

**SCHUFF INTERNATIONAL, INC.
AND SUBSIDIARIES**

ANNUAL REPORT

FOR THE YEAR ENDED JANUARY 4, 2009

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheet of Schuff International, Inc. and Subsidiaries as of January 4, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Schuff International, Inc. and subsidiaries as of and for the year ended December 31, 2007, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 13, 2008.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Schuff International, Inc. and Subsidiaries as of January 4, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Phoenix, Arizona
March 13, 2009

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	January 4 2009	December 31 2007
	<i>(in thousands, except for share data)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,985	\$ 38,979
Restricted cash	912	140
Receivables (Note 2 and 14)	148,848	158,849
Income tax receivable (Note 8)	140	-
Costs and recognized earnings in excess of billings on uncompleted contracts (Note 2)	30,015	18,091
Inventories (Note 3)	23,403	21,201
Deferred tax asset (Note 8)	1,142	711
Prepaid expenses and other current assets	1,428	1,356
Total current assets	245,873	239,327
Property, plant and equipment, net (Note 4)	55,012	35,299
Goodwill	17,115	17,115
Other assets	5,228	5,295
	\$ 323,228	\$ 297,036
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable (Note 5)	\$ 35,857	\$ 47,458
Accrued payroll and employee benefits	6,617	12,845
Accrued interest	124	435
Income tax payable (Note 8)	-	7,590
Other current liabilities (Note 6)	7,357	7,766
Billings in excess of costs and recognized earnings on uncompleted contracts (Note 2)	51,406	49,342
Current portion of long-term debt (Note 7)	7,440	3,605
Total current liabilities	108,801	129,041
Long-term debt (Note 7)	39,337	48,262
Deferred tax liability (Note 8)	3,119	2,257
Other liabilities	301	318
	42,757	179,878
Commitments and Contingencies (Notes 7, 9, 11, 12 and 13)		
Stockholders' equity (Note 10):		
Preferred stock, \$.001 par value – authorized 1,000,000 shares, none issued	-	-
Common stock, \$.001 par value – 20,000,000 shares authorized, 7,534,057 and 7,533,557 shares issued, and 7,080,992 and 7,168,091 shares outstanding in 2008 and 2007, respectively	7	7
Additional paid-in capital	18,648	17,083
Retained earnings	157,991	101,676
Treasury stock-453,065 and 365,466 shares, in 2008 and 2007, respectively, at cost	(4,976)	(1,608)
Total stockholders' equity	171,670	117,158
	\$ 323,228	\$ 297,036

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended	
	January 4 2009	December 31 2007
	<i>(in thousands, except per share data)</i>	
Revenues (Note 14)	\$ 681,629	\$ 736,194
Cost of revenues	525,050	582,037
Gross profit	156,579	154,157
General and administrative expenses (Note 11)	64,767	55,843
Operating income	91,812	98,314
Interest expense	(5,033)	(7,191)
Other income	546	835
Income before income tax provision	87,325	91,958
Income tax provision (Note 8)	(31,010)	(32,084)
Net income	\$ 56,315	\$ 59,874
Income per common share: (Note 10)		
Basic	\$ 7.85	\$ 8.38
Diluted	\$ 5.88	\$ 6.24
Weighted average shares used in computation: (Note 10)		
Basic	7,176	7,143
Diluted	9,799	9,807

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	<i>(in thousands)</i>					
Balance at January 1, 2007	7,115	7	16,109	41,802	(1,111)	56,807
Net income	-	-	-	59,874	-	59,874
Issuance of common stock	4	-	33	-	-	33
Tax effect of stock-based compensation	-	-	631	-	-	631
Purchase of treasury stock	(26)	-	-	-	(699)	(699)
Issuance of treasury stock- restricted stock grant	75	-	(202)	-	202	-
Compensation expense- restricted stock grant	-	-	512	-	-	512
Balance at December 31, 2007	7,168	\$ 7	\$ 17,083	\$ 101,676	\$ (1,608)	\$117,158
Net income	-	-	-	56,315	-	56,315
Issuance of common stock	-	-	12	-	-	12
Tax effect of stock-based compensation	-	-	462	-	-	462
Purchase of treasury stock	(208)	-	-	-	(3,996)	(3,996)
Issuance of treasury stock- restricted stock grant	120	-	(628)	-	628	-
Compensation expense- restricted stock grant	-	-	1,719	-	-	1,719
Balance at January 4, 2009	7,080	\$ 7	\$18,648	\$157,991	\$ (4,976)	\$171,670

