

Edgen Group Inc.
Form S-1/A
March 28, 2012

As filed with the Securities and Exchange Commission on March 27, 2012

Registration No. 333-178790

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Amendment No. 3 to
Form S-1
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

EDGEN GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of)

5051
(Primary Standard Industrial

38-3860801
(I.R.S. Employer

Edgar Filing: Edgen Group Inc. - Form S-1/A

Incorporation or Organization)

Classification Code Number)

Identification No.)

18444 Highland Road

Baton Rouge, Louisiana 70809

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Daniel J. O'Leary

Chairman, President and Chief Executive Officer

18444 Highland Road

Baton Rouge, Louisiana 70809

(225) 756-9868

(Name, address including zip code, and telephone number, including area code, of agent for service)

With copies to:

Carmen J. Romano, Esq.

Eric S. Siegel, Esq.

Dechert LLP

Cira Centre

2929 Arch Street

Philadelphia, Pennsylvania 19104

(215) 994-4000

Marc D. Jaffe, Esq.

William N. Finnegan IV, Esq.

Divakar Gupta, Esq.

Latham & Watkins LLP

811 Main Street, Suite 3700

Houston, Texas 77002

(713) 546-5400

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Edgar Filing: Edgen Group Inc. - Form S-1/A

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell the securities described herein until the registration statement related to such securities filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell the securities described herein and we are not soliciting an offer to buy such securities in any state where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 27, 2012

PRELIMINARY PROSPECTUS

Class A Common Stock

This is the initial public offering of the Class A common stock of Edgen Group Inc. We are offering _____ shares of Class A common stock. We expect the initial public offering price to be between \$ _____ and \$ _____ per share.

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. Each share of Class A common stock will be entitled to one vote per share. Each share of Class B common stock will be entitled to one vote per share and will have no economic rights. Outstanding shares of Class B common stock will represent approximately _____ % of the voting power of our outstanding capital stock following this offering, all of which will be held by entities controlled by affiliates of Jefferies Capital Partners.

Prior to this offering, there has been no public market for our Class A common stock. We have applied to list our Class A common stock on the New York Stock Exchange under the symbol EDG.

Investing in our Class A common stock involves a high degree of risk. See Risk Factors beginning on page 20 of this prospectus.

Neither the Securities and Exchange Commission nor any other regulatory body or commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to Edgen Group Inc. (before expenses)	\$	\$

We have granted the underwriters a 30-day option to purchase up to an additional _____ shares of Class A common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments, if any.

The underwriters expect to deliver the shares on or about _____, 2012.

Jefferies

Morgan Stanley
_____, 2012

Citigroup

TABLE OF CONTENTS

<u>ABOUT THIS PROSPECTUS</u>	ii
<u>SPECIAL NOTE REGARDING INDUSTRY AND MARKET DATA</u>	ii
<u>PROSPECTUS SUMMARY</u>	1
<u>THE OFFERING</u>	13
<u>SUMMARY HISTORICAL CONSOLIDATED AND UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	15
<u>RISK FACTORS</u>	20
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	39
<u>USE OF PROCEEDS</u>	40
<u>DIVIDEND POLICY</u>	41
<u>CAPITALIZATION</u>	42
<u>DILUTION</u>	44
<u>SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA</u>	46
<u>UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	48
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	61
<u>BUSINESS</u>	91
<u>THE REORGANIZATION</u>	110
<u>MANAGEMENT</u>	115
<u>EXECUTIVE COMPENSATION</u>	119
<u>PRINCIPAL STOCKHOLDERS</u>	137
<u>CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS</u>	140
<u>DESCRIPTION OF OUR CAPITAL STOCK</u>	144
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	148
<u>MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS</u>	149
<u>UNDERWRITING</u>	152
<u>LEGAL MATTERS</u>	157
<u>EXPERTS</u>	157
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	158
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1

ABOUT THIS PROSPECTUS

All information in this prospectus assumes that the underwriters do not exercise their 30-day option to purchase additional shares of Class A common stock from us, unless otherwise indicated.

You should rely only on the information contained in this prospectus, including any free writing prospectus prepared by or on behalf of us. Neither we nor the underwriters have authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus may only be used where it is legal to sell the securities described herein. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date. You should not, under any circumstances, construe the delivery of this prospectus or any sale made hereunder to imply that the information in this prospectus is correct as of any date subsequent to the date on the front cover of this prospectus.

For investors outside the U.S.: Neither we, nor any of the underwriters, have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the U.S. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the U.S.

SPECIAL NOTE REGARDING INDUSTRY AND MARKET DATA

This prospectus contains estimates regarding market data which are based on our internal estimates, independent industry publications, reports by market research firms and/or other published independent sources. In each case, we believe and act as if those estimates are accurate, reasonable and reliable but have not independently verified the accuracy of any such third party information. However, market data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market data.

PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our common stock. You should read carefully the following summary together with the rest of this prospectus, including the consolidated financial statements of our predecessor Edgen Murray II, L.P., or EM II LP, and of Bourland & Leverich Holdings LLC, or B&L, and the combined financial statements of B&L's predecessor, Bourland & Leverich Holding Company, or B&L Predecessor, and related notes to those statements, our unaudited pro forma condensed combined financial information and related notes and the section entitled Risk Factors. Some of the statements in the following summary are forward-looking statements. See Special Note Regarding Forward-looking Statements.

Edgen Group Inc., or Edgen Group, was incorporated in December 2011. Prior to the completion of this offering, Edgen Group will become the holding company for our operating subsidiaries, including the businesses of EM II LP and B&L, in a transaction we refer to as the Reorganization, and, as our new parent holding company, will serve as the issuer in this offering. See The Reorganization. We expect that the Reorganization and, in particular, the integration of B&L's business into our business, will significantly increase our size and materially change our operations. As a result, except in circumstances where the context indicates otherwise, we have described our business throughout this prospectus assuming that the Reorganization, including the integration of B&L's business into our existing business, has already occurred.

Unless we state otherwise, the Company, we, us, our and similar terms, refer to Edgen Group and, where appropriate, its direct and indirect wholly-owned subsidiaries, and assume and give effect to the Reorganization, including the integration of the businesses of EM II LP and B&L into our operations. Unless otherwise noted, when we present historical financial information in this prospectus, such financial information represents the consolidated financial statements of our predecessor, EM II LP and its consolidated subsidiaries, as well as their predecessors, or B&L Predecessor and its consolidated subsidiaries, as well as their predecessors, as applicable. When we present financial information on a pro forma basis, such financial information assumes and gives effect to the Reorganization, among other things. See Unaudited Pro Forma Condensed Combined Financial Information.

Our Company

We are a leading global distributor of specialty products to the energy sector, including steel pipe, valves, quenched and tempered and high yield heavy plate and related components. We primarily serve customers that operate in the upstream (conventional and unconventional oil and natural gas exploration, drilling and production of oil and natural gas in both onshore and offshore environments), midstream (gathering, processing, fractionation, which is the process by which the individual chemical components of oil and natural gas are separated from a single stream, transportation and storage of oil and natural gas) and downstream (refining and petrochemical applications) end-markets for oil and natural gas. We also serve power generation, civil construction and mining applications, which have a similar need for our technical expertise in specialized steel and specialty products. Based on communications with our customers, we believe customers in all of these end-markets increasingly demand the products we supply in the build-out and maintenance of infrastructure that is required when the extraction, handling and treatment of energy resources becomes more complex and technically challenging. We source and distribute from our global network of more than 800 suppliers steel components that we believe are of premium quality and are highly engineered. We have sales and distribution operations in 15 countries serving over 2,000 customers who rely on our supplier relationships, procurement ability, stocking and logistical support for the timely provision around the world of the products we supply. For the years ended December 31, 2011 and 2010, we achieved pro forma sales of \$1.7 billion and \$1.3 billion, pro forma net loss of \$2.8 million and \$62.8 million and pro forma earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$123.3 million and \$22.6 million, respectively. For the years ended December 31, 2011, 2010 and 2009 our predecessor's sales were \$911.6 million, \$627.7 million and \$773.3 million, respectively, and our predecessor's net loss was \$24.5

million, \$98.3 million and \$20.9 million, respectively. For a reconciliation of our net income to our non-GAAP measure of EBITDA, please see Summary Historical Consolidated and Unaudited Pro Forma Condensed Combined Financial Information.

Our Market

Our business is driven largely by global demand for energy, in particular by the levels of upstream, midstream and downstream oil and natural gas related activity, with over 93% of our pro forma sales during the year ended December 31, 2011 derived from customers operating within the energy sector. As demand increases for energy, our customers typically increase their capital spending on infrastructure, which results in increased demand for the specialty products we supply. We believe that capital expenditures in our end-markets have substantially increased based on our observation of significant drilling activity in unconventional resources such as oil sands and oil and natural gas shales, new onshore and offshore drilling rig construction, maintenance and expansion of oil and natural gas gathering and transmission networks and continued investment in maintenance and construction of downstream facilities, including refineries. We believe the following factors in particular will continue to support spending in the end-markets we serve, and, in turn, drive demand for the specialized steel products that we supply (although there can be no assurance that we will actually benefit from any of the following factors):

- n *Increasing global demand for energy.* It is anticipated that global energy consumption will continue to increase and that additional oil and natural gas production will be required to meet this demand. Growth in global energy consumption is being driven, in part, by the continued development and industrialization of countries not part of the Organisation for Economic Co-operation and Development, or OECD. As a supplier of specialized products to companies across the global energy supply chain, we believe we will benefit from these demand trends, as we believe such trends will spur significant investment in energy infrastructure.
- n *Continued requirement for additional oil and natural gas drilling activity.* The oil and natural gas industry is investing significantly in the development of previously underexploited resources of oil and natural gas to meet existing, and anticipated growth in, global demand for energy. In particular, the development of onshore unconventional resources, such as the U.S. shales, Canadian oil sands and Australian coalbed methane, or CBM, and global deepwater drilling activity in areas such as West Africa and offshore Brazil, have led to significant additional drilling activity. We believe that such activity will support increased demand for the products we supply and services we provide.
- n *Continued investment in oil and natural gas gathering and transmission capacity.* Many of the world's oil and natural gas-producing regions experiencing growth in drilling activity lack sufficient pipeline, processing, fractionation, treatment or storage infrastructure. We expect that as production from new oil and natural gas developments increases, additional investments in oil and natural gas gathering and transmission capacity will be required. At the same time, many existing transmission networks are aging, necessitating increased maintenance and repair. We believe that we will benefit from increased demand for many of the specialized components that are needed for the construction and maintenance of these transmission systems.
- n *Continued and expected increases in downstream refining activity.* The continued industrialization of emerging economies such as those of China and India, as well as the recovery of the global economy, is expected to result in increased demand for refined petroleum and petrochemical products. This increased demand should in turn result in increasing downstream activity and investment, particularly in the refining sector. Because these refineries require the use of products that are designed to withstand extreme temperatures and pressures and corrosive conditions, we believe that anticipated future demand from this end-market will stimulate future demand for the specialized steel products that we supply.
- n *Growing global investment in power generation capacity.* Substantial new electricity generation capacity will be required as developing economies experience rapid population growth and industrialization. Additionally, many developed economies continue to enact regulations that promote cleaner sources of energy and the retirement or refurbishment of older power generation capacity. This increased regulation tends to drive the construction of new power generation sources or capital expenditures to refurbish older power generation sources. We believe that the increased global demand for electricity and the focus on developing cleaner sources of energy will drive demand for the specialty products we supply.

- n *Increased focus on environmental and safety standards.* Many of our key markets have been subject to increased regulation relating to environmental and safety issues. As a result, owners and operators of oil and natural gas extraction, processing and transmission infrastructure are facing stricter environmental and safety regulation as they manage and build infrastructure. Future environmental and safety compliance could require the use of more specialized products and higher rates of maintenance, repair and replacement to ensure the integrity of our customers' facilities. We believe that such laws and regulations will drive greater spending on maintenance, repair and operations, or MRO, by our customers and increased demand for the specialty products we supply. Similarly, we believe heightened regulations, safety requirements and technical specifications in the civil construction and mining sectors will lead to higher project spending on products we supply to these end-markets.

Our Business

We are a distributor of our suppliers' manufactured products and earn revenue from the sales of specialty steel products to our customers, though we do not, ourselves, manufacture any products. We believe we are an important link between our customers and suppliers because of our ability to match the needs of our customers with product offerings of our suppliers. Our customers often operate in remote geographical locations and severe environments that require materials capable of meeting exacting standards for temperature, pressure, corrosion and abrasion. We deliver value to our customers around the world by providing:

- n Access to a broad range of products from multiple supplier sources;
- n Coordination and quality control of logistics, staged delivery, fabrication and additional services;
- n Understanding of supplier pricing, capacity and deliveries;
- n Ability to provide the specialized product offerings of multiple suppliers to create complete material packages;
- n On-hand inventory of specialty products to reduce our customers' need to maintain large stocks of replacement products; and
- n Capitalization necessary to manage multi-million dollar supply orders.

