

**SCHUFF INTERNATIONAL, INC.
AND SUBSIDIARIES**

ANNUAL REPORT

FOR THE YEAR ENDED JANUARY 3, 2010

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Schuff International, Inc. and Subsidiaries as of January 3, 2010 and January 4, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Schuff International, Inc. and Subsidiaries as of January 3, 2010 and January 4, 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Phoenix, Arizona
March 16, 2010

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	January 3 2010	January 4 2009
	<i>(in thousands, except for share data)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,618	\$ 39,985
Restricted cash	–	912
Receivables (Note 2 and 15)	93,239	148,848
Income tax receivable (Note 8)	1,554	140
Costs and recognized earnings in excess of billings on uncompleted contracts (Note 2)	7,966	30,015
Inventories (Note 3)	15,915	23,403
Deferred tax asset (Note 8)	2,775	1,726
Prepaid expenses and other current assets	1,263	1,428
Total current assets	170,330	246,457
Property, plant and equipment, net (Note 4)	71,406	55,012
Goodwill	17,115	17,115
Other assets	3,662	5,228
	\$ 262,513	\$ 323,812
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable (Note 5)	\$ 18,723	\$ 35,857
Accrued payroll and employee benefits	8,165	6,617
Accrued interest	84	124
Other current liabilities (Note 6)	6,823	7,357
Billings in excess of costs and recognized earnings on uncompleted contracts (Note 2)	43,571	51,406
Current portion of long-term debt (Note 7)	3,470	7,440
Total current liabilities	80,836	108,801
Long-term debt (Note 7)	10,493	39,337
Deferred tax liability (Note 8)	5,226	3,703
Other liabilities	274	301
	15,993	43,341
Commitments and Contingencies (Notes 7, 9, 11, 12, 13 and 14)		
Stockholders' equity (Note 10):		
Preferred stock, \$.001 par value – authorized 1,000,000 shares, none issued	–	–
Common stock, \$.001 par value – 20,000,000 shares authorized, 10,037,557 and 7,534,057 shares issued, and 9,655,645 and 7,080,992 shares outstanding in 2009 and 2008, respectively	10	7
Additional paid-in capital	49,205	18,648
Retained earnings	120,939	157,991
Treasury stock-381,912 and 453,065 shares, in 2009 and 2008, respectively, at cost	(4,470)	(4,976)
Total stockholders' equity	165,684	171,670
	\$ 262,513	\$ 323,812

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended	
	January 3 2010	January 4 2009
	<i>(in thousands, except per share data)</i>	
Revenues (Note 15)	\$ 420,871	\$ 681,629
Cost of revenues	325,354	525,050
Gross profit	95,517	156,579
General and administrative expenses (Note 12)	49,905	64,767
Operating income	45,612	91,812
Interest expense	(11,113)	(5,033)
Other (expense) income	(796)	546
Income before income tax provision	33,703	87,325
Income tax provision (Note 8)	(14,752)	(31,010)
Net income	\$ 18,951	\$ 56,315
Income per common share: (Note 10)		
Basic	\$ 2.52	\$ 7.85
Diluted	\$ 2.08	\$ 5.88
Weighted average shares used in computation: (Note 10)		
Basic	7,511	7,176
Diluted	9,658	9,799

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, 2008	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
Net income	-	-	-	18,951	-	18,951
Dividend	-	-	-	(56,003)	-	(56,003)
Conversion of debt to equity	2,500	3	29,997	-	-	30,000
Issuance of common stock	1	-	9	-	-	9
Exercise of options	2	-	8	-	-	8
Tax effect of stock-based compensation	-	-	166	-	-	166
Purchase of treasury stock	(48)	-	-	-	(836)	(836)
Issuance of treasury stock- restricted stock grant	120	-	(1,342)	-	1,342	-
Compensation expense- restricted stock grant	-	-	1,719	-	-	1,719
Balance at January 3, 2010	9,655	\$ 10	\$49,205	\$120,939	\$ (4,470)	\$165,684