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	
	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Operating Activities		
Net income	\$ 56,315	\$ 59,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Net increase (decrease) in allowance for doubtful accounts	1,246	(10)
Depreciation and amortization	5,896	4,516
Loss from extinguishment of debt	62	77
Gain on disposals of property, plant and equipment	(29)	(14)
Deferred income taxes	431	824
Excess tax benefit of restricted stock awards	(462)	(631)
Stock awards	12	-
Compensation expense - restricted stock grant	1,719	512
Changes in working capital components:		
Restricted funds on deposit	(982)	(140)
Receivables	8,755	(32,255)
Costs and recognized earnings in excess of billings on uncompleted contracts	(11,924)	(5,225)
Inventories	(2,202)	(5,700)
Prepaid expenses and other current assets	(72)	(145)
Accounts payable	(11,601)	11,652
Accrued payroll and employee benefits	(6,228)	4,568
Accrued interest	(311)	(992)
Other current liabilities	(409)	2,637
Billings in excess of costs and recognized earnings on uncompleted contracts	2,064	9,561
Income taxes receivable/payable	(7,268)	4,132
Other liabilities	(17)	29
Net cash provided by operating activities	34,995	53,270
Investing activities		
Acquisitions of property, plant and equipment	(25,207)	(9,015)
Proceeds from disposals of property, plant and equipment	107	115
(Increase) decrease in other assets	(437)	(832)
Net cash used in investing activities	(25,537)	(9,732)
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	1,873	7,000
Principal payments on revolving line of credit and long-term debt	(6,753)	(24,935)
Proceeds from exercise of stock options and stock purchase plan	-	33
Payment of debt issuance costs	(38)	(120)
Purchase of treasury stock	(3,996)	(699)
Excess tax benefit of restricted stock awards	462	631
Net cash used in financing activities	(8,452)	(18,090)
Increase in cash and cash equivalents	1,006	25,448
Cash and cash equivalents at beginning of year	38,979	13,531
Cash and cash equivalents at end of year	\$ 39,985	\$ 38,979
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of property and equipment and assumption of IDA bonds	\$ -	\$ 4,740
See notes to consolidated financial statements.		

SCHUFF INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 4, 2009

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

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

Fiscal Year

The Company adopted a 4-4-5 week quarterly cycle in 2008 ending on the Sunday closest to December 31. Fiscal 2008 covered the period from January 1, 2008 to January 4, 2009 (hereinafter 2008).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Schuff International, Inc. and all wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Operating Cycle

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

Cash and cash equivalents

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

Receivables

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist

principally of cash investments and receivables. The Company maintains cash and cash equivalents and certain other financial instruments with a large financial institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. Concentrations of credit risk with respect to receivables are limited as the Company's customers tend to be larger general contractors on adequately funded projects and the Company has certain lien rights.

Inventories

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

Long-Lived Assets with Definite Lives

In accordance with Financial Accounting Standards Board ("FASB") Statement of Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company continually evaluates whether events and circumstances have occurred that indicate potential impairment of long-lived assets, indicating the remaining balance of these assets may not be recoverable. When factors indicate that these assets should be evaluated for possible impairment, the Company's management uses several factors to measure impairment, including the Company's projection of future operating cash flows relating to these assets. No impairment losses have been recorded by the Company.

Property, Plant and Equipment

Property, plant and equipment is stated at cost and depreciated over the estimated useful lives, which generally range from five to 30 years, of the related assets using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Amortization of leasehold improvements is included in depreciation and amortization.

Deferred Financing Costs

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

Goodwill

The Company utilizes SFAS No. 142, *Goodwill and Other Intangible Assets*, which establishes financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed at least annually for impairment.

SFAS No. 142 requires that goodwill be tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two step methodology. The initial step requires the Company to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount, if any, of the impairment would then be measured in the second step.

There were no changes in the carrying amount of goodwill for the years ended January 4, 2009 and December 31, 2007.

