL INSTRUMENTS

During fiscal years 2007 and 2006, in connection with certain long-term debt, the Company entered into interest rate swap agreements to manage exposure to fluctuations in interest rates on a portion on a loan balance.

At August 31, 2007, the interest rate swap agreements related to certain notes payable, the Company has exchanged variable rate interest on a portion of the loans, equal to a total notional amount of \$35,237,500 with a fixed rate varying from 4.73% to 5%. At August 31, 2006, under the interest rate swap agreement related to a certain note payable, the Company exchanged variable rate interest on a portion of the loan, equal to a total noticed amount of \$15,000,000 with a fixed rate of 5%.

The Company recognized a reduction in interest expense of \$102,966 for the year ended August 31, 2007, as a result of the fixed rate under the swap agreements being lower than the variable rate during the period. The Company recorded additional interest expense of \$73,169 for the year ended August 31, 2006, as a result of the fixed rate under the swap agreements being higher than the variable rate during the period. The Company does not consider the fair value of the swap to be material for the years ended August 31, 2007 and 2006, respectively; therefore, no adjustment were made to the carrying amounts of the derivative as of August 31, 2007 and 2006, respectively.

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments are cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The recorded value of long-term debt approximates the fair value, as stated interest rates approximate market rates.

**TRIPLE-S STEEL SUPPLY CO.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006 AND 2005

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006 AND 2005

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	2
Consolidated Balance Sheets.....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Stockholders' Equity.....	5
Consolidated Statements of Cash Flows.....	6-7
Notes to Consolidated Financial Statements.....	8-17

Independent Auditors' Report

To the Board of Directors
Triple-S Steel Supply Co. and Subsidiaries
Houston, Texas

We have audited the accompanying consolidated balance sheets of Triple-S Steel Supply Co. and Subsidiaries as of August 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Triple-S Steel Supply Co. and Subsidiaries as of August 31, 2006 and 2005, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Houston, Texas
November 3, 2006

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>August 31,</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,507,384	\$ 2,527,152
Accounts receivable, net of allowance for doubtful accounts of \$652,624 and \$306,786 in 2006 and 2005, respectively	71,186,735	48,218,661
Inventory, net	87,125,526	59,280,740
Deferred income taxes	1,433,143	906,135
Prepaid expenses	467,046	700,516
TOTAL CURRENT ASSETS	<u>165,719,834</u>	<u>111,633,204</u>
PROPERTY, PLANT AND EQUIPMENT, net	25,477,220	26,891,263
NOTES RECEIVABLE	2,309,178	1,673,761
GOODWILL	1,500,000	1,500,000
OTHER ASSETS	<u>1,593,988</u>	<u>2,303,129</u>
TOTAL ASSETS	<u>\$ 196,600,220</u>	<u>\$ 144,001,357</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,973,749	\$ 1,284,790
Accounts payable	25,558,997	19,442,025
Accrued expenses	29,737,699	14,610,333
Customer deposits	1,726,669	3,937,851
Dividends payable	110,250	116,154
TOTAL CURRENT LIABILITIES	<u>59,107,364</u>	<u>39,391,153</u>
LONG-TERM DEBT, less current maturities	58,009,208	51,911,076
DEFERRED INCOME TAXES	<u>1,090,800</u>	<u>1,210,422</u>
TOTAL LIABILITIES	118,207,372	92,512,651
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, \$10 par value, 100,000 shares authorized, 4,920 shares issued and outstanding	49,200	49,200
Common stock, \$.10 par value, 1,000,000 shares authorized, 4,410 shares issued and outstanding	441	441
Retained earnings	<u>78,343,207</u>	<u>51,439,065</u>
TOTAL STOCKHOLDERS' EQUITY	<u>78,392,848</u>	<u>51,488,706</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 196,600,220</u>	<u>\$ 144,001,357</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended August 31,	
	2006	2005
SALES, net	\$ 458,898,180	\$ 333,885,041
COST OF GOODS SOLD	<u>358,762,176</u>	<u>270,493,434</u>
GROSS PROFIT	100,136,004	63,391,607
GENERAL AND ADMINISTRATIVE EXPENSES	<u>55,220,907</u>	<u>43,849,950</u>
INCOME FROM OPERATIONS	44,915,097	19,541,657
OTHER INCOME (EXPENSE)		
Interest expense	(3,252,076)	(2,192,350)
Interest income	187,613	95,689
Other income (expense)	(14,325)	124,079
Gain on securities	-	134,174
TOTAL OTHER EXPENSE	<u>(3,078,788)</u>	<u>(1,838,408)</u>
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	41,836,309	17,703,249
INCOME TAX EXPENSE (BENEFIT)		
Current federal	15,048,696	7,177,226
Current state	413,947	194,086
Deferred federal	(646,630)	(649,747)
TOTAL INCOME TAX EXPENSE	<u>14,816,013</u>	<u>6,721,565</u>
NET INCOME	<u>\$ 27,020,296</u>	<u>\$ 10,981,684</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED AUGUST 31, 2006 AND 2005