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	
	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Operating Activities		
Net income	\$ 18,951	\$ 56,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (decrease) increase in allowance for doubtful accounts	(629)	1,246
Depreciation and amortization	7,454	5,896
Loss from extinguishment of debt	1,376	62
Loss (gain) on disposals of property, plant and equipment	60	(29)
Deferred income taxes	475	431
Excess tax benefit of restricted stock awards	166	(462)
Stock awards	6	12
Compensation expense - restricted stock grant	1,719	1,719
Changes in working capital components:		
Restricted funds on deposit	912	(982)
Receivables	56,238	8,755
Costs and recognized earnings in excess of billings on uncompleted contracts	22,049	(11,924)
Inventories	7,488	(2,202)
Prepaid expenses and other current assets	165	(72)
Accounts payable	(17,134)	(11,601)
Accrued payroll and employee benefits	1,548	(6,228)
Accrued interest	(40)	(311)
Other current liabilities	(534)	(409)
Billings in excess of costs and recognized earnings on uncompleted contracts	(7,835)	2,064
Income taxes receivable/payable	(1,248)	(7,268)
Other liabilities	(28)	(17)
Net cash provided by operating activities	91,159	34,995
Investing activities		
Acquisitions of property, plant and equipment	(18,900)	(25,207)
Proceeds from disposals of property, plant and equipment	96	107
(Increase) decrease in other assets	120	(437)
Net cash used in investing activities	(18,684)	(25,537)
Financing activities		
Proceeds from revolving line of credit and long-term borrowings	-	1,873
Principal payments on revolving line of credit and long-term debt	(7,440)	(6,753)
Dividend to shareholders	(56,003)	-
Proceeds from exercise of stock options and stock purchase plan	10	-
Payment of debt issuance costs	(407)	(38)
Purchase of treasury stock	(836)	(3,996)
Excess tax benefit of restricted stock awards	(166)	462
Net cash used in financing activities	(64,842)	(8,452)
Increase in cash and cash equivalents	7,633	1,006
Cash and cash equivalents at beginning of year	39,985	38,979
Cash and cash equivalents at end of year	\$ 47,618	\$ 39,985
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of property and equipment and assumption of debt	\$ 4,626	\$ -
Conversion of long-term debt into common stock	\$ 30,000	\$ -

See notes to consolidated financial statements.

SCHUFF INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 3, 2010 and 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 uses a 4-4-5 week quarterly cycle ending on the Sunday closest to December 31. Fiscal 2009 covered the period from January 5, 2009 to January 3, 2010 (hereinafter 2009). 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

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is determined on a straight-line basis over the estimated useful lives ranging from 5 to 20 years for buildings and improvements and 3 to 5 years for machinery and equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. When assets are sold or otherwise retired, the cost and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results. The Company periodically evaluates the carrying value of its property, plant, and equipment based upon the estimated cash flows to be generated by the related assets. If impairment is indicated, a loss is recognized.

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

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

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

combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Goodwill recorded was \$17,115,000 at both January 3, 2010 and January 4, 2009. As of November 1, 2009, the Company completed the first step impairment test for its goodwill. The fair value exceeded the related carrying value and, therefore, impairment of the related goodwill was not indicated.

There were no changes in the carrying amount of goodwill for the years ended January 3, 2010 and January 4, 2009.

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

Stock-Based Compensation

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

Self-insurance

The Company is self-insured for its 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

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the relatively short maturity of these items.

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 3, 2010 and January 4, 2009, the Company recognized income of \$365,000, and expense of \$738,000, 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

The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification™ ("Codification" or "ASC") as the single source of authoritative GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become non-

authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. GAAP is not intended to be changed as a result of the FASB's Codification project, but it will change the way the guidance is organized and presented. As a result, these changes will have a significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the Codification in this Annual Report by providing a plain English approach when describing any new or updated authoritative guidance.