Revenue and Cost Recognition

The Company performs its services primarily under fixed-price contracts and recognizes revenues and costs from construction projects using the percentage of completion method. Under this method, revenue is recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of tons fabricated to date to total estimated tons. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, the Company has made an estimate of the amount that is probable of being paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

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

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

Income Per Common Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year before giving effect to stock options and convertible notes considered to be dilutive common stock equivalents. Diluted income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year after giving effect to stock options and convertible notes considered to be dilutive common stock equivalents.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized, net of any valuation allowance, for deductible temporary differences and net operating loss and tax credit carry forwards. The Company regularly evaluates the realizeability of its deferred tax assets by assessing its forecasts of future taxable income and reviewing available tax planning strategies that could be implemented to realize the deferred tax assets. Based on this evaluation, it was determined that realization of the deferred tax assets is more likely than not.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123-R). The Company adopted the provisions of SFAS 123-R in the first quarter of 2006 and selected the modified prospective method for adoption. Prior to adoption, the Company accounted for the issuance of stock options to employees using the intrinsic value method according to APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Compensation expense for restricted stock is based on the fair market value of the restricted stock on its grant date, and is expensed ratably over the vesting period.

Self-insurance

The Company is self-insured for its employees' workers' compensation claims. An estimate for claims is charged to income for claims incurred but not paid, claims incurred but not reported and for future claims from injuries existing at year-end.

Fair Value of Financial Instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires that the Company disclose estimated fair values of financial instruments. Cash and cash equivalents, receivables, accounts payable, and other accrued liabilities are carried at amounts that reasonably approximate their fair values at January 4, 2009 due to the short-term maturities of these instruments. Based on borrowing rates currently available to the Company as well as considering the variable interest rates of certain of its debt instruments, the carrying value of the Company's long-term debt also approximates fair value.

Derivative Financial Instruments

All derivative financial instruments are recognized as either assets or liabilities at their fair value in the balance sheet with the changes in the fair value reported in current-period earnings. These interest rate swaps are classified on the balance sheet as Other Current Liabilities and the change in the fair value is recorded on the income statement in Other Income. For the years ended January 4, 2009 and December 31, 2007, the Company recognized expenses of \$738,000, and \$729,000, respectively, on these instruments. See Note 7 for further information.

Use of Estimates

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

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current period classification.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for more information about (1) the extent to which companies measure assets and liabilities at fair value, (2) the information used to measure fair value and (3) the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a

recurring basis (at least annually). FSP 157-2 partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. The partial adoption of SFAS No. 157 did not have a material impact on our financial statements and disclosures.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (“SFAS No. 141(R)”). SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS 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. SFAS No. 141(R) will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date of a controlling interest; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 5, 2009. The Company expects SFAS No. 141(R) will have an impact on our accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (“SFAS No. 160”). SFAS No. 160 requires all entities to report noncontrolling (i.e. minority) interests in subsidiaries as equity in the Consolidated Financial Statements and to account for transactions between an entity and non-controlling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS No. 160 also requires expanded disclosure that distinguishes between the interests of a parent’s owners and the interests of non-controlling owners of a subsidiary. SFAS No. 160 is effective for the Company’s financial statements for the Company’s fiscal year beginning on January 5, 2009 and early adoption is not permitted. The adoption of SFAS No. 160 is not expected to have a material impact on the Company’s financial condition and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB No. 133* (“SFAS No. 161”). SFAS No. 161 requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the Company’s financial position, financial performance and cash flows. SFAS No. 161 also clarifies that derivatives are subject to credit risk disclosures as required by SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. SFAS No. 161 is effective for the Company’s fiscal year beginning January 5, 2009. The adoption of SFAS No. 161 is not expected to have a material impact the Company’s financial condition and results of operations.

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, and that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP No. APB 14-1 is not expected to materially impact the Company’s Financial Statements.