	Convertible Preferred Stock		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount			
Balance, September 1, 2004	4,920	\$ 49,200	4,410	\$ 441	\$ 40,573,535	\$ 86,688	\$ 40,709,864
Dividends on preferred stock	-	-	-	-	(5,904)	-	(5,904)
Dividends on common stock	-	-	-	-	(110,250)	-	(110,250)
Comprehensive income:							
Net income					10,981,684	-	10,981,684
Unrealized loss on securities, net of tax benefit of \$44,657					-	(86,688)	(86,688)
Total comprehensive income					-	-	10,894,996
Balance, August 31, 2005	4,920	49,200	4,410	441	51,439,065	-	51,488,706
Dividends on preferred stock	-	-	-	-	(5,904)	-	(5,904)
Dividends on common stock	-	-	-	-	(110,250)	-	(110,250)
Comprehensive income:							
Net income					27,020,296	-	27,020,296
Total comprehensive income					-	-	27,020,296
Balance, August 31, 2006	4,920	\$ 49,200	4,410	\$ 441	\$ 78,343,207	\$ -	\$ 78,392,848

See notes to consolidated financial statements.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended August 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 27,020,296	\$ 10,981,684
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,100,798	2,780,157
Loss (gain) on sale of property and equipment	(1,089,149)	4,399
Realized gain on available-for-sale securities sold and contributed	-	(134,174)
Deferred income tax benefit	(646,630)	(649,747)
Change in LIFO reserve	5,988,878	5,740,193
Provision for bad debts	632,253	424,248
Write-off of notes receivable	-	6,553
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable, net	(23,350,327)	(10,351,832)
Inventory	(33,833,664)	(19,209,862)
Prepaid expenses	233,470	(81,229)
Other assets	459,141	(57,213)
Accounts payable	6,116,972	2,696,513
Accrued expenses	15,127,366	3,882,999
Customer deposits	(2,211,182)	3,937,851
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,451,778)</u>	<u>(29,460)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	186,092	1,335,466
Additions to notes receivable	(821,509)	(23,321)
Proceeds from the sale of property and equipment	2,462,413	11,951
Proceeds from sale of available-for-sale securities	-	457,119
Purchase of property and equipment, net of effects of business combination	(3,060,019)	(3,091,909)
Net cash paid for acquisition of business	-	(1,500,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,233,023)</u>	<u>(2,810,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term obligations	(16,379,559)	(21,597,441)
Net borrowings under long-term obligations	23,166,650	23,000,000
Payment of dividends	(122,058)	(116,154)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>6,665,033</u>	<u>1,286,405</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,980,232	(1,553,749)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,527,152</u>	<u>4,080,901</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,507,384</u>	<u>\$ 2,527,152</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Year Ended August 31,</u>	
	<u>2006</u>	<u>2005</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 3,261,440</u>	<u>\$ 1,949,618</u>
Income taxes	<u>\$ 11,760,000</u>	<u>\$ 7,600,000</u>
 NON-CASH INVESTING AND FINANCING ACTIVITIES		
Investment in affiliate converted to accounts receivable	<u>\$ 250,000</u>	<u>\$ -</u>
Property and equipment acquired through debt	<u>\$ -</u>	<u>\$ 2,750,000</u>
Debt assumed and issued with business acquisition	<u>\$ -</u>	<u>\$ 19,072,973</u>
Cash surrender value of life insurance converted to note receivables - stockholder	<u>\$ -</u>	<u>\$ 587,659</u>
Employee advances converted to notes receivable	<u>\$ -</u>	<u>\$ 284,550</u>

See notes to consolidated financial statements.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006 AND 2005

NOTE A - ORGANIZATION AND NATURE OF BUSINESS

Triple-S Steel Supply Co. and its subsidiaries (the "Company") are primarily engaged in the sale of steel and other industrial products, and the rental of real estate. The Company was established in 1960 and incorporated in 1978. Corporate offices are in Houston, Texas, with sales offices and distribution centers in Houston and San Antonio, Texas, Knoxville, Tennessee, Denver, Colorado and Lehi, Utah.