In May 2009, the FASB issued general standards for the accounting and reporting of subsequent events that occur between the balance sheet date and issuance of financial statements. Issuers will be required to recognize the effects, if material, of subsequent events in the financial statements if the subsequent event provides additional evidence about conditions that existed as of the balance sheet date. The issuer must also disclose the date through which subsequent events have been evaluated and the nature of any nonrecognized subsequent events. Nonrecognized subsequent events include events that provide evidence about conditions that did not exist as of the balance sheet date, but which are of such a nature that they must be disclosed to keep the financial statements from being misleading. These new standards became effective for financial reporting periods ending after June 15, 2009. The adoption of them has had no material effect on the Company's consolidated financial statements. The Company evaluated subsequent events through March 16, 2010, the date the financial statements were available to be issued.

2. Receivables and Contracts in Progress

Receivables consist of the following:

	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Contract receivables:		
Contracts in progress	\$ 74,725	\$ 118,606
Unbilled retentions	19,029	31,287
Allowance for doubtful accounts	(820)	(1,449)
	<u>92,934</u>	<u>148,444</u>
Other receivables	305	404
	<u>\$ 93,239</u>	<u>\$ 148,848</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 3, 2010 and January 4, 2009 consist of the following:

	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Costs incurred on contracts in progress	\$ 576,357	\$ 661,617
Estimated earnings	124,395	134,417
	<u>700,752</u>	<u>796,034</u>
Less progress billings	736,357	817,425
	<u>\$ (35,605)</u>	<u>\$ (21,391)</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	\$ 7,966	\$ 30,015
Billings in excess of costs and recognized earnings on uncompleted contracts	(43,571)	(51,406)
	<u>\$ (35,605)</u>	<u>\$ (21,391)</u>

3. Inventories

Inventories consist of the following:

	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Raw materials	\$ 14,669	\$ 21,199
Work in process	1,125	2,074
Finished goods	121	130
	<u>\$ 15,915</u>	<u>\$ 23,403</u>

4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Land	\$ 20,227	\$ 10,767
Buildings	26,651	21,502
Building and leasehold improvements	9,345	9,133
Machinery and equipment	46,766	39,358
Transportation equipment	3,880	3,830
Detailing equipment	269	269
Furniture and fixtures	2,714	2,554
EDP equipment	8,633	7,709
Construction in progress	1,264	1,710
	<u>119,749</u>	<u>96,832</u>
Less accumulated depreciation and amortization	48,343	41,820
	<u>\$ 71,406</u>	<u>\$ 55,012</u>

Depreciation expense was \$6,976,000 and \$5,416,000 for the years ended January 3, 2010 and January 4, 2009, respectively.

5. Accounts Payable

Accounts payable consists of the following at:

	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Accounts payable	\$ 14,303	\$ 30,963
Retentions payable	4,420	4,894
	<u>\$ 18,723</u>	<u>\$ 35,857</u>

6. Other Current Liabilities

Other current liabilities consist of the following:

	January 3 2010	January 4 2009
	<i>(in thousands)</i>	
Sales, use and property taxes	\$ 1,571	\$ 880
Workers' compensation	3,537	4,029
Other	1,715	2,448
	<u>\$ 6,823</u>	<u>\$ 7,357</u>

7. Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	January 3 2010	January 4 2009
	<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	\$ 2,529	\$ 3,974
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 \$1,853,000, maturing in 2013	6,808	8,258
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 2014	1,126	-
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 6.5-year amortization period, maturing in 2016	3,500	-
Industrial development revenue bonds, with interest payable monthly at the BMA Municipal Swap Index rate plus 1.5% and principal payable annually	-	4,545
Subordinated convertible notes with interest-only payable semi-annually at 7.0 percent on June 30 and December 31, maturing in 2013	-	30,000
	<u>13,963</u>	<u>46,777</u>
Less current portion	3,470	7,440
	<u>\$ 10,493</u>	<u>\$ 39,337</u>

Aggregate debt maturities are as follows (in thousands):

2010	3,470
2011	3,109
2012	2,026
2013	3,033
2014	575
Thereafter	1,750
	<u>\$ 13,963</u>

The Company has a Credit and Security Agreement with Wells Fargo Credit, Inc. (“Wells Fargo”). 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. At January 3, 2010, the Company was not in compliance with some of these credit facility covenants due to its 2009 financial performance. The Company received waivers of such noncompliance from the bank dated December 31, 2009 and March 12, 2010. The Company’s covenants for fiscal year 2010 are similar to the covenants for fiscal 2009.