2. Receivables and Contracts in Progress

Receivables consist of the following:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Contract receivables:		
Contracts in progress	\$ 118,606	\$ 121,977
Unbilled retentions	31,287	36,847
Allowance for doubtful accounts	(1,449)	(203)
	<u>148,444</u>	<u>158,621</u>
Other receivables	404	228
	<u>\$ 148,848</u>	<u>\$ 158,849</u>

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

Costs and recognized earnings in excess of billings on uncompleted contracts and billings in excess of costs and recognized earnings on uncompleted contracts at January 4, 2009 and December 31, 2007 consist of the following:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Costs incurred on contracts in progress	\$ 661,617	\$ 769,338
Estimated earnings	134,417	125,026
	<u>796,034</u>	<u>894,364</u>
Less progress billings	817,425	925,615
	<u>\$ (21,391)</u>	<u>\$ (31,251)</u>

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

Costs and recognized earnings in excess of billings on uncompleted contracts

\$ 30,015 \$ 18,091

Billings in excess of costs and recognized earnings on uncompleted contracts

(51,406) (49,342)

\$ (21,391) \$ (31,251)

3. Inventories

Inventories consist of the following:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Raw materials	\$ 21,199	\$ 20,614
Work in process	2,074	476
Finished goods	130	111
	<u>\$ 23,403</u>	<u>\$ 21,201</u>

4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Land	\$ 10,767	\$ 4,106
Buildings	21,502	12,314
Building and leasehold improvements	9,133	8,610
Machinery and equipment	39,358	32,023
Transportation equipment	3,830	3,524
Detailing equipment	269	269
Furniture and fixtures	2,554	2,110
EDP equipment	7,709	6,322
Construction in progress	1,710	3,442
	<hr/> 96,832	<hr/> 72,720
Less accumulated depreciation and amortization	41,820	37,421
	<hr/> \$ 55,012	<hr/> \$ 35,299

Depreciation expense was \$5,416,000 and \$4,016,000 for the years ended January 4, 2009 and December 31, 2007, respectively.

5. Accounts Payable

Accounts payable consists of the following at:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Accounts payable	\$ 30,963	\$ 40,328
Retentions payable	4,894	7,130
	<hr/> \$ 35,857	<hr/> \$ 47,458

6. Other Current Liabilities

Other current liabilities consist of the following:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Sales, use and property taxes	\$ 880	\$ 2,185
Workers' compensation	4,029	4,471
Other	2,448	1,110
	<hr/> \$ 7,357	<hr/> \$ 7,766

7. Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Note payable to a bank collateralized by the Company's machinery and equipment, with interest and principal payable monthly at the bank's base rate minus 0.75 percent, with a 5-year amortization period, maturing in 2013	\$ 3,974	\$ 5,419
Note payable to a bank collateralized by the Company's real estate, with interest and principal payable monthly at the bank's base rate minus 0.75 percent, with a 9-year amortization period and one final balloon payment of \$4,300,000, maturing in 2013	8,258	11,708
Industrial development revenue bonds, with interest payable monthly at the BMA Municipal Swap Index rate plus 1.5% and principal payable annually	4,545	4,740
Subordinated convertible notes with interest-only payable semi-annually at 7.0 percent on June 30 and December 31, maturing in 2013	30,000	30,000
	<u>46,777</u>	<u>51,867</u>
Less current portion	7,440	3,605
	<u>\$ 39,337</u>	<u>\$ 48,262</u>

Aggregate debt maturities are as follows (in thousands):

2009	\$ 7,440
2010	2,895
2011	2,534
2012	1,450
2013	32,458
	<u>\$ 46,777</u>

The Company has a Credit and Security Agreement with Wells Fargo Credit, Inc. ("Wells Fargo"). On March 1, 2007, the Company amended its credit facility agreement with Wells Fargo to allow for the issuance of \$5,000,000 of industrial development revenue bonds issued by The Industrial Development Authority of Coconino County, Arizona ("IDA Bonds"). The proceeds of these bonds were used to finance part of the acquisition of the land, building and machinery and equipment relating to the Company's fabrication facility in Bellemont, Arizona. On December 2, 2008, the Company gave the required 90-day notice to the Trustee to retire the IDA Bonds. A principal payment of \$4,545,000 will be made on March 2, 2009 and is included in the current portion of long-term debt.

On December 19, 2008, the Company amended and restated its Credit and Security Agreement with Wells Fargo to increase its credit facility to \$50,000,000, increase the interest rate on the credit facility from prime minus 1.75% to prime minus 1.0%, increase the interest rate on its term loans from prime minus 1.25% to prime minus 0.75% and extend the maturity date to May 31, 2014.

The credit facility is secured by a first priority, perfected security interest in all of the Company's assets and its present and future subsidiaries. The security agreements pursuant to which the Company's assets are pledged prohibit any further pledge of such assets without the written consent of the bank. The credit facility contains various covenants.