Many of the products we supply require specialized production to exacting technical and quality standards. We have established supply channels with a global network of suppliers to address our customers' demands. As our suppliers increasingly focus on their core production competencies rather than on sales, marketing and logistics, we are able to deliver numerous benefits to our suppliers, including:

- n Active marketing of our suppliers' product offerings to customers;
- n Knowledge of customer spending plans and material requirements;
- n Aggregation of numerous orders to create the critical volume required to make the production of a specific product economically viable;
- n Expertise and market knowledge to facilitate the development and sale of new products; and
- n Delivery of value-added services to end users, including coordination of logistics, fabrication and additional services.

Edgar Filing: Edgen Group Inc. - Form S-1/A

We believe our customers and suppliers rely on distributors as a way to reduce costs while maintaining product quality and service levels. Furthermore, we believe that the proliferation of new technologies within the upstream, midstream and downstream end-markets of the energy industry and the increased specialization of products needed to build and implement these technologies will continue to drive demand for the products we supply and services we provide. We believe we are well suited to continue to benefit from specialization by suppliers and improved internal efficiencies implemented by end users.

Our customers include engineering, procurement and construction firms, equipment fabricators, multi-national and national integrated oil and natural gas companies, independent oil and natural gas exploration and production

companies, onshore and offshore drilling contractors, oil and natural gas transmission and distribution companies, petrochemical companies, mining companies, oil sands developers, hydrocarbon, nuclear and renewable power generation companies, public utilities, civil construction contractors and municipal and transportation authorities. Our sales to these customers generally fall into the following three categories:

- n *Project.* Project orders relate to our customers' capital expenditures for various planned projects across the upstream, midstream and downstream end-markets of the energy sector, such as transmission infrastructure build-out and oil rig construction and refurbishment. For these orders, we serve as a provider of global inventory logistics, delivering high quality, technically specific products in accordance with our customers' project timelines. For many customers, we stage material and manage simultaneous product deliveries to multiple site locations. These orders tend to involve larger volumes that are delivered over longer timeframes and can lead to future MRO business. In addition, projects are often divided into different phases, and the initial project orders can also lead to subsequent project orders. Project orders constituted 35% of our pro forma sales for the year ended December 31, 2011.

- n *Drilling Program.* Drilling program orders relate to the delivery of surface casing and production tubulars for the onshore upstream market and require close consultation with our customers with regard to product specifications and delivery timing. Similar to our role in Project orders, we serve as an inventory logistics provider for our customers, delivering products in accordance with their drilling plans, often for multiple drilling rigs or site locations. We generally leverage our technical expertise to act as a liaison between customers and suppliers as they design new products that meet specific technical requirements. Drilling program orders constituted 46% of our pro forma sales for the year ended December 31, 2011.

- n *Maintenance, Repair and Operations Order Fulfillment.* MRO orders typically relate to the replacement of existing products that have reached their service limits or are being replaced due to regulatory requirements. Replacement orders are influenced by both product design and regulatory requirements. These orders tend to be consistent in nature and can be driven by customer relationships developed by fulfillment of Project orders. Often, the fulfillment of these MRO orders is critical to our customers' ongoing operations, and the prompt receipt of the required component is of significant value to them. We maintain an inventory of specialty products in order to provide timely delivery of these products from our stocking locations around the world. Fulfillment of MRO orders constituted 19% of our pro forma sales for the year ended December 31, 2011.

Our Operating Segments

After the Reorganization and this offering, we will supply specialty products through two operating segments:

Energy and Infrastructure Products, or E&I. The E&I Segment serves customers in the Americas, Europe/Middle East/Africa, or EMEA, and Asia Pacific, or APAC, regions, distributing pipe, plate, valves and related components to upstream, midstream, downstream and select power generation, civil construction and mining customers across more than 35 global locations. This operating segment provides project and MRO order fulfillment capabilities from stocking locations throughout the world. For the year ended December 31, 2011, our E&I Segment represented 54% of our pro forma sales and 48% of our pro forma EBITDA. Our E&I Segment is branded under the Edgen Murray name.

Oil Country Tubular Goods, or OCTG. The OCTG Segment is a leading provider of oil country tubular goods to the upstream conventional and unconventional onshore drilling markets in the U.S. We deliver products through nine customer sales and service locations, including our Pampa, Texas operating center, and over 50 third-party owned distribution facilities. For the year ended December 31, 2011, our OCTG Segment represented 46% of our pro forma sales and 52% of our pro forma EBITDA. Our OCTG Segment is branded under the Bourland & Leverich name.

Our Competitive Strengths

We consider the following to be our principal competitive strengths:

Broad Scale with Global Distribution Capabilities. As one of the largest global purchasers of specialty steel products for the energy infrastructure market, we use our scale to aggregate demand for the benefit of both our customers and our suppliers. We are able to secure from time to time volume pricing and production priority from our suppliers, often for specialty products for which no individual customer has enough demand to justify a timely production run, and thereby meet the specific product and delivery needs of our customers. In addition, we locate our global distribution facilities in close proximity to the major upstream, midstream and downstream energy end-markets we serve, including in the U.S., U.K., Singapore and Dubai. The benefits of our global presence include the ability to serve as a single global source of supply for our customers and participation in infrastructure investment activities in multiple regions around the world, thereby increasing our growth opportunities and reducing our relative exposure to any one geographic market.

Diversified and Stable Customer Base. We have a diversified customer base of over 2,000 active customers in more than 50 countries with operations in the upstream, midstream and downstream energy end-markets, as well as in power generation, civil construction and mining. Our top ten customers, with each of whom we have had a relationship for more than nine years, accounted for 35% of our pro forma sales for the year ended December 31, 2011, yet no single customer represented more than 9% of our pro forma sales over the same period. We believe this diversification affords us a measure of protection in the event of a downturn in any specific region or market, or from the loss of individual customers. In addition, although MRO sales vary from year to year, we tend to receive a base level of MRO sales from our large, longstanding customers, which provides additional stability to our sales during periods of limited infrastructure expansion. Consistent with common industry practice, we typically operate on a purchase order basis rather than a long-term contract basis with our customers. As a result, our customers operating on a purchase order basis may terminate their relationships with us at any time with little or no prior notice.

Strategic and Longstanding Supplier Relationships. We have longstanding relationships with leading suppliers across all of the lines of products we supply. While we are able to source almost all of the products we offer from multiple suppliers, our scale allows us to be one of the largest, if not the largest, customer to each of our key suppliers. As a large customer, we provide our suppliers with a stable and significant source of demand. In addition, our market knowledge and insight into our customers' capital expenditure plans enable us to aggregate multiple orders of a specialty product into volumes appropriate for a production run. We believe that these differentiating factors enhance our ability to obtain product allocations, timely delivery and competitive pricing on our orders from our suppliers. We believe that obtaining these same benefits from suppliers would be difficult for others, including our customers.

Focus on Premium Products. The portfolio of products we supply is composed primarily of specialty steel products and components that we believe are of premium quality and highly engineered. These types of products often are available from only a select number of suppliers, have limited production schedules and require technical expertise to sell. Our emphasis on the procurement and distribution of products that in many cases are not widely available is the foundation of our ability to deliver value to our customers.

Sophisticated Material Sourcing and Logistical Expertise. Many of our customers rely on us to source products for them, as they lack the supplier relationships, resources, volume and/or logistical capabilities to complete procurement and delivery independently or on a cost-effective basis. We believe our professionals have the expertise necessary to manage the coordinated delivery of purchased product to multiple, often remote operating sites according to specific schedules. They also have the knowledge, experience, training and technical expertise in their products to provide valuable advisory support to our customers regarding selection of the most appropriate product to meet their specific needs.

Capitalization and Cash Flow to Maintain Necessary Inventory Levels. Our size affords us the ability to maintain inventory levels necessary to meet the unexpected MRO needs of our customers in the geographies in which they operate. Based upon our past experience in the market, we believe such MRO requests are often less price sensitive than longer lead-time Project and Drilling program orders. Our scale and wherewithal to support large projects also enable us to participate in Project order proposals otherwise inaccessible to smaller competitors. Many of our regional competitors have comparatively smaller balance sheets and resources and have limited cash flow, which limits their capacity to carry the appropriate inventory levels to meet certain customers' needs.

Asset-Light Business Model. We maintain an asset-light business model to maximize our operational flexibility. Our model results in high operating leverage, as evidenced by our \$3.1 million in pro forma sales per employee for the year ended December 31, 2011. Our OCTG Segment operates one facility while leveraging the storage and transportation capabilities of over 50 third party service providers to serve customers in the U.S. Our E&I Segment serves over 1,800 global customers through over 25 distribution facilities located throughout the world. We often enter new geographic areas of energy infrastructure development in conjunction with service to existing clients and working with third party service providers. In doing so, we are able to introduce the specialty products we supply and technical expertise into new regions of high demand without the lead time or capital investment that might otherwise be needed.

Experienced and Incentivized Management Team. Our senior managers have significant industry experience, averaging over 25 years, across upstream, midstream and downstream energy end-markets in the diverse geographies we serve and in the manufacture of the products we supply. We intend to base the compensation of our senior managers, in part, on financial performance measures, which we believe will further align their interests with those of our stockholders. Following completion of this offering and as a result of the Reorganization, our management and employees would own approximately % of our Class A common stock in the aggregate, including restricted shares of our Class A common stock and assuming the exercise in full of the Exchange Rights for shares of our Class A common stock as described in The Reorganization and the pro rata distribution of those shares to the partners and members of EM II LP and B&L.

Our Business Strategies

Our goal is to be the leading distributor of specialty steel products to the global energy sector. We intend to achieve this goal through the following strategies, although there can be no guarantee that any of the following strategies will be effective:

Expand Business with Existing Customers. We strive to introduce our customers to the entire portfolio of products we supply on a global basis. Our experienced and knowledgeable sales force is trained to capture additional share of our customers' overall spending on specialty steel products. Opportunities to expand business with our customers include capitalizing on new product sales and cross-selling opportunities across all of a customer's operations in different end-markets and geographies, further penetration of existing customers' Projects, Drilling programs and MRO supply requirements and leveraging our platform to address our customers' global needs.

Grow Business in Select New and Existing Markets. We intend to exploit opportunities for profit and margin expansion within our existing core markets, as well as in new geographies and end-markets. We expect to capitalize on the increasing demand for energy in these markets by leveraging our suite of capabilities and reputation as a market leader to drive new customer acquisitions. We plan to achieve this goal in part by selectively enhancing our presence in locations where significant investments in energy infrastructure are being made. Notably, we believe the suite of specialty products that we supply positions us well to take advantage of the development of previously underexploited unconventional onshore and deepwater offshore resources. We also plan to expand our presence in new end-markets outside of oil and natural gas that are characterized by difficult operating environments and have similar demand for our technical expertise and specialty products.

We also plan to selectively expand our global footprint through our asset-light model in order to maximize our ability to meet evolving customer needs. We believe our platform is highly flexible, as we are able to rapidly address areas of new demand through the addition of satellite offices, representative offices and third party stocking facilities with minimal lead time. We use our asset-light profile to quickly adjust our geographic priorities according to changes in secular demand trends in our target markets.

Continue to Pursue Strategic Acquisitions and Investments. We intend to continue to grow our business through selective acquisitions, joint ventures and other strategic investments. We believe that our history of acquisitions and integrations demonstrates our ability to identify and capitalize on acquisition opportunities that enhance the portfolio of products we supply or our global presence, or both, which has been an important factor in the creation of the existing Edgen Group. Between 2005 and 2009, we executed five acquisitions for a total consideration of approximately \$360.0 million. These acquisitions, coupled with the consolidation of the B&L business which will occur in connection with the Reorganization, have facilitated the growth of Edgen Group from predecessor sales of \$322.3 million for the year ended 2005 to pro forma sales of \$1.7 billion for the year ended December 31, 2011. We apply a strict set of evaluation criteria to ensure that all investments are consistent with our strategic priorities. We anticipate that our investments will expand our product offering, customer base, supplier relationships, and in certain instances, our end-market exposure.