On December 2, 2008, the Company gave the required 90-day notice to the Trustee to retire the industrial development revenue bonds. A final principal payment of \$4,545,000 was made on March 2, 2009.

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.

On December 31, 2009, the Company amended its Credit and Security Agreement with Wells Fargo to allow for the issuance of two new notes payable totaling \$4,626,000, collateralized by its machinery and equipment and its real estate. The proceeds of these notes were used to finance part of the acquisition of the land, building and machinery and equipment relating to the Company’s new fabrication facility in Stockton, California.

The line of credit is primarily maintained to enable the Company to issue letters of credit to its workers compensation insurance carrier. At January 3, 2010, 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 3, 2010.

On November 6, 2009, the holders of the subordinated convertible notes exercised their right to convert the notes into 2,500,000 shares of common stock of the Company. In addition, the Company made a one-time cash payment of \$7,500,000 to the note holders in lieu of the interest they would have received had they continued to hold the notes to maturity, which is included in interest expense.

As of January 3, 2010, 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 1/3/2010
Swap A	\$7,226,000	10/01/2011	7.350%	Prime – 0.75%	2.5%
Swap B	5,000,000	03/08/2017	7.265%	Prime – 0.75%	2.5%

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 3, 2010 and January 4, 2009, the aggregate fair value of the swap agreements were liabilities of approximately \$467,000 and \$833,000, respectively.

The Company made interest payments of approximately \$10,671,000, and \$4,474,000 for the years ended January 3, 2010 and January 4, 2009, respectively, on its long-term debt and line of credit.

8. Income Taxes

Deferred tax assets and liabilities are composed of the following:

	January 3, 2010		January 4, 2009	
	Current	Long-Term	Current	Long-Term
	<i>(in thousands)</i>			
Deferred tax assets:				
Compensation accrual	\$ 959	\$ –	\$ 706	\$ –
Accrued liabilities	355	–	298	–
Deferred rents payable	–	104	–	113
Stock-based compensation	142	–	141	–
Interest rate swap	177	–	312	–
Inventory writedown	729	–	584	–
Allowance for doubtful accounts	309	–	441	–
Self-insurance	464	–	–	–
Other	1	–	1	–
	<u>3,136</u>	<u>104</u>	<u>2,483</u>	<u>113</u>
Deferred tax liabilities:				
Property, plant and equipment basis difference	–	91	–	91
Accelerated depreciation	–	5,219	–	3,725
Revenue recognition on contracts in progress	361	–	757	–
Other	–	20	–	–
	<u>361</u>	<u>5,330</u>	<u>757</u>	<u>3,816</u>
Net deferred tax assets (liabilities)	<u>\$ 2,775</u>	<u>\$ (5,226)</u>	<u>\$ 1,726</u>	<u>\$ (3,703)</u>

Significant components of the income tax provision are as follows:

	January 3	January 4
	2010	2009
	<i>(in thousands)</i>	
Current:		
Federal	\$ (13,169)	\$ (28,531)
State	(1,108)	(2,049)
	<u>(14,277)</u>	<u>(30,580)</u>
Deferred:		
Federal	(422)	(403)
State	(53)	(27)
	<u>(475)</u>	<u>(430)</u>
	<u>\$ (14,752)</u>	<u>\$ (31,010)</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 3 2010	January 4 2009
	<i>(in thousands)</i>	
Tax at U.S. federal statutory rates	\$ (11,796)	\$ (30,564)
State income taxes, net of federal tax benefit	(1,161)	(2,077)
Section 199 manufacturing deduction	646	1,737
Research & Development Credit	120	681
Debt conversion fee	(2,625)	-
Other	(64)	(787)
	<u>\$ (14,752)</u>	<u>\$ (31,010)</u>

Total income tax payments for the years ended January 3, 2010 and January 4, 2009, were approximately \$15,528,000 and \$38,410,000, respectively.