The line of credit is primarily maintained to enable the Company to issue letters of credit to its workers compensation insurance carrier. At January 4, 2009, the Company had no borrowings and \$4,140,000 of outstanding letters of credit issued under its line of credit. There was \$45,860,000 available under the Company's line of credit at January 4, 2009.

As of January 4, 2009, the Company had outstanding interest rate swap agreements with Wells Fargo, having the following characteristics:

	Original Notional Principal	Maturity Date	Fixed Rate Paid	Variable Rate Received	Variable Rate as of 12/31/2007
Swap A	\$7,226,000	10/01/2011	7.350%	Prime – 0.75%	2.9%
Swap B	5,000,000	03/08/2017	7.265%	Prime – 0.75%	2.9%

The original notional principal amounts reduce as debt principal payments are made. Both the debt and the swap require payments be made or received on the first day of each month. As of January 4, 2009 and December 31, 2007, the aggregate fair value of the swap agreements were liabilities of approximately \$833,000 and \$729,000, respectively.

The Company made interest payments of approximately \$4,474,000, and \$7,682,000 for the years ended January 4, 2009 and December 31, 2007, respectively, on its long-term debt and line of credit.

8. Income Taxes

Deferred tax assets and liabilities are composed of the following:

	January 4, 2009		December 31, 2007	
	Current	Long-Term	Current	Long-Term
	<i>(in thousands)</i>			
Deferred tax assets:				
Compensation accrual	\$ 706	\$ –	\$ 753	\$ –
Accrued liabilities	298	–	359	–
Deferred rents payable	–	113	–	119
Stock-based compensation	141	–	142	–
Interest rate swap	312	–	273	–
Inventory writedown	–	584	–	–
Allowance for doubtful accounts	441	–	–	–
Other	1	–	77	–
	<u>1,899</u>	<u>697</u>	<u>1,604</u>	<u>119</u>
Deferred tax liabilities:				
Property, plant and equipment basis difference	–	91	–	91
Accelerated depreciation	–	3,725	–	2,285
Revenue recognition on contracts in progress	757	–	893	–
	<u>757</u>	<u>3,816</u>	<u>893</u>	<u>2,376</u>
Net deferred tax assets (liabilities)	<u>\$ 1,142</u>	<u>\$(3,119)</u>	<u>\$ 711</u>	<u>\$(2,257)</u>

Significant components of the income tax provision are as follows:

	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Current:		
Federal	\$ (28,531)	\$ (29,119)
State	(2,049)	(2,141)
	<u>(30,580)</u>	<u>(31,260)</u>
Deferred:		
Federal	(403)	(778)
State	(27)	(46)
	<u>(430)</u>	<u>(824)</u>
	<u>\$ (31,010)</u>	<u>\$ (32,084)</u>

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

	Year Ended	
	January 4 2009	December 31 2007
	<i>(in thousands)</i>	
Tax at U.S. federal statutory rates	\$ (30,564)	\$ (32,185)
State income taxes, net of federal tax benefit	(2,077)	(2,208)
Section 199 manufacturing deduction	1,737	1,857
Research & Development Credit	681	-
Other	(787)	452
	<u>\$ (31,010)</u>	<u>\$ (32,084)</u>

Total income tax payments for the years ended January 4, 2009 and December 31, 2007, were approximately \$38,410,000 and \$27,127,000, respectively. At January 4, 2009, the Company had approximately \$42,000 of state net operating loss carry-forwards remaining, which were not recognized because the Company does not anticipate utilizing them prior to the expiration.

The Company believes that its income tax filing positions and deductions related to tax periods subject to examination will be sustained upon audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48.

The Company may, from time to time, be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Company has received an assessment of interest and/or penalties, the interest has been classified as interest expense while the penalties have been classified as selling, general and administrative expense in the financial statements.

9. Employee Retirement Plans

The Company maintains a 401(k) retirement savings plan which covers eligible employees and permits participants to contribute to the plan, subject to Internal Revenue Code restrictions. The plan also permits the Company to make discretionary matching contributions. Effective January 1, 2007, the Company increased its discretionary matching contribution to 50% of the first 5% of an employee's wages contributed to the 401(k) plan. Discretionary matching contributions amounted to approximately \$774,000 and \$583,000 for the years ended January 4, 2009 and December 31, 2007, respectively.