Our Challenges and Risk Factors

We face challenges and risks in operating our business and an investment in our Class A common stock involves a high degree of risk. Many factors contributing to these challenges and risks are beyond our ability to control. You should carefully consider, among other things, the following risks as well as those more fully described in the Risk Factors section beginning on page 20 of this prospectus and all of the other information set forth in this prospectus, before deciding to invest in our Class A common stock:

- n Demand for the products we supply from our customers in the global energy infrastructure market depends largely upon the availability of attractive drilling prospects, regulatory requirements and limitations, the prevailing view of future oil and natural gas prices, refinery margins and general economic conditions. Volatility in this market, and, in particular, a significant decline in oil and natural gas prices and refining margins, has in the past reduced, and could in the future reduce, the demand for the products we supply, which could cause our sales, margins, earnings and liquidity to decrease.
- n The prices we pay and charge for steel products, and the availability of steel products generally, may fluctuate due to a number of factors beyond our control. If the price of steel decreases significantly or if demand for the products we supply decreases, we may be unable to sell our inventory at the volumes or prices we expect, we may be forced to dispose of higher-cost products at reduced market prices and we may be required to write-down the value of our inventory on hand. For example, during the year ended December 31, 2009, our predecessor incurred losses of \$12.7 million due to strategic inventory liquidations and had an inventory write-down of \$22.5 million. Additionally, we may incur asset impairment charges for goodwill and other indefinite lived intangible assets, which would result in lower reported net income (or higher net losses). For instance, for the year ended December 31, 2010, our predecessor recorded a goodwill impairment charge of \$62.8 million as a result of the fair value of certain of our predecessor's reporting units falling below their carrying value. All or any of the foregoing could cause our sales, margins, earnings and liquidity and the value of our inventory to decrease.
- n Increasing regulatory and political challenges with respect to unconventional or offshore oil and natural gas resources or new drilling and extraction technologies, such as horizontal drilling and hydraulic fracturing, could result in increased costs and additional operating restrictions or delays for our customers. This could reduce demand for the products we supply, which could cause our sales, margins, earnings and liquidity to decrease.

- n A significant portion of our cash flow is required to pay interest and principal, and we may not generate sufficient cash flow from operations, or have future borrowings available, to enable us to repay our indebtedness. Upon the completion of the Reorganization and the application of the proceeds from this offering, our outstanding indebtedness will account for significant cash interest expense in 2012 and subsequent years. We intend to use a substantial portion of the proceeds from this offering to repay our existing indebtedness (including prepayment penalties), and not to expand our existing business operations. See Use of Proceeds.

- n Under each tax receivable agreement described below, we expect to pay the holders of the Exchange Rights described below 85% of any tax benefits that we realize from the exercise of the Exchange Rights, from certain other transactions that result in increases in our share of the tax basis of the assets of EDG Holdco LLC, or EDG LLC, and from our making payments under the related tax receivable agreement. We may need to incur debt to finance the payments under the tax receivable agreements. Furthermore, we could make payments in excess of our actual cash tax savings and we may be subject to additional taxes or penalties if the tax authorities later reduce or disallow the benefits to us on which the payments were based. EM II LP and B&L will not be obligated to reimburse us for payments previously made to them on account of such benefits. If the Exchange Rights were to be exercised in full and if all of the other transactions that could result in an increase in our share of the basis of EDG LLC's assets were to occur, in each case, in a hypothetical fully taxable transaction upon completion of this offering and assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize the full tax benefit of the increased depreciation and amortization of our assets, we expect that future payments to EM II LP and B&L in respect of the tax receivable agreements will aggregate \$ million and range from approximately \$ million to \$ million per year over the next 15 years.

- n We expect that our subsidiary EDG LLC will make cash distributions to EM II LP, B&L and Edgen Group pursuant to the limited liability company agreement of EDG LLC in respect of the taxable income of EDG LLC. The amount of these tax distributions may exceed the amount of taxes EDG LLC would pay if it were taxed as a corporation.

- n Our business is sensitive to economic downturns and adverse credit market conditions, which could adversely affect our business, financial condition, results of operations and liquidity.

- n Our ten largest customers account for a substantial portion of our sales and profits, and the loss of any these customers could result in materially decreased sales and profits.

- n We rely on our steel suppliers to meet the required specifications for the steel we purchase from them, and we may have unreimbursed losses arising from our suppliers' failure to meet such specifications.

- n Loss of third-party transportation providers upon which we depend or conditions negatively affecting the transportation industry could increase our costs and disrupt our operations.

- n Our global operations, in particular those in emerging markets, are subject to various risks which could have a material adverse effect on our business, results of operations and financial condition.

- n Concentration of voting power among affiliates of JCP may prevent new investors from influencing significant corporate decisions. Upon the completion of this offering, affiliates of JCP will hold approximately % of the voting power of Edgen Group.

Formation of Edgen Group and the Reorganization

Edgen Group was incorporated in December 2011 in Delaware and is the issuer in this offering. In connection with the completion of this offering:

- n Edgen Group will become our new parent holding company and EDG LLC will become our new intermediate holding company.

Edgar Filing: Edgen Group Inc. - Form S-1/A

- n EMGH Limited will become a subsidiary of Edgen Murray Corporation, or EMC.

- n EMC's ownership interest in B&L will be redeemed by B&L in exchange for membership units of B&L's operating subsidiary Bourland & Leverich Supply Co. LLC, or B&L Supply.

- n EM II LP and B&L will contribute their respective businesses and liabilities to us for membership units of EDG LLC and Class B common stock of Edgen Group.
- n EM II LP may elect to have EM Holdings LLC purchase from EMC all or a portion of EMC's membership units in B&L Supply with either cash or a note payable to EMC.
- n Holders of restricted units of EM II LP and B&L will exchange such units for restricted shares of our Class A common stock.
- n Holders of options to purchase units of EM II LP or B&L will exchange such options for options to purchase our Class A common stock.

Following these transactions and upon completion of this offering:

- n EDG LLC will be controlled by Edgen Group. Edgen Group, EM II LP and B&L will own approximately %, % and % of the membership units of EDG LLC, respectively.
- n Edgen Group will be controlled by EM II LP and B&L through their ownership of approximately % and % of the Class B common stock of Edgen Group, respectively. The current partners and members of EM II LP and B&L, which we refer to as the Existing Investors, will exchange their restricted units of EM II LP and B&L for restricted shares of our Class A common stock, and, to the extent such Existing Investors also own unrestricted units of EM II LP and B&L, will remain the owners of such units of EM II LP and B&L, respectively, and EM II LP and B&L will be controlled by the same affiliates of JCP that controlled each of them before these transactions.
- n Subject to certain limitations, EM II LP and B&L will each have rights, which we refer to as the Exchange Rights, to exchange from time to time membership units of EDG LLC and shares of Class B common stock of Edgen Group for shares of Class A common stock of Edgen Group on the basis of one membership unit of EDG LLC and one share of Class B common stock of Edgen Group collectively for one share of Class A common stock of Edgen Group (subject to customary conversion rate adjustments for splits, stock dividends and reclassifications) or, if we so elect, cash equal to the trading price of a share of Class A common stock.
- n If the Exchange Rights were exercised in full upon the completion of this offering, and settled solely for shares of Class A common stock of Edgen Group, approximately %, %, % and % of the Class A common stock of Edgen Group would be owned by purchasers in this offering, Existing Investors receiving restricted stock in the Reorganization, EM II LP and B&L, respectively.
- n EM II LP and B&L will each have the right to receive payments under a tax receivable agreement with Edgen Group and cash distributions under the EDG LLC limited liability company agreement.

Certain Relationships and Related Person Transactions

In addition to the Reorganization transactions, we expect to enter into the following related person transactions in connection with the completion of this offering:

Employment Agreements. We expect to enter into amended employment agreements with certain of our officers.

Reorganization Agreement. We expect to enter into a Reorganization Agreement, which will provide for the steps necessary to effect the Reorganization (including the contribution to us of the businesses and liabilities of EM II LP and B&L), provide for our indemnification of EM II LP and B&L for liabilities relating to their pre-Reorganization operations and require us to pay for certain administrative, franchise tax, tax reporting and other similar costs that EM II LP and B&L incur.

Edgar Filing: Edgen Group Inc. - Form S-1/A

Exchange Agreements. We expect to enter into an exchange agreement with each of EM II LP and B&L to govern the terms and conditions of the Exchange Rights.

Tax Receivable Agreements. The exercise of the Exchange Rights and certain other transactions are expected to result in increases in our share of the tax basis of EDG LLC's assets. We expect to enter into a tax receivable agreement with each of EM II LP and B&L to pay each of them 85% of any tax benefits that we realize from

the exercise of the Exchange Rights, from certain other transactions that result in increases in our share of the tax basis of EDG LLC's assets, and from our making payments under the related tax receivable agreement.

Tax Distributions. We expect to enter into a limited liability company agreement among Edgen Group, EM II LP and B&L that will govern the membership units of EDG LLC. We expect that the limited liability company agreement of EDG LLC will provide for cash distributions to Edgen Group, EM II LP and B&L to enable each of them to pay taxes attributable to their allocable share of the taxable income of EDG LLC.

Investors and Registration Rights Agreement. We expect to enter into an investors and registration rights agreement with EM II LP and B&L pursuant to which each of EM II LP and B&L will be entitled to have a representative attend meetings of our board of directors as a non-voting observer so long as it beneficially owns at least 5% of our then-outstanding Class B common stock. Pursuant to the investors and registration rights agreement, we may be required to register the issuance or sale of shares of our Class A common stock issuable upon exercise of the Exchange Rights.

Jefferies & Company, Inc.

Jefferies & Company, Inc. is participating as an underwriter in this offering and will be entitled to underwriting discounts and commissions with respect to the stock purchased by it in this offering. See Underwriting Commission and Expenses. Assuming an initial public offering price of \$ _____ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, we estimate that Jefferies & Company, Inc. will receive approximately \$ _____ million in underwriting discounts and commissions. However, Jefferies & Company, Inc. will not accrue direct benefits from the sale of our shares.

We intend to use the net proceeds to us from this offering to, among other things, repay certain amounts outstanding under B&L's term loan. As the administrative agent and a lender under B&L's term loan, we expect that Jefferies & Company, Inc. and/or its affiliates will receive approximately \$ _____ million from the repayment of B&L's term loan. See Use of Proceeds.

In light of this anticipated use of proceeds, we are required to utilize a qualified independent underwriter in connection with this offering and the preparation of this prospectus. Morgan Stanley & Co. LLC has agreed to act as qualified independent underwriter for the offering and to undertake the legal responsibilities and liabilities of an underwriter under the Securities Act of 1933, as amended, or the Securities Act, specifically including those inherent in Section 11 of the Securities Act. See Underwriting Affiliations and Conflicts of Interest.

Jefferies Group, Inc.

The parent company of Jefferies & Company, Inc. is Jefferies Group, Inc., or Jefferies Group. Mr. Brian P. Friedman, who is a director of Jefferies Group and Chairman of the Executive Committee of Jefferies & Company, Inc., is one of the managing members of Jefferies Capital Partners, or JCP. Mr. Friedman is also the President of the entity that serves as general partner or managing member of Jefferies Capital Partners IV L.P., Jefferies Employee Partners IV LLC and JCP Partners IV LLC, which are private equity investment funds managed by JCP which we refer to collectively as Fund IV. Jefferies Group directly or indirectly has made a substantial investment in and has a substantial, non-voting economic interest in JCP, Fund IV and other funds managed by JCP, and also serves as a lender to one of the funds comprising Fund IV. In addition, Jefferies Group employs and provides office space for JCP's employees, for which JCP reimburses Jefferies Group on an annual basis. Mr. James L. Luikart is one of the managing members of JCP, the Executive Vice President of the entity that serves as general partner or managing member of Fund IV and one of our directors. Mr. Nicholas Daraviras is a Managing Director of JCP and one of our directors.

After giving effect to the Reorganization and this offering, EM II LP and B&L, which are entities controlled by affiliates of JCP, together will own 100% of our outstanding Class B common stock, will hold approximately % of the voting power of our outstanding capital stock and will own approximately % of the membership units of EDG LLC. Subject to certain limitations, EM II LP and B&L will also have the right to receive shares of our Class A common stock pursuant to the Exchange Rights and will be entitled to payments under the tax receivable agreements and cash distributions under the EDG LLC limited liability company agreement. Finally, we also intend to enter into an investors and registration rights agreement that will entitle EM II LP and B&L to board observation rights and registration rights with respect to shares of Class A common stock owned by them upon exercise of the Exchange Rights.

See Certain Relationships and Related Person Transactions.

The following diagram illustrates our summary organizational structure after the completion of the Reorganization and this offering (and before the exercise of any Exchange Rights):

Summary Organizational Structure

- (1) Jefferies Capital Partners IV L.P. controls 100% of the voting power of EM II LP through its control of 100% of the voting power of EM II LP's general partner, Edgen Murray II GP, LLC. Some of the Existing Investors are investors in each of EM II LP and B&L and some are investors in one but not the other.
- (2) Jefferies Capital Partners IV L.P. controls 100% of the voting power.

- (3) The remaining % of our Class A common stock will be held by certain Existing Investors in the form of restricted stock received in the Reorganization. If the Exchange Rights were exercised in full upon the completion of this offering, and settled solely for shares of Class A common stock of Edgen Group, (i) approximately %, %, % and % of the Class A common stock of Edgen Group would be owned by purchasers in this offering, Existing Investors receiving restricted stock in the Reorganization, EM II LP and B&L, respectively and (ii) no shares of our Class B common stock would remain outstanding. Percentages exclude shares of our Class A common stock reserved for issuance under our equity incentive plan.