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

As of January 3, 2010, the Company has unrecognized tax benefits of \$2,839,000 that, if recognized, would favorably impact the Company’s effective tax rate. The Company does not anticipate a significant change in the total amount of unrecognized tax benefits during the next twelve months.

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

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

	Year Ended	
	January 3 2010	January 4 2009
Balance at beginning of year	\$ -	\$ -
Increases for tax positions taken in the current year	2,839	-
Increases for tax positions taken in prior years	-	-
Decreases for tax positions taken in prior years	-	-
Decrease for tax positions due to lapse of statutes of limitations or close of audit	-	-
Settlements	-	-
Balance at end of year	<u>\$ 2,839</u>	<u>\$ -</u>

9. Employee Retirement Plans

The Company maintains a 401(k) retirement savings plan which covers eligible employees and permits participants to contribute to the plan, subject to Internal Revenue Code restrictions. The plan also permits the Company to make discretionary matching contributions. 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 \$708,000 and \$774,000 for the years ended January 3, 2010 and January 4, 2009, 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 3, 2010, 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 \$3,221,000 and \$4,301,000 during the years ended January 3, 2010 and January 4, 2009, 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 \$648,000 and \$655,000 during the years ended January 3, 2010 and January 4, 2009, 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 3 2010	January 4 2009
	<i>(in thousands except per share data)</i>	
Numerator:		
Net income	\$ 18,951	\$ 56,315
Plus: Income impact of assumed conversions		
Interest on 7% convertible notes, net of tax	1,149	1,355
Net income plus assumed conversion	<u>\$ 20,100</u>	<u>\$ 57,670</u>
Denominator for basic income per share		
- weighted average shares	7,511	7,176
Effect of dilutive securities:		
Employee and director stock options	1	2
Unvested restricted stock grants	51	121
Convertible debt shares	2,095	2,500
Denominator for diluted income per share		
- adjusted weighted average shares and assumed conversions	<u>9,658</u>	<u>9,799</u>
Basic income per share:	<u>\$ 2.52</u>	<u>\$ 7.85</u>
Diluted income per share:	<u>\$ 2.08</u>	<u>\$ 5.88</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 12,950 shares in the open market for an aggregate cost of approximately \$193,000 in May 2009 and 165,691 shares in the open market for

an aggregate cost of approximately \$2,950,000 in November 2008. The Company also repurchased shares not in the open market in both 2009 and 2008.

12. Stock-Based Compensation

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

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

A summary of the status of the Company’s nonvested shares as of January 3, 2010, and changes during the year ended January 3, 2010, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 4, 2009	240,244	\$ 14.31
Vested	(120,122)	14.31
Nonvested at January 3, 2010	<u>120,122</u>	<u>\$ 14.31</u>

The compensation cost that has been charged against income for the Grants was \$1,719,000 for both 2009 and 2008. As of January 3, 2010, there was \$1,342,000 of total unrecognized compensation cost related to nonvested Grants. That cost is expected to be recognized over a weighted-average period of less than one year. The total fair value of shares vested during the years ended January 3, 2010 and January 4, 2009, was \$2,114,000 and \$2,953,000, respectively. The compensation cost for share-based payment awards is included in general and administrative expenses on our consolidated statements of income.

13. Related Party Transactions and Leases

The Company made interest payments totaling \$9,308,000 and \$2,100,000 for the years 2009 and 2008 relating to the subordinated convertible notes, which were held by certain stockholders.

For the years 2009 and 2008, the Company paid fees to certain other stockholders totaling \$111,000 and \$795,000, 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. In December 2009, the Company purchased two of the three properties for approximately \$9,009,000 from the partnership and terminated the related leases. The remaining lease expires in 2017 and requires stipulated rent increases every five years based on the Consumer Price Index. The Company is also obligated to pay the partnership any taxes related to the lease payments.