During 2005, the Company acquired certain assets and assumed certain liabilities from R&S Steel, Inc. Additionally, during 2006, the Company sold all the assets of Holmes Road Venture I, L.P. and distributed the proceeds as a charitable contribution. See Note C for further discussion of these transactions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Triple-S Steel Supply Co. and its subsidiaries and commonly-controlled companies, including those consolidated under FIN 46 (Fin 46R), *Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51*. All significant intercompany accounts have been eliminated upon consolidation.

Revenue Recognition: Revenue from product sales is recognized upon shipment of merchandise to customer. Revenue from rental real estate is recognized at the time services are rendered. Rent received in advance is deferred until earned.

Cash and Cash Equivalents: The Company includes cash equivalents as cash in the consolidated financial statements. The Company considers all highly liquid instruments with original maturities of three months or less from the date of purchase to be cash equivalents.

Concentrations of Credit Risk: The Company maintains its cash and cash equivalents in financial institutions, which at times, may exceed federally insured limits. The Company monitors the financial condition of these financial institutions and has not experienced any losses associated with these accounts.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is maintained at an adequate level to absorb losses in the Company's accounts receivable. Management of the Company continually monitors the accounts receivable from its customers for any collectibility issues. An allowance for doubtful accounts is established based on reviews of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. Provisions for bad debts and recoveries on accounts previously charged-off are added to the allowance. All accounts outstanding more than 30 days are considered past due.

Inventory: Inventory, primarily consisting of raw materials for sale, is stated at the lower of last-in, first-out (LIFO) cost or market. Inventory would have been higher by approximately \$28,859,000 and \$22,870,000 in 2006 and 2005, respectively, had the first-in, first-out (FIFO) method of inventory valuation been used. Additionally, net income (net of applicable income taxes) would have been higher by approximately \$3,950,000 and \$3,800,000 for the years ended August 31, 2006 and 2005, respectively, had the FIFO method of inventory valuation been used.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using accelerated and straight-line methods over the estimated useful lives of the various assets, ranging from 3 to 39 years.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the assets. In such case, the impairment loss could be equal to the amount by which the carrying value exceeds fair market value of the related asset.

Goodwill: Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. The Company applies the provisions of Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and other Intangible Assets" in accounting and reporting for goodwill and other intangible assets. Under SFAS No. 142, goodwill and other intangible assets with indefinite useful lives are tested for impairment annually. The Company performed its impairment test for goodwill and determined that there was no impairment loss related to the net carrying value of recorded goodwill. The Company intends to reevaluate goodwill on an annual basis, or when events or circumstances indicate an impairment test is necessary.

Securities: At the date of purchase, the Company classifies debt and equity securities into one of three categories: held-to-maturity, trading, or available-for-sale. At each reporting date, the appropriateness of the classification is reassessed. Investments in debt securities are classified as held-to-maturity and measured at amortized cost in the consolidated financial statements only if management has the positive intent and ability to hold those securities to maturity. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and measured at fair value in the consolidated financial statements with unrealized gains and losses included in earnings. Investments not classified as either held-to-maturity or trading are classified as available-for-sale and measured at fair value in the consolidated financial statements with unrealized gains and losses reported, net of tax, as a component of accumulated other comprehensive income.

Gains and losses on the sale of securities are determined using the specific-identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their carrying value that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Realized gains from sales and contributions of equity securities totaled \$134,174 for the year ended August 31, 2005.

Income Taxes: Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. A valuation allowance on deferred tax assets is recognized if the Company believes it is more likely than not that such assets will not be recoverable.

Deferred taxes result primarily from the use of accelerated methods of depreciation, capitalization of additional inventory costs, valuation of inventory at the lower of cost or market, and purchase price adjustments on LIFO inventory and goodwill recognized in a business combination.