- (4) EDG LLC will own, directly or indirectly, 100% of B&L Supply. Some of this interest may be held by EMC or EM Holdings LLC.

Please refer to page [113] of this Prospectus for an illustration of our organizational structure following the exercise of the Exchange Rights.

Company Information

Edgen Group Inc. is incorporated as a Delaware corporation and maintains its principal executive offices at 18444 Highland Road, Baton Rouge, Louisiana 70809. Our telephone number is (225) 756-9868. We maintain a web site at www.edhengroup.com. Our web site and the information contained thereon or connected thereto is not incorporated into this prospectus or the registration statement of which this prospectus forms a part and is provided as an inactive textual reference. You should not rely on any such information in making your decision whether to purchase our securities.

Certain Trademarks

This prospectus includes trademarks, such as Edgen Murray, Bourland & Leverich and the Edgen Group logo, which are protected under applicable intellectual property laws and are our property and/or the property of our subsidiaries. This prospectus also contains trademarks, service marks, copyrights and trade names of other companies, which are the property of their respective owners. Solely for convenience, our trademarks and tradenames referred to in this prospectus may appear without the ® or symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and tradenames.

THE OFFERING

Class A common stock offered by us shares.

Class A common stock to be outstanding immediately after this offering shares (assuming no exercise of the underwriters' over-allotment option).

Class B common stock to be outstanding immediately after this offering shares.

Voting Rights Each share of our Class A common stock will entitle its holder to one vote on all matters to be voted on by stockholders generally.

EM II LP and B&L will together own all of our issued and outstanding Class B common stock. Class B common stock has no economic rights but will entitle the holder to one vote per share.

Dividends We do not currently intend to pay a quarterly cash dividend. If we do declare a dividend in the future, the Class B common stock will not be entitled to dividend rights.

Over-Allotment Option

We have granted to the underwriters an option for a period of 30 days after the date of this prospectus to purchase up to additional shares of our common stock to cover over-allotments, if any. The information presented in this prospectus assumes that the underwriters do not exercise their over-allotment option.

Use of Proceeds

We estimate that the net proceeds we will receive from this offering will be approximately \$ million, after deducting the estimated underwriting discounts and commissions and the estimated offering fees and expenses payable by us and assuming an initial public offering price of \$ per share, which is the mid-point of the price range set forth on the cover page of this prospectus. We intend to use (1) \$ of such net proceeds to purchase newly-issued EDG LLC membership units from EDG LLC, which would use such funds to repay amounts outstanding under B&L's term loan, EM II LP's revolving credit facility, B&L's revolving credit facility and a note payable issued to the former owner of B&L Predecessor and (2) up to \$ of any remaining proceeds to purchase EDG LLC membership units and shares of our Class B common stock from EM II LP and B&L. We expect to use any remaining net proceeds from this offering for other general corporate purposes. We do not currently intend to use the proceeds from this offering to expand our business operations. Jefferies Finance LLC, an affiliate of Jefferies & Company, Inc., is the administrative agent and a lender under B&L's term loan facility. As a result, Jefferies & Company, Inc. and/or its affiliates will receive approximately \$ million of the net proceeds from this offering used to repay B&L's term loan, or more than % of the net proceeds of this offering. Due to such redemption and repayment, this offering will be conducted in accordance with Rule 5121 of the Financial Industry Regulatory Authority, Inc. This rule requires, among other things, that a qualified independent underwriter has participated in the preparation of, and has exercised the usual standards of due diligence with respect to, the registration statement and this prospectus. Morgan Stanley & Co. LLC has agreed to act as qualified independent underwriter for the offering and to undertake the legal responsibilities and liabilities of an underwriter under the Securities Act, specifically including those inherent in Section 11 of the Securities Act. See Underwriting Affiliations and Conflicts of Interest. We will not receive any of the proceeds from the sale to us of EDG LLC membership units by EM II LP or B&L, whose

partners and members include certain of our officers and directors and affiliates of Jefferies & Company, Inc. See Certain Relationships and Related Person Transactions Underwriting.

Risk Factors

Investing in our Class A common stock involves a high degree of risk. You should carefully read this entire prospectus, including the more detailed information set forth under the caption Risk Factors, the historical consolidated financial statements of our predecessor EM II LP as well as those of B&L and B&L Predecessor, and the related notes thereto, and the unaudited pro forma condensed combined financial information included elsewhere in this prospectus, before investing in our Class A common stock.

Lock-up Agreements

EM II LP and B&L and our directors and executive officers have agreed with the underwriters, subject to limited exceptions, not to sell, transfer or dispose of any of our shares for a period of 180 days after the date of this prospectus. See the information under the caption Underwriting No Sales of Similar Securities for additional information.

Proposed New York Stock Exchange symbol

We have applied to list our Class A common stock on the NYSE under the symbol EDG. Our Class A common stock will not be listed on any other exchange or traded on any other automated quotation system. Our Class B common stock will not be listed on any exchange or traded on any automated quotation system.

Shares Outstanding

The number of shares of our Class A and Class B common stock to be outstanding following this offering is based on _____ shares of our Class A common stock (including shares of our restricted Class A common stock to be issued to certain Existing Investors in connection with the Reorganization) and _____ shares of our Class B common stock outstanding on a pro forma basis after giving effect to the Reorganization, but excludes _____ shares of Class A common stock reserved for issuance under our equity incentive plans, of which options to purchase _____ shares will be outstanding after the Reorganization at a weighted average exercise price of \$ _____ per share, and _____ shares of Class A common stock reserved for issuance upon the exercise of the Exchange Rights by EM II LP and B&L. If the Exchange Rights were exercised in full upon completion of this offering and settled solely for shares of Class A common stock (1) approximately _____%, _____%, _____% and _____% of the Class A common stock would be owned by purchasers in this offering, Existing Investors receiving restricted stock in the Reorganization, EM II LP and B&L, respectively, and (2) there would be _____ shares of our Class A common stock outstanding and no shares of our Class B common stock outstanding.

Unless otherwise stated, information in this prospectus (except for the historical financial statements) assumes:

- n the completion of the Reorganization;
- n that our amended and restated certificate of incorporation, which we will file in connection with the completion of this offering, is in effect;
- n no exercise of any options to acquire shares of our Class A common stock under our equity incentive plan; and
- n no exercise of the underwriters' over-allotment option.

SUMMARY HISTORICAL CONSOLIDATED AND UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following tables present certain summary historical consolidated financial data and other data of our predecessor, EM II LP, for each of the years ended December 31, 2011, 2010 and 2009 and certain pro forma combined financial information of Edgen Group for the fiscal years ended December 31, 2011 and 2010. The data set forth below should be read in conjunction with the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, Capitalization, Selected Historical Consolidated Financial Data and Unaudited Pro Forma Condensed Combined Financial Information, each of which is contained elsewhere in this prospectus, and the consolidated financial statements of EM II LP, the consolidated financial statements of B&L and the combined financial statements of B&L Predecessor, each of which is contained elsewhere in this prospectus.

The Reorganization will be completed concurrently with the completion of this offering, and as a result, our future results of operations will include the results of operations of the business of B&L. We have determined that after the Reorganization, EM II LP will be our predecessor and, as a result, have included summary historical consolidated financial data of EM II LP. The summary historical consolidated statement of operations and other financial data of EM II LP for the years ended December 31, 2011, 2010 and 2009 and the summary historical consolidated balance sheet data of EM II LP at December 31, 2011 and 2010 are derived from the audited consolidated financial statements of EM II LP included elsewhere in this prospectus. The summary historical consolidated balance sheet data of EM II LP at December 31, 2009 are derived from the audited consolidated financial statements of EM II LP that are not included in this prospectus.

The summary unaudited pro forma financial data have been prepared to give effect to the Reorganization and this offering and the application of net proceeds therefrom as if they occurred on January 1, 2010. Assumptions underlying the pro forma adjustments are described in the section entitled Unaudited Pro Forma Condensed Combined Financial Information contained elsewhere in this prospectus. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. Please see Unaudited Pro Forma Condensed Combined Financial Information Notes to Unaudited Pro Forma Condensed Combined Financial Information for a more detailed discussion of how pro forma adjustments are presented in our unaudited pro forma condensed combined financial information. The summary unaudited pro forma financial data are provided for informational purposes only. The summary unaudited pro forma financial data do not purport to represent what our results of operations actually would have been if the Reorganization and this offering, and the application of the net proceeds therefrom had occurred at any date, nor do such data purport to project the results of operations for any future period.

EDGEN GROUP INC.**SUMMARY UNAUDITED PRO FORMA FINANCIAL DATA**

	PRO FORMA YEAR ENDED DECEMBER 31,	
	2011 (1)	2010 (1)
Statement of Operations (in thousands)		
Sales	\$ 1,675,209	\$ 1,255,149
Gross profit (exclusive of depreciation and amortization)	210,941	166,632
Income (loss) from operations	85,750	(13,048)
Net loss	(2,840)	(62,790)
BASIC AND DILUTED EARNINGS PER SHARE:		
Net loss	(2,840)	(62,790)
Number of public shares used in denominator		
Basic and diluted earnings per share public		

	PRO FORMA DECEMBER 31, 2011 (1)
Balance Sheet Data (in thousands)	
Cash and cash equivalents	\$
Working capital	
Property, plant and equipment net	
Total assets	
Long term debt and capital leases	
Total deficit	

	PRO FORMA YEAR ENDED DECEMBER 31,	
	2011 (1)	2010 (1)
Other Financial Data (in thousands)		
EBITDA	\$ 123,339	\$ 22,600
Adjusted EBITDA	123,993	85,958

	PRO FORMA YEAR ENDED DECEMBER 31,	
	2011 (1)	2010 (1)
Reconciliation of GAAP pro forma net income (loss) to non-GAAP pro forma EBITDA and non-GAAP pro forma Adjusted EBITDA		
NET INCOME (LOSS)	\$ (2,840)	\$ (62,790)
Income tax expense (benefit)	4,088	(22,125)
Interest expense net	86,480	72,664
Depreciation and amortization expense	35,611	34,851
EBITDA	\$ 123,339	\$ 22,600
Impairment of goodwill ⁽²⁾		62,805

Edgar Filing: Edgen Group Inc. - Form S-1/A

Equity based compensation ⁽³⁾	2,632	1,350
Other (income) expense ⁽⁴⁾	(1,978)	(797)
ADJUSTED EBITDA	\$ 123,993	\$ 85,958

- (1) The pro forma statement of operations, balance sheet and other financial data give effect to the Reorganization and the issuance of _____ shares of our Class A common stock at an issuance price of \$ _____ per share, the midpoint of the price range set forth on the cover page of this prospectus. We intend to use (1) \$ _____ of the net proceeds from this offering to purchase newly-issued membership units from our consolidated subsidiary EDG LLC, which will be used by EDG LLC to repay certain outstanding indebtedness, and (2) up to \$ _____ of any remaining proceeds to purchase EDG LLC membership units and shares of our Class B common stock from EM II LP and B&L. We expect to use any remaining net proceeds from this offering for other general corporate purposes. For a detailed presentation of this unaudited pro forma statement of operations and balance sheet data, including a description of the transactions and assumptions underlying the pro forma adjustments giving rise to these results, see Unaudited Pro Forma Condensed Combined Financial Information elsewhere in this prospectus.
- (2) The year ended December 31, 2010 includes an impairment charge to goodwill of \$62.8 million as a result of the fair value of certain of our predecessor s reporting units falling below their carrying value.
- (3) Includes non-cash compensation expense related to the issuance of equity-based awards.
- (4) Other (income) expense primarily includes unrealized currency exchange gains and losses on cash balances denominated in foreign currencies and other miscellaneous items.

We use EBITDA and Adjusted EBITDA in our business operations to, among other things, evaluate the performance of our operating segments, develop budgets and measure our performance against those budgets, determine employee bonuses and evaluate our cash flows in terms of cash needs. We find these measures to be useful tools to assist us in evaluating financial performance because they eliminate items related to capital structure, taxes and certain non-cash charges. Our non-GAAP financial measures are not considered as alternatives to GAAP measures such as net income, operating income, net cash flows provided by operating activities or any other measure of financial performance calculated and presented in accordance with GAAP. Our non-GAAP financial measures may not be comparable to similarly-titled measures of other companies because they may not calculate such measures in the same manner as we do. We define EBITDA as net income or loss, plus interest expense, provision for income taxes, depreciation, amortization and accretion expense. We define Adjusted EBITDA as EBITDA minus equity earnings from unconsolidated affiliates, plus cash distributions received from unconsolidated affiliates, transaction costs, strategic inventory liquidation sales and inventory lower of cost or market adjustments, loss on prepayment of debt, impairment of goodwill, equity based compensation and other income and expense.