Rent expense under the related party leases totaled approximately \$1,323,000 and \$1,340,000 for the years ended January 3, 2010 and January 4, 2009, respectively.

The Company also leases certain property, vehicles, and equipment from nonrelated parties for which it incurred rent expense of approximately \$1,022,000 and \$1,149,000 for the years ended January 3, 2010 and January 4, 2009, 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>	
2010	\$ 719	\$ 731	\$ 1,450
2011	719	686	1,405
2012	719	277	996
2013	719	191	910
2014	719	14	733
Thereafter	1,557	–	1,557
	<u>\$ 5,152</u>	<u>\$ 1,899</u>	<u>\$ 7,051</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 3, 2010 for which the eventual outcome would have a material adverse impact on the financial position, results of operations or liquidity of the Company.

On February 9, 2010, the Roosevelt Irrigation District ("RID") brought suit in the United States District Court for the District Court of Arizona against Salt River Project Agricultural Improvement and Power District and over one-hundred other defendants, including our subsidiary, Schuff Steel Company ("Schuff"). RID operates one-hundred groundwater wells in western Maricopa County and contends that approximately twenty of its wells are contaminated. RID asserts recovery against the defendants under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA") for the recovery of costs incurred by RID in responding to the defendants' alleged releases or threatened releases of hazardous substances into groundwater that allegedly impact or threaten to impact. RID has submitted an Early Response Action ("ERA") to the Arizona Department of Environmental Quality ("ADEQ") and has asserted remediation costs in excess of \$60,000,000. ADEQ is currently seeking public comments on the ERA and disposition of the ERA is pending. There are numerous complex legal, technical and practical issues surround the ERA as well as this environmental suit, which is at its initial stages. Schuff has not been served with the suit yet, but intends to aggressively defend itself against any allegation that its operations contaminated the groundwater.

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 3, 2010 and January 4, 2009, the Company had an accrual of approximately \$3,537,000 and \$4,029,000, 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 \$52,098,000 of performance bonds issued on its behalf as of January 3, 2010. The performance bonds were required by various general contractors to guarantee the Company's performance on projects.

15. Significant Customers

During 2009, the Company did not have revenues from any one customer that were in excess of ten percent of total revenues. The Company had revenues from one customer that totaled approximately 10% of total revenues in 2008. In addition, receivables from this customer totaled approximately 7% of total receivables at January 4, 2009.

During the years ended January 3, 2010 and January 4, 2009, the Company's revenues included approximately \$4,160,000 and \$903,000, respectively, relating to projects carried out internationally for which there

was approximately \$15,000 and \$102,000 in receivables at January 3, 2010 and January 4, 2009, respectively.

16. Quarterly Results of Operations (Unaudited)

A summary of the quarterly results of operations for the years ended January 3, 2010 and January 4, 2009 follows (in thousands, except for per share amounts):

	2009			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 129,193	\$ 103,730	\$ 107,373	\$ 80,575
Gross profit	28,814	25,398	26,173	15,132
Net income	9,573	7,979	7,843	(6,444)
Income per share:				
Basic	\$ 1.35	\$ 1.13	\$ 1.10	\$ (0.74)
Diluted	\$ 1.03	\$ 0.86	\$ 0.85	\$ (0.65)
Weighted average number of shares outstanding:				
Basic	7,081	7,077	7,123	8,764
Diluted	9,664	9,638	9,663	9,710

	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

The 2009 and 2008 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 3, 2010 and January 4, 2009. These variances are due to rounding.

17. Backlog

The Company's backlog was \$220,469,000 (\$184,500,000 under contracts or purchase orders and \$35,969,000 under letters of intent) and \$364,011,000 (\$284,934,000 under contracts or purchase orders and \$79,077,000 under letters of intent) at January 3, 2010 and at January 4, 2009, respectively. The Company's backlog can be significantly affected by the receipt, or loss, of individual contracts. Approximately \$72,303,000, representing 32.8% of the Company's backlog at January 3, 2010, 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.