Comprehensive Income: Comprehensive income includes net income plus other comprehensive income. The Company's only component of other comprehensive income is the unrealized gain or loss on securities. The Company's cumulative gains (losses) are characterized as accumulated other comprehensive gain (loss).

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006 AND 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Acquisition Costs: Loan acquisition costs are amortized over the term of the related debt and are included in other non-current assets in the accompanying consolidated balance sheets. Loan acquisition costs, net of related amortization, total approximately \$142,000 and \$173,000 at August 31, 2006 and 2005, respectively.

The following is a summary of future minimum amortization expense:

<u>Year Ending August 31,</u>	
2007	\$ 33,000
2008	33,000
2009	33,000
2010	25,000
2011	<u>18,000</u>
	<u>\$ 142,000</u>

Derivative Financial Instruments: Financial derivatives are used as part of the Company's overall risk management strategy. These instruments are used to manage risk related to changes in interest rates. The portfolio of derivative financial instruments consists of an interest rate swap agreement. The interest rate swap agreement is used to modify a variable rate obligation to a fixed rate obligation, thereby reducing the exposure to higher interest rates. Amounts paid or received under the interest rate swap agreement are accrued as interest rates change with the offset recorded in interest expense. The Company's interest rate swap has not been designated as a hedging instrument; therefore, changes in fair value are recognized in current earnings.

Vendor rebates: The Company enters into agreements with certain vendors providing for inventory purchase rebates. The Company records vendor purchase rebates when realized as a reduction of cost of sales, as prescribed by Emerging Issues Task Force (EITF) Issue No. 02-16, *Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor*.

Shipping and Handling Fees and Costs: Shipping and handling fees, if billed to customers, are included in net sales. Shipping and handling cost are classified as cost of sales.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2006 AND 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain amounts in the Company's 2005 consolidated financial statements have been reclassified to conform to the 2006 presentations.

Investments in unconsolidated affiliates: The Company accounts for its investment in unconsolidated affiliates by the equity method. The Company records its share of such earnings (loss) in the Consolidated Statements of Income as "Other income (expense)" and the carrying value of the Company's investment in unconsolidated affiliates is recorded in the Consolidated Balance Sheets as "Other Assets."

Investments in unconsolidated affiliates included as Other Assets are as follows:

	Ownership interest	August 31,	
		2006	2005
GBDS Investments Ltd.	1%	\$ 3,628	\$ (11,457)
Amelia St. Partners	2%	773,941	1,211,997
Liberty Works Property Co L.P.	4%	28,288	44,585
Eleven Ten Lockwood, L.P.	1%	11,426	9,174
		<u>\$ 817,283</u>	<u>\$ 1,254,299</u>

Condensed financial information for investments in unconsolidated affiliates is as follows:

	August 31,	
	2006	2005
Current assets	\$ 1,446,936	\$ 821,230
Net property and equipment	6,165,103	7,810,761
Noncurrent assets	16,175	46,215
Current liabilities	2,382,961	2,708,510
Long-term liabilities	179,824	1,185,629
Equity	5,065,429	4,784,067
	Year Ended August 31,	
	2006	2005
Revenues	\$ 2,703,378	\$ 2,924,852
Operating expenses	1,392,540	1,070,424
Net income	1,310,838	1,854,428

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2006 AND 2005

NOTE C - BUSINESS ACQUISITION AND DISPOSITION

On November 1, 2004, the Company completed the purchase of certain assets and assumption of certain liabilities of R&S Steel ("R&S") for approximately \$20,500,000. The results of R&S' operations have been included in the financial statements since that date. The purchased assets include accounts receivable, inventory and other capital assets located in Denver, Colorado and Salt Lake City, Utah.

The following table summarizes the approximated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Accounts receivable	\$ 9,640,000
Inventory	12,300,000
Property, plant and equipment	640,000
Other capital assets	390,000
Goodwill	1,500,000
Current liabilities	(3,900,000)
Long-term debt	<u>(14,570,000)</u>
Net assets acquired	<u>\$ 6,000,000</u>

On October 24, 2005, the Company sold all the assets of Holmes Road Venture I, L.P. held by the Company's wholly-owned subsidiary, Triple-S Holding LLC, for \$505,000 and then distributed the sale proceeds, net of expenses, to an unrelated charitable organization as a charitable contribution in the amount of approximately \$482,000.