EBITDA and Adjusted EBITDA are commonly used as supplemental financial measures by management and external users of our financial statements, such as investors, commercial banks, research analysts and rating agencies, to assess: (1) our financial performance without regard to financing methods, capital structures or historical cost basis and other items that we do not believe are indicative of our core operating performance and (2) our ability to generate cash sufficient to pay interest and support our indebtedness. Since EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income or loss and because these measures may vary among other companies, the EBITDA and Adjusted EBITDA data presented in this prospectus may not be comparable to similarly titled measures of other companies. The GAAP measure most directly comparable to EBITDA and Adjusted EBITDA is net income (loss). The tables set forth above and below provide reconciliations of these non-GAAP financial measures to their most directly comparable financial measure calculated and presented in accordance with GAAP.

EDGEN MURRAY II, L.P. (OUR PREDECESSOR)**SUMMARY FINANCIAL DATA**

	YEAR ENDED DECEMBER 31,		
	2011	2010	2009
Statement of Operations (in thousands)			
Sales	\$ 911,612	\$ 627,713	\$ 773,323
Gross profit (exclusive of depreciation and amortization)	134,504	90,906	100,728
Income (loss) from operations	38,384	(57,424)	9,899
Net loss	(24,528)	(98,288)	(20,889)

	DECEMBER 31,		
	2011	2010	2009
Balance Sheet Data (in thousands)			
Cash and cash equivalents	\$ 26,218	\$ 62,478	\$ 65,733
Working capital	230,519	216,684	262,745
Property, plant and equipment net	45,510	49,287	43,342
Total assets	551,057	464,020	563,460
Long term debt and capital leases	500,741	479,811	483,503
Total deficit	(155,053)	(131,262)	(29,779)

	YEAR ENDED DECEMBER 31,		
	2011	2010	2009
Other Financial Data (in thousands)			
EBITDA	\$ 64,521	\$ (35,936)	\$ 23,959
Adjusted EBITDA	62,577	26,661	70,564

Reconciliation of GAAP net income (loss) to non-GAAP EBITDA and non-GAAP Adjusted

EBITDA			
NET LOSS	\$ (24,528)	\$ (98,288)	\$ (20,889)
Income tax expense (benefit)	4,088	(22,125)	(22,373)
Interest expense net	63,870	64,208	47,085
Depreciation and amortization expense	21,091	20,269	20,136

EBITDA	\$ 64,521	\$ (35,936)	\$ 23,959
--------	-----------	-------------	-----------

Strategic inventory liquidation sales ⁽¹⁾			12,656
Lower of cost or market adjustments to inventory ⁽²⁾			22,469
Transaction costs ⁽³⁾	905		3,339
Equity in earnings of unconsolidated affiliate ⁽⁴⁾	(3,680)	(1,029)	
Distributions received from unconsolidated affiliate ⁽⁴⁾	835		
Loss on prepayment of debt ⁽⁵⁾			7,523
Impairment of goodwill ⁽⁶⁾		62,805	
Equity based compensation ⁽⁷⁾	1,362	1,011	2,065
Other (income) expense ⁽⁸⁾	(1,366)	(190)	(1,447)
ADJUSTED EBITDA	\$ 62,577	\$ 26,661	\$ 70,564

- (1) The year ended December 31, 2009 includes a loss of \$12.7 million due to strategic inventory liquidation (at prices below cost) of inventory primarily related to products for the North American midstream oil and natural gas market.
- (2) The year ended December 31, 2009 includes an inventory write-down of \$22.5 million related to selling prices falling below our predecessor's average cost of inventory in some of the markets it served.
- (3) Transaction costs include \$0.9 million for the year ended December 31, 2011 associated with this offering and \$3.3 million for the year ended December 31, 2009 of accumulated registration costs expensed during the year.
- (4) Represents adjustment for the equity in earnings and cash distributions received as a result of our predecessor's 14.5% ownership in B&L.
- (5) Includes prepayment penalties and previously deferred debt issuance costs expensed as a result of the repayment of term loans during the year ended December 31, 2009.

- (6) The year ended December 31, 2010 includes a goodwill impairment charge of \$62.8 million as a result of the fair value of certain of our predecessor s reporting units falling below the carrying value.
- (7) Includes non-cash compensation expense related to the issuance of equity based awards.
- (8) Other (income) expense primarily includes unrealized currency exchange gains and losses on cash balances denominated in foreign currencies and other miscellaneous items.

RISK FACTORS

An investment in our Class A common stock involves a significant degree of risk, including the risks described below. You should carefully consider the following risk factors and the other information in this prospectus before deciding to invest in our Class A common stock. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In such case, the trading price of our common stock could decline and you may lose all or part of your original investment.

Risks relating to our business

Volatility in the global energy infrastructure market, and, in particular, a significant decline in oil and natural gas prices and refining margins, has in the past reduced, and could in the future reduce, the demand for the products we supply, which could cause our sales and margins to decrease.

Proceeds from the sale of products to the global energy infrastructure market constitute a significant portion of our sales. As a result, we depend upon the global energy infrastructure market, and in particular the oil and natural gas industry, and upon the ability and willingness of industry participants to make capital expenditures to explore for, develop and produce, transport, process and refine oil and natural gas. The industry's willingness to make these expenditures depends largely upon the availability of attractive drilling prospects, regulatory requirements and limitations, the prevailing view of future oil and natural gas prices, refinery margins and general economic conditions. As we experienced in 2009, 2010 and continuing into 2011, volatile oil and natural gas prices can lead to variable capital expenditures and infrastructure project spending by industry participants, which in turn can affect the demand for the products we supply. Further sustained decreases in capital expenditures in the oil and natural gas industry could have a material adverse effect on our business, financial condition and results of operations. Many factors affect the supply of and demand for oil and natural gas and refined products, thereby affecting our sales and margins, including:

- n the level of U.S. and worldwide oil and natural gas production;
- n the level of U.S. and worldwide supplies of, and demand for, oil, natural gas and refined products;
- n the discovery rates of new oil and natural gas resources;
- n the expected cost of delivery of oil, natural gas and refined products;
- n the availability of attractive oil and natural gas fields for production, which may be affected by governmental action or environmental policy, which may restrict exploration and development prospects;
- n U.S. and worldwide refinery utilization rates;
- n the amount of capital available for development and maintenance of oil, natural gas and refined products infrastructure;
- n changes in the cost or availability of transportation infrastructure and pipeline capacity;
- n levels of oil and natural gas exploration activity;
- n

Edgar Filing: Edgen Group Inc. - Form S-1/A

national, governmental and other political requirements, including the ability of the Organization of the Petroleum Exporting Countries to set and maintain production levels and pricing;

- n the impact of political instability, terrorist activities, piracy or armed hostilities involving one or more oil and natural gas producing nations;
- n pricing and other actions taken by competitors that impact the market;
- n the failure by industry participants to implement planned capital projects successfully or to realize the benefits expected for those projects;
- n the cost of, and relative political momentum in respect of, developing alternative energy sources;
- n U.S. and non-U.S. governmental laws and regulations, especially anti-bribery law enforcement in underdeveloped nations, environmental and safety laws and regulations (including mandated changes in fuel consumption and specifications), trade laws, commodities and derivatives trading regulations and tax policies;
- n technological advances in the oil and natural gas industry;
- n natural disasters, including hurricanes, tsunamis, earthquakes and other weather-related events; and
- n the overall global economic environment.

Oil and natural gas prices and processing and refining margins have been and are expected to remain volatile. This volatility may cause our customers to change their strategies and capital expenditure levels. We are experiencing, have experienced in the past and may experience in the future, significant fluctuations in our business, financial condition and results of operations based on these changes. In particular, such continued volatility in the oil, natural gas and refined products margins and markets more generally could materially and adversely affect our business, consolidated financial condition, results of operations and liquidity.

The prices we pay and charge for steel products, and the availability of steel products generally, may fluctuate due to a number of factors beyond our control, which could materially and adversely affect the value of our inventory, business, financial condition, results of operations and liquidity.

We purchase large quantities of steel products from our suppliers for distribution to our customers. The steel industry as a whole is cyclical and at times pricing and availability of these products change depending on many factors outside of our control, such as general global economic conditions, competition, consolidation of steel producers, cost and availability of raw materials necessary to produce steel (such as iron ore, coking coal and steel scrap), production levels, labor costs, freight and shipping costs, natural disasters, political instability, import duties, tariffs and other trade restrictions, currency fluctuations and surcharges imposed by our suppliers.

We seek to maintain our profit margins by attempting to increase the prices we charge for the products we supply in response to increases in the prices we pay for them. However, demand for the products we supply, the actions of our competitors, our contracts with certain of our customers and other factors largely out of our control will influence whether, and to what extent, we can pass any such steel cost increases and surcharges on to our customers. We may be unable to pass increased supply costs on to our customers because a portion of our sales are derived from stocking program arrangements, contracts and MRO arrangements which provide certain customers time limited price protection, which may obligate us to sell products at a set price for a specific period or because of general competitive conditions. If we are unable to pass on higher costs and surcharges to our customers, or if we are unable to do so in a timely manner, our business, financial condition, results of operations and liquidity could be materially and adversely affected.

Alternatively, if the price of steel decreases significantly or if demand for the products we supply decreases because of increased customer, manufacturer or distributor inventory levels of specialty steel pipe, pipe components, high yield structural steel products and valves, we may be required to reduce the prices we charge for the products we supply to remain competitive. These factors may affect our gross profit and cash flow and may also require us to write-down the value of inventory on hand that we purchased prior to the steel price decreases, which could materially and adversely affect our business, financial condition, results of operations and liquidity. For example, on a pro forma basis, we had inventory write-downs of \$61.7 million for the year ended December 31, 2009, related to selling prices falling below the average cost of inventory in some of the markets we serve, including the U.S. and the Middle East. Although neither our predecessor nor B&L had any material inventory write-downs during the years ended December 31, 2011 and 2010, there can be no assurances such write-downs will not occur in the future.

Our business could also be negatively impacted by the importation of lower-cost specialty steel products into the U.S. market. An increase in the level of imported lower-cost products could adversely affect our business to the extent that we then have higher-cost products in inventory or if prices and margins are driven down by increased supplies of such products. These events could also have a material adverse effect on our profit margins and results of operations. These risks may be heightened if recently imposed tariffs on certain imported competing products and OCTG are reduced, eliminated or allowed to expire.

In addition, the domestic metals production industry has experienced consolidation in recent years. Further consolidation could result in a decrease in the number of our major suppliers or a decrease in the number of alternative supply sources available to us, which could make it more likely that termination of one or more of our relationships with major suppliers would result in a material adverse effect on our business, financial condition, results of operations or cash flows. Consolidation could also result in price increases for the products that we purchase. Such price increases could have a material adverse effect on our business, financial condition, results of operations or cash flows if we were not able to pass these price increases on to our customers.

We may experience unexpected supply shortages.

We supply products from a wide variety of vendors and suppliers. In the future we may have difficulty obtaining the products we need from suppliers and manufacturers as a result of unexpected demand or production difficulties. Also, products may not be available to us in quantities sufficient to meet customer demand. Failure to fulfill customer orders in a timely manner could have an adverse effect on our relationships with these customers. Our inability to obtain products from suppliers and manufacturers in sufficient quantities to meet demand could have a material adverse effect on our business, results of operations and financial condition.

We maintain an inventory of products for which we do not have firm customer orders. As a result, if prices or sales volumes decline, our profit margins and results of operations could be adversely affected.

Our profitability, margins and cash flows may be negatively affected if we are unable to sell our inventory in a timely manner. Because we maintain substantial inventories of specialty steel products for which we do not have firm customer orders, there is a risk that we will be unable to sell our existing inventory at the volumes and prices we expect. For example, the value of our inventory could decline if the prices we are able to charge our customers decline. In that case, we may experience reduced margins or losses as we dispose of higher-cost products at reduced market prices. For instance, during the year ended December 31, 2009, our predecessor incurred losses of \$12.7 million due to strategic inventory liquidation (at prices below cost) of inventory related primarily to products for the North American midstream oil and natural gas market. Although neither our predecessor nor B&L incurred significant losses related to inventory liquidation during the years ended December 31, 2011 and 2010, there can be no assurance that such losses will not occur in the future.

Our ten largest customers account for a substantial portion of our sales and profits, and the loss of any of these customers could result in materially decreased sales and profits.

Our ten largest customers accounted for approximately 35% of our pro forma sales for the year ended December 31, 2011. We may lose a customer for any number of reasons, including as a result of a merger or acquisition, the selection of another provider of specialty steel products, business failure or bankruptcy of the customer or dissatisfaction with our performance. Consistent with industry practice, we do not have long-term contracts with most of our major customers. Additionally our customers with whom we do not have fixed-term contracts have the ability to terminate their relationships with us at any time. Moreover, to the extent we have contracts with our major customers, these contracts generally may be discontinued with 30 days notice by either party, are not exclusive and do not require minimum levels of purchases. Loss of any of our major customers could adversely affect our business, results of operations and cash flow.

Our business is sensitive to economic downturns and adverse credit market conditions, which could adversely affect our business, financial condition, results of operations and liquidity.