Certain of the Company's fabrication and erection workforce are subject to collective bargaining agreements. The Company contributes to union-sponsored, multi-employer pension plans. Contributions are made in accordance with negotiated labor contracts. The passage of the Multi-Employer Pension Plan Amendments Act of 1980 (the Act) may, under certain circumstances, cause the Company to become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. As of January 4, 2009, the Company has not undertaken to terminate, withdraw, or partially withdraw from any of these plans. Under the Act, liabilities would be based upon the Company's proportionate share of each plan's unfunded vested benefits.

The Company made contributions to union sponsored pension plans of \$4,301,000 and \$6,157,000 during the years ended January 4, 2009 and December 31, 2007, respectively. On August 15, 1994, the Company and local representatives of the United Steelworkers of America reached an agreement whereby the Company became a participating employer in a multi-employer defined benefit retirement plan. Effective January 1, 2002, the Company is required to contribute 80 cents to the plan for each hour worked in the preceding month by each plan participant. The Company's funding policy is to make monthly contributions to the plan. Total cost recognized as expense was approximately \$655,000 and \$594,000 during the years ended January 4, 2009 and December 31, 2007, respectively.

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

10. Income Per Share

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

	Year Ended	
	January 4 2009	December 31 2007
	<i>(in thousands except per share data)</i>	
Numerator:		
Net income	\$ 56,315	\$ 59,874
Plus: Income impact of assumed conversions		
Interest on 7% convertible notes, net of tax	1,355	1,367
Net income plus assumed conversion	<u>\$ 57,670</u>	<u>\$ 61,241</u>
Denominator for basic income per share		
- weighted average shares	7,176	7,143
Effect of dilutive securities:		
Employee and director stock options	2	5
Unvested restricted stock grants	121	159
Convertible debt shares	2,500	2,500
Denominator for diluted income per share		
- adjusted weighted average shares and assumed conversions	<u>9,799</u>	<u>9,807</u>
Basic income per share:	<u>\$ 7.85</u>	<u>\$ 8.38</u>
Diluted income per share:	<u>\$ 5.88</u>	<u>\$ 6.24</u>

11. Stock Repurchases

In October 2008, the Company's Board of Directors approved the repurchase of up to \$3,000,000 of the Company's outstanding common stock over a 12-month period under a share repurchase program (the "Share Repurchase Program"). Pursuant to the Share Repurchase Program, the Company repurchased 165,691 shares in the open market for an aggregate cost of approximately \$2,950,000 in November 2008. No shares were repurchased in the open market during 2007.

12. Stock-Based Compensation

The Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123-R) during the first quarter of 2006. Prior to that, the Company followed the disclosure-only provisions of SFAS No. 123, as amended by SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, and, accordingly, accounted for its employee stock-based compensation plans using the intrinsic value method under APB 25, and related interpretations.

The Company elected to utilize the modified prospective method for the transition to SFAS 123-R. Under the modified prospective method, SFAS 123-R applies to all awards granted or modified after the date of adoption. In addition, under the modified prospective method, compensation expense will be recognized for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on grant-date fair values estimated in accordance with the original provisions of SFAS 123.

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

A summary of the status of the Company's nonvested shares as of January 4, 2009, and changes during the year ended January 4, 2009, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2008	360,367	\$ 14.31
Vested	(120,123)	14.31
Nonvested at January 4, 2009	<u>240,244</u>	\$ 14.31

The compensation cost that has been charged against income for the Grants was \$1,719,000 and \$512,000 for 2008 and 2007, respectively. As of January 4, 2009, there was \$3,061,000 of total unrecognized compensation cost related to nonvested Grants. That cost is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of shares vested during the years ended January 4, 2009 and December 31, 2007, was \$2,953,000 and \$1,900,000, respectively.

13. Related Party Transactions and Leases

The Company made interest payments totaling \$2,100,000 for both the years ending 2008 and 2007 relating to the subordinated convertible notes, which are held by certain stockholders.

For the years ended 2008 and 2007, the Company paid fees to certain other stockholders totaling \$795,000 and \$1,834,000, respectively, relating to their personal assets being used as collateral by the Company's performance bond surety.

The Company leases certain properties under terms of operating lease agreements from a partnership owned by related parties which includes some of the Company's stockholders. The leases expire in 2017 and require

stipulated rent increases every five years based on the Consumer Price Index. The Company is also obligated to pay the partnership any taxes related to the lease payments.