NOTE D - NOTES RECEIVABLE

Notes receivable consist of the following:

	<u>August 31,</u>	
	<u>2006</u>	<u>2005</u>
Notes receivable from stockholders, interest ranging from 1.21% to 6%; interest due August 31 of each year and principal due through August 2008; unsecured.	\$ 1,530,581	\$ 936,179
Other notes receivable (including from stockholders)	<u>778,597</u>	<u>737,582</u>
	<u>\$ 2,309,178</u>	<u>\$ 1,673,761</u>

All notes receivable have been included as long-term assets on the accompanying consolidated balance sheets due to the fact that the Company intends to allow the borrower to extend the notes on a long-term basis when they become due, if requested. Interest earned from related party notes in 2006 and 2005 totaled approximately \$92,000 and \$36,000, respectively.

During 2005, the Company terminated their split dollar life insurance agreement. Under this termination, the cash surrender value became a note receivable with stockholders.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2006 AND 2005

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	August 31,	
	2006	2005
Land	\$ 2,785,084	\$ 3,140,141
Buildings and leasehold improvements	20,625,930	20,976,146
Transportation equipment	1,485,327	953,801
Furniture and fixtures	3,653,977	3,512,563
Machinery and equipment	11,390,512	10,301,957
Equipment under capital leases	359,700	359,700
	<u>40,300,530</u>	<u>39,244,308</u>
Less: accumulated depreciation	14,908,175	12,577,318
	<u>25,392,355</u>	<u>26,666,990</u>
Construction in progress	84,865	224,273
	<u>\$ 25,477,220</u>	<u>\$ 26,891,263</u>

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following:

	August 31,	
	2006	2005
\$45,000,000 line of credit from a bank, with interest payable monthly at the lower of the prime rate or a LIBOR based rate at the date of draw, maturing October 31, 2007, collateralized by inventory, accounts receivable and a personal guaranty of a stockholder.	\$ 38,000,000	\$ 31,300,000
Note payable to a bank, with interest payable monthly at LIBOR plus 1.25%, principal payable quarterly in installments of \$200,000, maturing June 2015, collateralized by certain real estate.	15,600,000	16,000,000
Note payable to a financing company payable in monthly installments of \$33,664 including interest at 7.55%, maturing August 2016, collateralized by land and buildings in Houston, Texas.	2,829,812	3,012,572
Note payable to a financing company, payable in monthly installments of \$20,813 including interest at LIBOR plus 2.5%, maturing September 2019, collateralized by land and buildings in Houston, Texas.	2,546,495	2,668,690

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2006 AND 2005

NOTE F - LONG-TERM DEBT (Continued)

	August 31,	
	2006	2005
Note payable to a bank in quarterly principal installments of \$25,000 plus interest at 8.1%, maturing January 2007, unsecured.	50,000	150,000
Note payable to an officer payable in quarterly installments \$110,000 including interest at LIBOR plus 1.5%, maturing September 2008, unsecured.	956,650	-
Note payable to a financing company, payable in monthly installments of \$10,972 including interest at 6.50%, maturing February 2006, collateralized by equipment.	-	64,604
	<u>59,982,957</u>	<u>53,195,866</u>
Less: current maturities	<u>1,973,749</u>	<u>1,284,790</u>
	<u>\$ 58,009,208</u>	<u>\$ 51,911,076</u>

Certain of the Company's debt arrangements contain various restrictive covenants, including the maintenance of certain financial ratios. As of August 31, 2006, the Company was in compliance with these financial covenants.

Interest incurred in related party debt totaled \$70,259 during the year ended August 31, 2006.

The following are maturities of long-term debt:

Year Ending August 31,	
2007	\$ 1,973,749
2008	39,546,190
2009	1,207,056
2010	1,156,538
2011	1,184,736
Thereafter	<u>14,914,688</u>
	<u>\$ 59,982,957</u>

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2006 AND 2005

NOTE G - RELATED PARTY TRANSACTIONS

The Company leases land from a stockholder under an operating lease renewable annually. Rents were \$36,400 and \$37,100 for the years ended August 31, 2006 and 2005, respectively. Purchases from companies affiliated through ownership of the Company were \$1,840,264 and \$1,678,332 for 2006 and 2005, respectively. Sales to affiliated companies were \$2,174,407 and \$1,261,379 for 2006 and 2005, respectively.