Aspects of our business, including demand for and availability of the products we supply, are dependent on, among other things, the state of the global economy and adverse conditions in the global credit markets. Our business has been affected in the past and may be affected in the future by the following:

- n our customers reducing or eliminating capital expenditures as a result of reduced demand from their customers;
- n our customers not being able to obtain sufficient funding at a reasonable cost or at all as a result of tightening credit markets, which may result in delayed or cancelled projects or maintenance expenditures;
- n our customers not being able to pay us in a timely manner, or at all, as a result of declines in their cash flows or available credit;
- n experiencing supply shortages for certain products if our suppliers reduce production as a result of reduced demand for their products or as a result of limitations on their ability to access credit for their operations;
- n experiencing tighter credit terms from our suppliers, which could increase our working capital needs and potentially reduce our liquidity; and

ⁿ the value of our inventory declining if the sales prices we are able to charge our customers decline. As a result of these and other effects, economic downturns such as the one we recently experienced have, and could in the future, materially and adversely affect our business, financial condition, results of operations and liquidity.

In addition, market disruptions, such as the recent global economic recession, could adversely affect the creditworthiness of lenders under our debt facilities. Any reduced credit availability under our credit facilities could require us to seek other forms of liquidity through financing in the future and the availability of such financing will depend on market conditions prevailing at that time.

We rely on our suppliers to meet the required specifications for the products we purchase from them, and we may have unreimbursed losses arising from our suppliers' failure to meet such specifications.

We rely on our suppliers to provide mill certifications that attest to the specifications and physical and chemical properties of the steel products that we purchase from them for resale. We generally do not undertake independent testing of any such steel but rely on our customers or assigned third-party inspection services to notify us of any products that do not conform to the specifications certified by the mill or equipment fabricators. We may be subject to customer claims and other damages if products purchased from our suppliers are deemed to not meet customer specifications. These damages could exceed any amounts that we are able to recover from our suppliers or under our insurance policies. Failure to provide products that meet our customer's specifications would adversely affect our relationship with such customer, which could negatively impact our business and results of operations.

Loss of key suppliers could decrease our sales volumes and overall profitability.

For the year ended December 31, 2011, our ten largest suppliers accounted for approximately 65% of our pro forma purchases and our single largest supplier accounted for approximately 26% of our pro forma purchases. Consistent with industry practice, we do not have long-term contracts with most of our suppliers. Therefore, most of our suppliers have the ability to terminate their relationships with us or reduce their planned allocations of product to us at any time. The loss of any of these suppliers due to merger or acquisition, business failure, bankruptcy or other reason could put us at a competitive disadvantage by decreasing the availability or increasing the prices, or both, of products we supply, which in turn could result in a decrease in our sales volumes and overall profitability.

Loss of third-party transportation providers upon which we depend, failure of such third-party transportation providers to deliver high quality service or conditions negatively affecting the transportation industry could increase our costs and disrupt our operations.

We depend upon third-party transportation providers for delivery of products to our customers. Shortages of transportation vessels, transportation disruptions or other adverse conditions in the transportation industry due to shortages of truck drivers, strikes, slowdowns, piracy, terrorism, disruptions in rail service, closures of shipping routes, unavailability of ports and port service for other reasons, increases in fuel prices and adverse weather conditions could increase our costs and disrupt our operations and our ability to deliver products to our customers on a timely basis. We cannot predict whether or to what extent any of these factors would affect our costs or otherwise harm our business. In addition, the failure of our third-party transportation providers to provide high quality customer service when delivering product to our customers would adversely affect our reputation and our relationship with our customers and could negatively impact our business and results of operations.

Significant competition from a number of companies could reduce our market share and have an adverse effect on our selling prices, sales volumes and results of operations.

We operate in a highly competitive industry and compete against a number of other market participants, some of which have significantly greater financial, technological and marketing resources than we do. We compete primarily on the basis of pricing, availability of specialty products and customer service. We may be unable to compete successfully with respect to these or other competitive factors. If we fail to compete effectively, we could lose market share to our competitors. Moreover, our competitors' actions could have an adverse effect on our selling prices and sales volume. To compete for customers, we may elect to lower selling prices or offer increased services at a higher cost to us, each of which could reduce our sales, margins and earnings. There can be no assurance that we will be able to compete successfully in the future, and our failure to do so could adversely affect our business, results of operations and financial condition.

Loss of key management or sales and customer service personnel could harm our business.

Our future success depends to a significant extent on the skills, experience and efforts of management. While we have not experienced problems in the past attracting and retaining members of our management team, the loss of any or all of these individuals could materially and adversely affect our business. We do not carry key-man life insurance on any member of management other than a policy inherited by us for our Chief Operating Officer, Craig S. Kiefer. We must continue to develop and retain a core group of individuals if we are to realize our goal of continued expansion and growth. We cannot assure you that we will be able to do so in the future.

Because of the specialized nature of the products we supply and services we provide, generally only highly qualified and trained sales and customer service personnel have the necessary skills to market our products and provide product support to our customers. Such employees develop relationships with our customers that could be damaged or lost if these employees are not retained. We face intense competition for the hiring of these professionals. Any failure on our part to hire, train and retain a sufficient number of qualified sales and customer service personnel could materially and adversely affect our business. In particular, our efforts to continue expansion internationally will be dependent on our ability to continue to hire and train a skilled and knowledgeable sales force to attract customers in these markets. In addition, a significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. The actual occurrence of any of these events could appreciably increase our cost structure and, as a result, materially impair our growth potential and our results of operations.

The development of alternatives to steel product distributors in the supply chain in the industries in which we operate could cause a decrease in our sales and results of operations and limit our ability to grow our business.

If our customers were to acquire or develop the capability and desire to purchase products directly from our suppliers in a competitive fashion, it would likely reduce our sales volume and overall profitability. Our suppliers also could expand their own local sales forces, marketing capabilities and inventory stocking capabilities and sell more products directly to our customers. Likewise, customers could purchase from our suppliers directly in situations where large orders are being placed and where inventory and logistics support planning are not necessary in connection with the delivery of the products. These and other actions that remove us from, limit our role in, or reduce the value that our services provide in the distribution chain could materially and adversely affect our business, financial condition and results of operations.

Our customers that are pursuing unconventional or offshore oil and natural gas resources, or that are using new drilling and extraction technologies, such as horizontal drilling and hydraulic fracturing, could face regulatory, political and economic challenges that may result in increased costs and additional operating restrictions or delays as well as adversely affect our business and operating results.

The pursuit of unconventional oil and natural gas resources, the expansion of offshore drilling and exploration, as well as new drilling and extraction technologies, including hydraulic fracturing and horizontal drilling, have received significant regulatory and political focus. Hydraulic fracturing is an essential technology for the development and production of unconventional oil and natural gas resources. The hydraulic fracturing process in the U.S. is typically subject to state and local regulation, and has been exempt from federal regulation since 2005 pursuant to the federal Safe Drinking Water Act (except when the fracturing fluids or propping agents contain diesel fuels). Public concerns have been raised regarding the potential impact of hydraulic fracturing on drinking water. Two companion bills, known collectively as the Fracturing Responsibility and Awareness of Chemicals Act, or FRAC Act, have been introduced before the U.S. Congress that would repeal the Safe Drinking Water Act exemption and otherwise restrict hydraulic fracturing. If enacted, the FRAC Act could result in additional regulatory burdens such as permitting, construction, financial assurance, monitoring, recordkeeping and plugging and abandonment requirements. The FRAC Act also proposes requiring the disclosure of chemical constituents used in the hydraulic fracturing process to state or federal regulatory authorities, who would then make such information publicly available. Several states have enacted similar chemical disclosure regulations. The availability of this information could make it easier for third parties to initiate legal proceedings based on allegations that specific chemicals used in the hydraulic fracturing process could adversely affect groundwater.

The United States Environmental Protection Agency, or the EPA, is conducting a comprehensive study of the potential environmental impacts of hydraulic fracturing activities, and a committee of the House of Representatives is also conducting an investigation of hydraulic fracturing practices. In August and November 2011, the United States Department of Energy Shale Gas Subcommittee, or DOE, issued two reports on measures that can be taken to reduce the potential environmental impacts of shale gas production. The results of the DOE and EPA studies and House investigation could lead to restrictions on hydraulic fracturing. The EPA is currently working on new interpretive guidance for Safe Drinking Water Act permits that would be required with respect to the oil and natural gas wells that use fracturing fluids or propping agents containing diesel fuels. The EPA has proposed regulations under the federal Clean Air Act in July 2011 regarding certain criteria and hazardous air pollutant emissions from the hydraulic fracturing of oil and natural gas wells and, in October 2011, announced its intention to propose regulations by 2014 under the federal Clean Water Act to regulate wastewater discharges from hydraulic fracturing

and other gas production. In addition, various state and local governments, as well as the United States Department of Interior and certain river basin commissions, have taken steps to increase regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, disclosure obligations and temporary or permanent bans on hydraulic fracturing in certain local jurisdictions or in environmentally sensitive areas such as watersheds. Any future federal, state or local laws or regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells in certain formations. Any decrease in drilling activity resulting from the increased regulatory restrictions and costs associated with hydraulic fracturing, or any permanent, temporary or regional prohibition of the uses of this technology, could adversely affect demand for the products we supply and our results of operations.

In addition to regulatory challenges facing hydraulic fracturing, the process of extracting hydrocarbons from shale formations requires access to water, chemicals and proppants. If any of these necessary components of the fracturing process is in short supply in a particular operating area or in general, the pace of drilling could be slowed, which could reduce demand for the products we supply.

Another source of oil and natural gas resources facing increased regulation is offshore drilling and exploration. The April 2010 Deepwater Horizon accident in the Gulf of Mexico and its aftermath resulted in increased public scrutiny, including a moratorium on offshore drilling in the U.S. While the moratorium has been lifted, there has been a delay in resuming operations related to drilling offshore in areas impacted by the moratorium, and we cannot assure you that operations related to drilling offshore in such areas will reach the same levels that existed prior to the moratorium or that a future moratorium may not arise. In addition, this event has resulted in new and proposed legislation and regulation in the U.S. of the offshore oil and natural gas industry, which may result in substantial increases in costs or delays in drilling or other operations in U.S. waters, oil and natural gas projects potentially becoming less economically viable and reduced demand for the products we supply and services we provide. Other countries in which we operate may also consider moratoriums or increase regulation with respect to offshore drilling. If future moratoriums or increased regulations on offshore drilling or contracting services operations arose in the U.S. or other countries, our customers could be required to cease their offshore drilling activities or face higher operating costs in those areas. These events and any other regulatory and political challenges with respect to unconventional oil and natural gas resources and new drilling and extraction technologies could reduce demand for the products we supply and materially and adversely affect our business and operating results.

Changes in the payment terms we receive from our suppliers could have a material adverse effect on our liquidity.

The payment terms we receive from our suppliers are dependent on several factors, including, but not limited to, our payment history with the supplier, the supplier's credit granting policies, contractual provisions, our credit profile, industry conditions, global economic conditions, our recent operating results, financial position and cash flows and the supplier's ability to obtain credit insurance on amounts that we owe them. Adverse changes in any of these factors, many of which may not be wholly in our control, may induce our suppliers to shorten the payment terms of their invoices. For example, as a result of the worldwide economic recession and its impact on steel demand and prices, some of our suppliers have experienced a reduction in trade credit insurance available to them for sales to foreign accounts. This reduction in trade credit insurance has resulted in certain suppliers reducing the available credit they grant to us and/or requiring other forms of credit support, including letters of credit and payment guarantees under the revolving credit facility available to EMC and certain of EM II LP's non-U.S. subsidiaries, which we refer to as the EM revolving credit facility. Providing this credit support decreases availability under this credit facility. Since we incur costs for trade finance instruments under our revolving credit facilities, this trend has increased our borrowing costs, although not significantly. Given the large amounts and volume of our purchases from suppliers, a change in payment terms may have a material adverse effect on our liquidity and our ability to make payments to our suppliers, and consequently may have a material adverse effect on our business, results of operations and financial condition.

We are a holding company with no revenue generating operations of our own. We depend on the performance of our subsidiaries and their ability to make distributions to us.

We are a holding company with no business operations, sources of income or assets of our own other than our ownership interests in our subsidiaries. Because all of our operations are conducted by our subsidiaries, our cash flow and our ability to repay debt that we currently have and that we may incur after this offering and our ability to pay dividends to our stockholders are dependent upon cash dividends and distributions or other transfers from our

subsidiaries. Payment of dividends, distributions, loans or advances by our subsidiaries to us are subject to restrictions imposed by our revolving credit agreements, the indenture governing the EMC senior secured notes and the note payable to the former owner of B&L Predecessor, or the Seller Note. Our revolving credit agreements also limit our ability to allocate cash flow or resources among certain subsidiaries. See

Management's Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources Debt. In addition, payments or distributions from our subsidiaries could be subject to restrictions on dividends or repatriation of earnings, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate. In particular, EMGH Limited, our principal U.K. subsidiary, may under English law only pay dividends out of distributable profits.