Rent expense under the related party leases totaled approximately \$1,340,000, and \$1,277,000 for the years ended January 4, 2009 and December 31, 2007, respectively.

The Company also leases certain property, vehicles, and equipment from nonrelated parties for which it incurred rent expense of approximately \$1,149,000 and \$910,000 for the years ended January 4, 2009 and December 31, 2007, respectively.

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

	Related Party	Nonrelated Party	Total
	<i>(in thousands)</i>		
2009	\$ 1,344	\$ 841	\$ 2,185
2010	1,344	814	2,158
2011	1,344	686	2,030
2012	1,344	277	1,621
2013	1,344	191	1,535
Thereafter	4,286	14	4,300
	<u>\$ 11,006</u>	<u>\$ 2,823</u>	<u>\$ 13,829</u>

14. Commitments and Contingencies

The Company is involved from time to time through the ordinary course of business in certain claims, litigation, and assessments. Due to the nature of the construction industry, the Company's employees from time to time become subject to injury, or even death, while employed by the Company. The Company does not believe there are any such contingencies at January 4, 2009 for which the eventual outcome would have a material adverse impact on the financial position, results of operations or liquidity of the Company.

The Company is self-insured for its employees' workers' compensation claims. Under provisions of the policies, the Company has purchased stop/loss insurance to mitigate its risks against catastrophic injury-related events. The stop/loss amount for workers' compensation is \$350,000 per employee per accident. At January 4, 2009 and December 31, 2007, the Company had an accrual of approximately \$4,029,000 and \$4,471,000, respectively, for workers' compensation claims incurred but not paid or reported and for future claims from injuries existing at year-end (see Note 6).

The Company has approximately \$87,260,000 of performance bonds issued on its behalf as of January 4, 2009. The performance bonds were required by various general contractors to guarantee the Company's performance on projects.

15. Segment Reporting and Significant Customers

In accordance with the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company makes key financial decisions based on certain operating results of its subsidiaries.

The Company has organized its business units into five operating segments based on the nature of each segment's type of construction activities and geographic location. These segments are Commercial-Pacific, Commercial-Southwest, Commercial-Midwest, Commercial-Southeast and Manufacturing-Other. The Commercial-Pacific, Commercial-Southwest, Commercial-Midwest and Commercial-Southeast segments offer integrated steel design-build, engineering, detailing, fabrication and erection services in their respective regions of the United States. The Manufacturing-Other segment manufactures various products for the oil, gas and petrochemical industries and short- and long-span joists and girders. The Manufacturing-Other segment's products are sold throughout the United States, but primarily in the US Sunbelt.

The accounting policies of the segments are the same as those described in Note 1. All intersegment revenues and expenses are eliminated during consolidation. Segment information as determined by the Company is as follows:

	Year Ended January 4, 2009					Total
	Commercial				Manufacturing	
	Pacific	Southwest	Midwest	Southeast	Other	
	<i>(in thousands)</i>					
Revenues from external customers	\$ 96,707	\$ 296,302	\$ 78,294	\$67,491	\$ 142,835	\$ 681,629
Revenues from other segments	–	3,468	4,802	6,333	8,655	23,258
Gross profit	20,436	71,264	13,911	14,303	36,317	156,231
Interest expense	65	3,022	215	1,265	1,916	6,483
Depreciation and amortization	101	3,025	611	816	1,343	5,896
Operating income	16,737	37,844	7,638	7,786	21,459	91,464
Goodwill	–	2,309	–	4,377	10,429	17,115
Total assets	25,287	260,005	41,307	35,982	111,232	473,813

	Year Ended December 31, 2007					Total
	Commercial				Manufacturing	
	Pacific	Southwest	Midwest	Southeast	Other	
	<i>(in thousands)</i>					
Revenues from external customers	\$ 65,379	\$ 378,686	\$105,133	\$74,934	\$ 112,062	\$ 736,194
Revenues from other segments	–	707	4,368	2,315	10,725	18,115
Gross profit	11,612	78,110	15,605	14,404	34,188	153,919
Interest expense	464	3,725	769	1,949	2,330	9,237
Depreciation and amortization	50	2,143	566	704	1,053	4,516
Operating income	9,226	48,425	11,137	7,800	21,488	98,076
Goodwill	–	2,309	–	4,377	10,429	17,115
Total assets	25,287	229,657	27,628	39,803	76,144	398,519