Included in accounts receivable at August 31, 2006 and 2005 are \$627,471 and \$701,017, respectively, of amounts due from affiliated companies. Included in accounts payable at August 31, 2006 are \$268,132, of amounts due to affiliated companies. At August 31, 2005, there were no amounts due to affiliated companies.

NOTE H - BENEFIT PLANS

The Company has a 401(k) tax deferred savings plan (the Plan) covering all employees, subject to certain age and service requirements. Under the Plan, a participating employee may allocate up to 10% of the employee's salary, and the Company, at its discretion, may make matching contributions of up to 6% thereof. Additionally, the Company may elect to make additional discretionary contributions. Such additional contributions accrue to employee accounts regardless of whether they have elected to participate in the salary deferral option of the Plan. The Company contributed approximately \$2,330,000 and \$1,600,000 to the Plan for the fiscal years ended August 31, 2006 and 2005, respectively.

NOTE I - OPERATING LEASES

The Company has operating leases covering various equipment. Rent expense charged to operations for the years ended August 31, 2006 and 2005 was \$3,013,464 and \$2,008,450, respectively. Minimum rental payments under operating leases for the five years following August 31, 2006 are as follows:

<u>Year Ending August 31,</u>	
2007	\$ 1,917,784
2008	1,351,213
2009	1,187,959
2010	1,026,394
2011	1,002,748
Thereafter	<u>2,661,556</u>
	<u>\$ 9,147,654</u>

NOTE J - CONVERTIBLE PREFERRED STOCK

Dividends on the 12% convertible preferred stock are non-cumulative. The stock is convertible at anytime into common stock equal in value to \$100 per share of preferred stock. The Company, at anytime with the consent of or upon the death of the shareholder, may redeem the preferred stock at \$100 per share. The preferred stock may be put to the Company at \$100 per share at anytime following the failure of the Company to pay dividends.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2006 AND 2005

NOTE K - PROPERTY HELD FOR LEASE

The Company is the lessor of certain property under operating leases. Rental income related to the leases was \$54,000 for the year ended August 31, 2005, and is included in other income in the accompanying consolidated income statements. During 2006, the Company sold all property classified as held for lease.

Following is a summary of property held for lease at August 31, 2005:

Land	\$	117,500
Buildings and improvements		247,500
		<u>365,000</u>
Less: accumulated depreciation		<u>(35,695)</u>
	\$	<u>329,305</u>

NOTE L - INCOME TAXES

Deferred income taxes result primarily from the following:

	August 31,	
	2006	2005
Deferred tax assets (liabilities) (current):		
Allowance for doubtful accounts	\$ 228,418	\$ 107,375
LIFO	115,623	42,232
Section 263A cost adjustment	800,345	484,823
Accrued expenses	278,153	271,705
Other	10,604	-
	<u>1,433,143</u>	<u>906,135</u>
Valuation allowance for deferred tax assets	-	-
Deferred tax assets (current)	<u>\$ 1,433,143</u>	<u>\$ 906,135</u>
Deferred tax assets (liabilities) (long-term):		
Property and equipment	\$ (1,138,222)	\$ (1,218,611)
Intangible assets	51,727	52,680
Other, net	<u>(4,305)</u>	<u>(44,491)</u>
Deferred tax liability (long-term)	<u>\$ (1,090,800)</u>	<u>\$ (1,210,422)</u>

The Company believes it is more likely than not that deferred tax assets will be realized and accordingly, a valuation allowance for such assets has not been recognized.

TRIPLE-S STEEL SUPPLY CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006 AND 2005

NOTE M - DERIVATIVE FINANCIAL INSTRUMENTS

During fiscal years 2006 and 2005, in connection with certain long-term debt, the Company entered into interest rate swap agreements to manage exposure to fluctuations in interest rates on a portion on a loan balance.

Under the interest rate swap agreements related to a note payable, the Company has exchanged variable rate interest on a portion of the loan, equal to a notional amount of \$15,000,000 with a fixed rate of 5% at August 31, 2006 and 2005.

The Company recorded additional interest expense of \$73,169 and \$39,638 for the years ended August 31, 2006 and 2005, respectively, as a result of the fixed rate under the swap agreements being higher than the variable rate during the period. The Company does not consider the fair value of the swap to be material as of August 31, 2006; therefore, no adjustment was made to the carrying amount of the derivative as of August 31, 2006. At August 31, 2005, the Company recorded an accrued liability of \$39,638 to adjust the carrying amount of the derivative to its fair value.