Our subsidiaries are separate and distinct legal entities. Any right that we have to receive any assets of or distributions from any of our subsidiaries upon the bankruptcy, dissolution, liquidation or reorganization of any such subsidiary, or to realize proceeds from the sale of their assets, will be junior to the claims of that subsidiary's creditors, including trade creditors and holders of debt issued by that subsidiary.

Risks generally associated with acquisitions, including identifying and integrating future acquisitions, could adversely affect our growth strategy.

A key element of our growth strategy has been, and is expected to be, the pursuit of acquisitions of other businesses that either expand or complement our global platform. However, we cannot assure you that we will be able to consummate future acquisitions on favorable terms, if at all, because of uncertainty in respect of competition for such acquisitions, availability of financial resources or regulatory approval or other reasons. Additionally, we cannot assure you that we will be able to identify additional acquisitions or that we would realize any anticipated benefits from such acquisitions. Integrating businesses involves a number of risks, including the possibility that management may be distracted from regular business concerns by the need to integrate operations, unforeseen difficulties in integrating operations and systems, problems concerning assimilating and retaining the employees of the acquired business, accounting issues that arise in connection with the acquisition, including amortization of acquired assets, challenges in retaining customers, assumption of known or unknown material liabilities or regulatory non-compliance issues and potentially adverse short-term effects on cash flow or operating results. Acquired businesses may require a greater amount of capital, infrastructure or other spending than we anticipate. In addition, we may incur debt to finance future acquisitions, which could increase our leverage. Further, we may face additional risks to the extent that we make acquisitions of international companies or involving international operations, including, among other things, compliance with foreign regulatory requirements, political risks, difficulties in enforcement of third-party contractual obligations and integration of international operations with our domestic operations. If we are unable to successfully complete and integrate strategic acquisitions in a timely manner, our growth strategy could be adversely impacted.

Our global operations, in particular those in emerging markets, are subject to various risks which could have a material adverse effect on our business, results of operations and financial condition.

Our business is subject to certain risks associated with doing business globally, particularly in emerging markets. Our sales outside of the U.S. represented approximately 21% and 19% of our pro forma sales for the years ended December 31, 2011 and 2010, respectively. One of our growth strategies is to pursue opportunities for our business in a variety of geographies outside the U.S., which could be adversely affected by the risks set forth below. Our operations are subject to risks associated with the political, regulatory and economic conditions of the countries in which we operate, such as:

- n the burden of complying with multiple and possibly conflicting laws and any unexpected changes in regulatory requirements, including those disrupting purchasing and distribution capabilities;
- n foreign currency exchange controls, import and export restrictions and tariffs, including restrictions promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, and other trade protection regulations and measures;
- n political risks, including risks of loss due to civil disturbances, acts of terrorism, acts of war, piracy, guerilla activities and insurrection;
- n unstable economic, financial and market conditions and increased expenses as a result of inflation, or higher interest rates;
- n difficulties in enforcement of third-party contractual obligations and collecting receivables through foreign legal systems;

- n foreign governmental regulations that favor or require the awarding of contracts to local contractors or by regulations requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction;
- n difficulty in staffing and managing international operations and the application of foreign labor regulations;
- n workforce uncertainty in countries where labor unrest is more common than in the U.S.;
- n differing local product preferences and product requirements;
- n fluctuations in currency exchange rates to the extent that our assets or liabilities are denominated in a currency other than the functional currency of the country where we operate;
- n potentially adverse tax consequences from changes in tax laws, requirements relating to withholding taxes on remittances and other payments by subsidiaries and restrictions on our ability to repatriate dividends from our subsidiaries;
- n exposure to liabilities under anti-corruption and anti-money laundering laws and regulations, including the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act 2010 and similar laws and regulations in other jurisdictions; and

- n enhanced costs associated with complying with increasing anti-corruption and anti-money laundering governmental regulation.

Any one of these factors could materially adversely affect our sales of products or services to global customers or harm our reputation, which could materially adversely affect our business, results of operations and financial condition.

Exchange rate fluctuations could adversely affect our results of operations and financial position.

In the ordinary course of our business, we enter into purchase and sales commitments that are denominated in currencies that differ from the functional currency used by our operating subsidiaries. Currency exchange rate fluctuations can create volatility in our consolidated financial position, results of operations and/or cash flows. Although we may enter into foreign exchange agreements with financial institutions in order to reduce our exposure to fluctuations in currency exchange rates, these transactions, if entered into, will not eliminate that risk entirely. To the extent that we are unable to match sales received in foreign currencies with expenses paid in the same currency, exchange rate fluctuations could have a negative impact on our consolidated financial position, results of operations and/or cash flows. Additionally, because our consolidated financial results are reported in U.S. dollars, if we generate net sales or earnings within entities whose functional currency is not the U.S. dollar, the translation of such amounts into U.S. dollars can result in an increase or decrease in the amount of our net sales or earnings. With respect to our potential exposure to foreign currency fluctuations and devaluations, for the year ended December 31, 2011, approximately 21% of our pro forma sales originated from subsidiaries outside of the U.S. in currencies including, among others, the pound sterling, euro and U.S. dollar. As a result, a material decrease in the value of these currencies may have a negative impact on our reported sales, net income and cash flows. Any currency controls implemented by local monetary authorities in countries where we currently operate could adversely affect our business, financial condition and results of operations.

Due to the global nature of our business, we could be adversely affected by violations of the FCPA, similar anti-bribery laws in other jurisdictions in which we operate, and various international trade and export laws.

The global nature of our business creates various domestic and local regulatory challenges. FCPA, and similar anti-bribery laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. The U.K. Bribery Act 2010 prohibits certain entities from making improper payments to governmental officials and to commercial entities. Our policies mandate compliance with these and other anti-bribery laws. We operate in many parts of the world that experience corruption by government officials to some degree and, in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices. Our global operations require us to import and export to and from myriad countries, which geographically stretches our compliance obligations. To help ensure compliance, our anti-bribery policy and training on a global basis provide our employees with procedures, guidelines and information about anti-bribery obligations and compliance. Further, we require our partners, subcontractors, agents and others who work for us or on our behalf to comply with anti-bribery laws. We also have procedures and controls in

Edgar Filing: Edgen Group Inc. - Form S-1/A

place designed to ensure internal and external compliance. However, such anti-bribery policy, training, internal controls and procedures will not always protect us from reckless, criminal or unintentional acts committed by our employees, agents or other persons associated with us. If we are found to be in violation of the FCPA, the U.K.

Bribery Act 2010 or other anti-bribery laws (either due to acts or inadvertence of our employees, or due to the acts or inadvertence of others), we could suffer criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

Hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which could have an adverse effect on our business or results of operations.

Our geographic market areas in the southeastern U.S. and APAC are susceptible to tropical storms, or, in more severe cases, hurricanes and typhoons, respectively. Such weather events can disrupt our operations or those of our customers or suppliers, result in damage to our properties and negatively affect the local economies in which we operate. Additionally, we may experience communication disruptions with our customers, suppliers and employees.

We cannot predict whether, or to what extent, damage caused by future hurricanes and tropical storms will affect our operations or the economies in those market areas. Such weather events could result in a disruption of our purchasing and distribution capabilities, an interruption of our business that exceeds our insurance coverage, our inability to collect from customers, the inability of our suppliers to provide product, the inability of third-party transportation providers to deliver product and increased operating costs. Our business or results of operations may be adversely affected by these and other negative effects of hurricanes or other adverse weather events.

Our sales backlog is subject to unexpected fluctuations, adjustments and cancellations and may not be a reliable indicator of our future earnings.

Our sales backlog represents management's estimate of potential future revenues that may result from contracts or orders currently awarded to us by our customers. Sales backlog is determined by the amount of undelivered third party customer purchase orders and may be revised upward or downward, or cancelled by our customers in certain instances. There can be no assurance that sales backlog will ultimately be realized as revenue, or that we will earn a profit on any of our sales backlog. Realization of revenue from our sales backlog is dependent on, among other things, our ability to fulfill purchase orders and transfer title to customers, which is in turn dependent on a number of factors, including our ability to obtain products from our suppliers. Further, because of the project nature of our business, sales orders and sales backlog can vary materially from period to period.

We rely on our information technology systems to manage numerous aspects of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business, financial condition and results of operations.

We depend on our information technology, or IT, systems to manage numerous aspects of our business transactions and provide analytical information to management. Our IT systems allow us to efficiently purchase products from our suppliers, provide procurement and logistics services, ship products to our customers on a timely basis, maintain cost-effective operations and provide superior service to our customers. Our IT systems are an essential component of our business and growth strategies, and a disruption to our IT systems could significantly limit our ability to manage and operate our business efficiently. These systems are vulnerable to, among other things, damage and interruption from power loss, including as a result of natural disasters, computer system and network failures, loss of telecommunications services, operator negligence, loss of data, security breaches and computer viruses. Any such disruption could adversely affect our competitive position and thereby our business, financial condition and results of operations.

Our operations and those of our customers are subject to environmental laws and regulations. Liabilities or claims with respect to environmental matters could materially and adversely affect our business.

Our operations and those of our customers are subject to extensive and frequently changing federal, state, local and foreign laws and regulations relating to the protection of human health and the environment, including those limiting the discharge and release of pollutants into the environment and those regulating the transport, use, treatment, storage, disposal and remediation of, and exposure to, hazardous materials, substances and wastes. Failure to comply with environmental laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of fines and penalties, imposition of remedial requirements and the issuance of orders enjoining future operations or imposing additional compliance requirements on such operations. In addition, certain environmental laws can impose strict, joint and several liability without regard to fault on responsible parties, including past and present owners and operators of sites, related to cleaning up sites at which hazardous wastes or materials were disposed or released even if the disposals or releases were in compliance with applicable law at the time of those actions.

Our customers operate primarily in the upstream, midstream and downstream end-markets for oil and natural gas, each of which is highly regulated due to high level of perceived environmental risk. Liability under environmental laws and regulations could result in cancellation of or reduction in future oil and natural gas related activity. Future events, such as the discovery of currently unknown contamination or other matters, spills caused by future pipeline ruptures, changes in existing environmental laws and regulations or their interpretation and more vigorous enforcement policies by regulatory agencies, may give rise to additional expenditures or liabilities for our operations or those of our customers, which could impair our operations and adversely affect our business and results of operations.

In addition, various current and likely future federal, state, local and foreign laws and regulations could regulate climate change and the emission of greenhouse gases, particularly carbon dioxide and methane. Future climate change regulation could reduce demand for the use of fossil fuels, which could adversely impact the operations of our customers. We cannot predict the impact that such regulation may have, or that climate change may otherwise have, on our business.

Increased regulatory focus on worker safety and health, including pipeline safety, could subject us and our customers to significant liabilities and compliance expenditures.

Companies undertaking oil and natural gas extraction, processing and transmission infrastructure across the upstream, midstream and downstream end-markets are facing increasingly strict safety requirements as they manage and build infrastructure. As a result, our operations and those of our customers are subject to increasingly strict federal, state, local and foreign laws and regulations governing worker safety and employee health, including pipeline safety and exposure to hazardous materials. Future environmental and safety compliance could require the use of more specialized products and higher rates of maintenance, repair and replacement to ensure the integrity of our customers' facilities. The Pipeline Inspection, Protection, Enforcement and Safety Act has established a regulatory framework that mandates comprehensive testing and replacement programs for transmission lines across the U.S. Pipeline safety is subject to state regulation as well as by the Pipeline and Hazardous Materials Safety Administration of the United States Department of Transportation, which, among other things, regulates natural gas and hazardous liquid pipelines. The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 bill that would further enhance federal regulation of pipeline safety passed Congress in December 2011. From time to time, administrative or judicial proceedings or investigations may be brought by private parties or government agencies, or stricter enforcement could arise, with respect to pipeline safety and employee health matters. Such proceedings or investigations, stricter enforcement or increased regulation of pipeline safety could result in fines or costs or a disruption of our operations and those of our customers, all of which could adversely affect our business and results of operations.

We could be subject to personal injury, property damage, product liability, warranty, environmental and other claims involving allegedly defective products that we supply.

The products we supply are often used in potentially hazardous applications that could result in death, personal injury, property damage, environmental damage, loss of production, punitive damages and consequential damages. Actual or claimed defects in the products we supply may result in our being named as a defendant in lawsuits asserting potentially large claims despite our not having manufactured the products alleged to have been defective. We may offer warranty terms that exceed those of the supplier, or we and the supplier may be financially unable to cover the losses and damages caused by any defective products that it manufactured and we supplied. Finally, the third-party supplier may be in a jurisdiction where it is impossible or very difficult to enforce our rights to obtain contribution in the event of a claim against us.

We may not have adequate insurance for potential liabilities.