Reconciliation of Revenues

	2008	2007
	<i>(in thousands)</i>	
Total external revenues for reportable segments	\$ 681,629	\$ 736,194
Intersegment revenues for reportable segments	23,258	18,115
Elimination of intersegment revenues	(23,258)	(18,115)
Total consolidated revenues	\$ 681,629	\$ 736,194

Reconciliation of Gross Profit

	2008	2007
	<i>(in thousands)</i>	
Total gross profit for reportable segments	\$ 156,231	\$ 153,919
Elimination of intersegment gross profit	348	238
Total consolidated gross profit	\$ 156,579	\$ 154,157

Reconciliation of Interest Expense

	2008	2007
	<i>(in thousands)</i>	
Total interest expense for reportable segments	\$ 6,483	\$ 9,237
Elimination of intersegment interest expense	(1,450)	(2,046)
Total consolidated interest expense	\$ 5,033	\$ 7,191

Reconciliation of Operating Income

	2008	2007
	<i>(in thousands)</i>	
Total operating income for reportable segments	\$ 91,464	\$ 98,076
Elimination of intersegment operating income	348	238
Total consolidated operating income	\$ 91,812	\$ 98,314

Reconciliation of Total Assets

	2008	2007
	<i>(in thousands)</i>	
Total assets for reportable segments	\$ 473,813	\$ 398,519
Elimination of intercompany receivables	(137,783)	(88,681)
Elimination of investment in subsidiaries	(13,106)	(13,106)
Other adjustments	304	304
Total consolidated assets	<u>\$ 323,228</u>	<u>\$ 297,036</u>

The Company had revenues from one customer that totaled approximately 10% and 25% of total revenues in 2008 and 2007, respectively. In addition, receivables from this customer totaled approximately 7% and 15% of total receivables at January 4, 2009 and December 31, 2007, respectively. This customer is included in the Commercial-Southwest segment.

During the years ended January 4, 2009 and December 31, 2007, the Company's revenues included approximately \$903,000 and \$428,000, respectively, relating to projects carried out internationally for which there was approximately \$102,000 in receivables at January 4, 2009. There were no outstanding amounts in receivables relating to international projects at December 31, 2007.

16. Quarterly Results of Operations (Unaudited)

A summary of the quarterly results of operations for the years ended January 4, 2009 and December 31, 2007 follows (in thousands, except for per share amounts):

	2008			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 163,056	\$ 180,099	\$ 180,711	\$ 157,763
Gross profit	35,138	40,861	43,251	37,329
Net income	12,370	16,141	16,296	11,508
Income per share:				
Basic	\$ 1.73	\$ 2.25	\$ 2.26	\$ 1.61
Diluted	\$ 1.30	\$ 1.68	\$ 1.69	\$ 1.22
Weighted average number of shares outstanding:				
Basic	7,168	7,169	7,216	7,152
Diluted	9,801	9,815	9,857	9,734
	2007			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 132,631	\$ 195,483	\$ 217,882	\$ 190,198
Gross profit	25,841	36,198	51,966	40,152
Net income	8,211	13,803	21,757	16,103
Income per share:				
Basic	\$ 1.15	\$ 1.94	\$ 3.04	\$ 2.25
Diluted	\$ 0.87	\$ 1.44	\$ 2.25	\$ 1.68
Weighted average number of shares outstanding:				
Basic	7,116	7,120	7,168	7,168
Diluted	9,789	9,798	9,821	9,815

The 2008 and 2007 quarterly results for basic and diluted income per share, when totaled, may not equal the basic and diluted income per share for the years ended January 4, 2009 and December 31, 2007. These variances are due to rounding.

17. Backlog

The Company's backlog was \$364,011,000 (\$284,934,000 under contracts or purchase orders and \$79,077,000 under letters of intent) and \$416,554,000 (\$283,353,000 under contracts or purchase orders and \$133,201,000 under letters of intent) at January 4, 2009 and December 31, 2007, respectively. The Company's backlog can be significantly affected by the receipt, or loss, of individual contracts. Approximately \$108,990,000, representing 30% of the Company's backlog at January 4, 2009, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more large contracts are terminated or their scope reduced, the Company's backlog could decrease substantially.