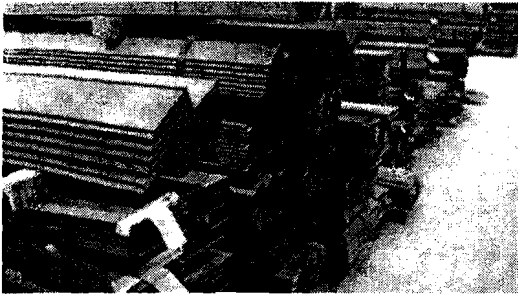
NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments are cash and cash equivalents, accounts receivable, equity securities, accounts payable and long-term debt. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The recorded value of equity securities approximates fair value based on the fact that they are classified as available-for-sale. Fair value of equity securities is determined based on quoted market prices. The recorded value of long-term debt approximates the fair value, as interest approximates market rates.

NOTE O - SUBSEQUENT EVENTS

On October 18, 2006, the Company acquired an Astra SPX aircraft for approximately \$7,000,000. Simultaneous with this purchase, the Company amended their credit facility. Major changes to the agreement included increasing the line of credit \$7,000,000 and extending the maturity date to October 26, 2009. Additionally, the Company subsequently replaced the line of credit increase with new long-term debt.

On October 30, 2006, the Company acquired substantially all of the assets of Alta Industries, Ltd. for approximately \$19,000,000. The transaction was recorded as a business combination in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. At the time of this purchase, the Company further amended their credit facility which included an increase to the line of credit of \$35,000,000. Additionally, various financial covenants under the line of credit were amended.



ATTACHMENT A

A 45-Year History of Service to the Metal Fabricator

The Company Formed

Triple-S Steel Supply began as a small new and used steel distribution yard by Bruce Stein. His family's roots were already deeply planted in the metals business by his father Johnny Stein and his scrap metal company Dixie Iron and Metal Co. which was formed in 1932. With the help of his wife Shirley and a handful of great employees, the company became the place for metal users to go in Houston. From Dixie Iron and metal Triple S Steel was formed in 1960.

First Warehouse, Houston, Texas - North

Triple-S completed its first 20,000 sq. ft. warehouse after relocating to larger property in 1978. The first sales office and showroom was completed in 1983 along with a warehouse expansion to double the size. The 3rd generation joined the company full time in 1983 adding 3 brothers to lead the company into the future. The fabrication and ornamental supply division was created in 1983 to supply the market with additional products and services.

San Antonio, Texas

The first location outside of Houston, Texas was opened in San Antonio, Texas. The San Antonio market was so receptive, that a new facility was built just two blocks away in less than 3 years time.

Major Expansion, Houston, Texas - North

An additional 100,000 sq. ft. of steel storage was added in to the Houston facility in 1995. A new hardware warehouse and administration building was completed in 2001.

Houston, Texas - South

A second Houston location was opened in 1998. This facility is home of the metal building components division. A new and modern facility was built and opened in 2002 giving South Houston a large inventory with a full compliment of services.

Knoxville, Tennessee

The Knoxville operation was acquired in 1998. It serves Knoxville and the surrounding area with a full line of structural steel. Shearing, cutting, and other processing services are also available from this facility.

Intsel Steel Distributors, Houston, Texas

Triple-S acquired the Houston and San Antonio divisions of this metals distribution icon in 2002. The combination of Intsel and Triple-S is unique in the industry as it can service all facets of the steel consuming community both large and small.

San Antonio, Texas

After years of planning, a new facility was completed at Kelly USA in San Antonio. The new facility houses the joint operations of Triple-S Steel and Intsel Steel Distributors. This modern facility contains over 200,000 sq ft of steel storage with 9 overhead cranes & a full showroom of fabrication accessories.

R & S Steel Supply – Steelco - Salt Lake City, UT

Triple-S expanded west with the acquisition of R & S Steel and Steelco operations in Denver and Salt Lake City/Lehi. R & S is a key supplier of carbon steel tubing and wide flange beam to the Western U.S. markets. Steelco is a major fabricator of steel plate, sheet, bar, coil, beams, tubing, and pipe. These products are saw cut, rolled and formed, flame cut, sheared, levelled, slit and/or bent to customer specifications.