In the ordinary course of business, we may be subject to various product and non-product related claims, laws and administrative proceedings seeking damages or other remedies arising out of our commercial operations. We maintain insurance to cover our potential exposure for most claims and losses. However, our insurance coverage is subject to various exclusions, self-retentions and deductibles, may be inadequate or unavailable to protect us fully, and may be canceled or otherwise terminated by the insurer. Furthermore, we face the following additional risks under our insurance coverage:

- n we may not be able to continue to obtain insurance coverage on commercially reasonable terms, or at all;

ⁿ we may be faced with types of liabilities that are not covered under our insurance policies, such as damages from environmental contamination or terrorist attacks, and that exceed any amounts we may have reserved for such liabilities;

ⁿ the amount of any liabilities that we may face may exceed our policy limits and any amounts we may have reserved for such liabilities; and

ⁿ we may incur losses resulting from interruption of our business that may not be fully covered under our insurance policies. Even a partially uninsured claim of significant size, if successful, could materially and adversely affect our business, financial condition, results of operations and liquidity. However, even if we successfully defend ourselves against any such claim, we could be forced to spend a substantial amount of money in litigation expenses, our management could be required to spend valuable time in the defense against these claims and our reputation could suffer, any of which could harm our business and financial condition.

Our internal controls over financial reporting may not be effective, which could have a significant and adverse effect on our business and reputation.

We are evaluating our internal controls over financial reporting in order to allow management to report on the design and operational effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and rules and regulations of the Securities and Exchange Commission, or SEC, thereunder, which we refer to as Section 404. We are in the process of documenting and initiating tests of our internal control procedures in order to satisfy the requirements of Section 404, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. We are required to comply with the requirements of Section 404 for our fiscal year ending December 31, 2013. In addition, if we fail to achieve and maintain the adequacy of our internal controls over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could adversely affect our results of operations.

We may incur asset impairment charges for goodwill and other indefinite lived intangible assets, which would result in lower reported net income (or higher net losses).

Under accounting principles generally accepted in the U.S., we are required to evaluate our goodwill and other indefinite lived intangible assets for impairment at least annually, and additionally whenever a triggering event occurs that indicates the carrying value may not be recoverable.

During 2010, we performed an interim goodwill impairment analysis that indicated the book value of goodwill for our predecessor's Americas and United Arab Emirates (UAE) reporting units exceeded their estimated fair value. As a result, our predecessor recorded an impairment charge of \$62.8 million, which is reflected in its statement of operations for the year ended December 31, 2010. At December 31, 2011, there was no goodwill balance remaining at our predecessor's Americas and UAE reporting units after this impairment charge and a total of \$23.0 million of goodwill remained in our predecessor's U.K. and Singapore reporting units. In connection with the performance of the interim goodwill impairment analysis, tradenames and trademarks were also tested for impairment and no impairment was recorded by our predecessor as the fair value of the tradenames and trademarks exceeded their carrying value at the review date. At December 31, 2011, the book value of tradenames and trademarks on our pro forma balance sheet was \$21.4 million and there were no impairment charges recorded by our predecessor or B&L during the year ended December 31, 2011.

In assessing the recoverability of our goodwill and other indefinite lived intangible assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. Any

significant changes to any of these assumptions or factors could have a material impact on the results of our goodwill impairment analysis. If goodwill is determined to be impaired for any of our reporting units now or in the future, a non-cash charge would be required. Any such charge would result in lower reported net income (or higher net losses)

Risks related to our existing indebtedness

We may not be able to generate sufficient cash to service all of our indebtedness.

Our ability to make payments on our indebtedness depends on our ability to generate cash in the future. Subsequent to the Reorganization, we expect that the EMC senior secured notes, our credit facilities and our other outstanding indebtedness will account for significant cash interest expense in 2012 and subsequent years. Accordingly, we will have to generate significant cash flow from operations solely to meet our debt service requirements. If we do not generate sufficient cash flow to meet our debt service and working capital requirements, we may need to seek additional financing; however, this insufficient cash flow may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all. Furthermore, none of EM II LP, B&L or their respective members or affiliates, including JCP, has any obligation to provide us with debt or equity financing, and we therefore may be unable to generate sufficient cash to service all of our indebtedness.

We may need additional capital in the future and it may not be available on acceptable terms.

We may require additional capital in the future to do the following:

- n fund our operations;
- n finance investments in equipment and infrastructure needed to maintain and expand our distribution capabilities;
- n enhance and expand the range of products and services we offer;
- n respond to potential strategic opportunities, such as investments, acquisitions and expansion; and
- n service or refinance our indebtedness.

Because of our high level of outstanding indebtedness, additional financing may not be available on terms favorable to us, or at all. The terms of available financing may restrict our financial and operating flexibility. If adequate funds are not available on acceptable terms, we may be forced to reduce our operations or delay, limit or abandon expansion opportunities. Moreover, even if we are able to continue our operations, the failure to obtain additional financing could adversely affect our ability to compete.

Some of our indebtedness is subject to floating interest rates, which would result in our interest expense increasing if interest rates rise.

Indebtedness under our credit facilities and otherwise is and may be in the future subject to floating interest rates. Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and reducing funds available for operations or other purposes. Accordingly, we may experience a negative impact on earnings and/or cash flows as a result of interest rate fluctuation. The actual impact would depend on the amount of floating rate debt outstanding, which fluctuates from time to time. At December 31, 2011, there were \$17.0 million of cash borrowings outstanding under B&L's revolving credit facility, which we refer to as the BL revolving credit facility, and \$20.5 million of cash borrowings outstanding under our EM revolving credit facility. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt.

Notwithstanding our current indebtedness levels and restrictive covenants in the agreements governing our indebtedness, we may still be able to incur substantial additional debt, which could exacerbate the risks described above.

We may be able to incur additional debt in the future. Although the agreements governing our existing debt, including the credit agreements for the revolving credit facilities and the indenture governing the EMC senior secured notes, contain restrictions on our ability to incur indebtedness, those restrictions are subject to a number of exceptions which permit us to incur substantial debt. In addition, if we are able to designate some of

Edgar Filing: Edgen Group Inc. - Form S-1/A

our restricted subsidiaries under the indenture governing the EMC senior secured notes as unrestricted subsidiaries, those unrestricted subsidiaries would be permitted to incur debt outside of the limitations specified in the indenture. Adding new debt to current debt levels or making otherwise restricted payments could intensify the related risks that we and our subsidiaries now face. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt.

Restrictive covenants in the agreements governing our current or future indebtedness could restrict our operating flexibility.

The indenture governing the EMC senior secured notes and other agreements governing our current indebtedness contain affirmative and negative covenants that limit our ability and the ability of our subsidiaries to take certain actions. These restrictions may limit our ability to operate our business and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. The credit agreements governing our revolving credit facilities require us, under certain circumstances, to maintain specified financial ratios including fixed charge coverage ratios and satisfy other financial conditions. Our indenture and other agreements governing our existing indebtedness restrict, among other things, our ability and the ability of certain of our subsidiaries to:

- n incur or guarantee additional debt and issue preferred stock;
- n pay dividends or make other distributions, or repurchase capital stock or subordinated debt;
- n make certain investments and loans;
- n create liens;
- n engage in sale and leaseback transactions;
- n make material changes in the nature or conduct of our business;
- n create restrictions on the payment of dividends and other amounts to us from our subsidiaries;
- n enter into agreements restricting the ability of a subsidiary to make or repay loans to, transfer property to, or guarantee indebtedness of, us or any of our subsidiaries;
- n merge or consolidate with or into other companies;
- n make capital expenditures;
- n transfer or sell assets; and
- n engage in transactions with affiliates.

The breach of any of these covenants by us or the failure by us to meet any of these ratios or conditions could result in a default under any or all of such indebtedness. Furthermore, if we or certain of our subsidiaries experience a specified change of control, a default may occur under the indenture governing the EMC senior secured notes and other agreements governing our existing indebtedness. If a default occurs under any such indebtedness, all of the outstanding obligations thereunder could become immediately due and payable, which could result in a cross-default under and acceleration of certain of our other outstanding indebtedness. Our ability to comply with the provisions of the indenture governing the EMC senior secured notes, the credit agreements governing our revolving credit facilities, the Seller Note and other debt agreements governing other indebtedness we may incur in the future can be affected by events beyond our control and may make it difficult or impossible for us to comply. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt.

Credit availability under our revolving credit facilities is subject to a borrowing base limitation that fluctuates from time to time and is subject to redetermination.

Our credit availability under our revolving credit facilities could decline if the values of our borrowing bases (which are calculated based on a percentage of eligible inventory and eligible trade accounts receivable, as defined in each of the credit agreements governing the EM revolving credit facility and the BL revolving credit facility) decline, the applicable administrative agents impose reserves in their discretion, our utilization under our revolving credit facilities increases, or for other reasons. The value of one or both of our revolving credit facilities borrowing bases could decline if the value of their respective eligible inventory or accounts receivable declines due to economic or market conditions, working capital practices, or otherwise. In addition, the administrative agents under the revolving credit facilities are entitled to conduct borrowing base field audits and inventory appraisals at least annually, which may result in a lower borrowing base valuation for one or both of our facilities. If our credit availability is less than our utilization under either of the revolving credit facilities, we would be required to repay borrowings and/or cash collateralize outstanding trade finance instruments sufficient to eliminate the deficit.

Furthermore, full credit availability could be limited by the requirement to maintain the fixed charge coverage ratio at or above 1.10 to 1.00 under the BL revolving credit facility, and, under certain circumstances, 1.25 to 1.00

under the EM revolving credit facility because any additional utilization would increase cash interest expense and, all else being equal, decrease our fixed charge coverage ratios. The fixed charge coverage ratio under the EM revolving credit facility could be applicable if the aggregate availability falls below certain thresholds. At December 31, 2011, the fixed charge coverage ratio under the EM revolving credit facility exceeded the required minimum fixed charge coverage ratio of 1.25 to 1.00 and the fixed charge coverage ratio under the BL revolving credit facility exceeded the required minimum fixed charge coverage ratio of 1.10 to 1.00. Although the EM revolving credit facility's fixed charge coverage ratio covenant was not applicable because our aggregate availability was above the applicable threshold, there can be no assurance that our aggregate availability will not fall below one of the applicable thresholds in the future. Our failure to satisfy the minimum fixed charge coverage ratios under our revolving credit facilities at a time when they are applicable would be an event of default under each of the applicable revolving credit facilities, in which case either of the administrative agents or the requisite lenders may accelerate the maturity of our revolving credit facilities and/or terminate the lending commitments thereunder and which could result in a default under and acceleration of certain of our other indebtedness. Our operations are funded, in part, from borrowings under the revolving credit facilities and are supported with trade finance instruments issued from our revolving credit facilities. If we are unable to continue utilizing the revolving credit facilities and if we cannot obtain alternate credit sources or trade finance support at commercially reasonable rates, or if we are required to repay debt under the revolving credit facilities or any other facility, we may not be able to continue our operations without substantial disruptions, or at all, buy or hold inventory, expand into new markets or take on new projects that require capital expenditures.

Risks relating to our Class A common stock and this offering

Concentration of ownership among our existing executives, directors and principal stockholders may prevent new investors from influencing significant corporate decisions.

After giving effect to the Reorganization and this offering, entities controlled by affiliates of JCP will own 100% of our outstanding Class B common stock and will hold approximately % of the voting power of our outstanding capital stock. In addition, assuming the exercise in full of the Exchange Rights for shares of Class A common stock and the pro rata distribution of such shares to the partners and members of EM II LP and B&L, and including restricted shares of our Class A common stock, the Existing Investors, including our executives, directors and funds managed by affiliates of JCP, will own, in the aggregate, approximately % of our outstanding Class A common stock and % of the voting power of our outstanding capital stock. Furthermore, each of EM II LP and B&L will be entitled to have a representative attend meetings of our board of directors as a non-voting observer so long as certain ownership thresholds are met. Accordingly, entities controlled by affiliates of JCP will be able to elect all of the members of our board of directors and thereby control our management and affairs, including matters relating to acquisitions, dispositions, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends. In addition, affiliates of JCP will be able to determine the outcome of all matters requiring stockholder approval and will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. We cannot assure you that the interests of these affiliates of JCP will not conflict with your interests. The concentration of ownership could deprive our Class A common stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and might ultimately affect the market price of our Class A common stock. For additional information regarding the share ownership of, and our relationships with, these certain stockholders, you should read the information under the headings Principal Stockholders and Certain Relationships and Related Person Transactions.

No public market existed for our Class A common stock prior to the offering and there can be no assurance that an active trading market will develop for the Class A common stock on the NYSE.

Prior to this offering, there has been no public market for our Class A common stock, and you could not buy or sell the Class A common stock publicly. We have applied to have the Class A common stock quoted on the NYSE. There can be no assurance that an active trading market will develop for our Class A common stock on the NYSE. The absence of an active trading market on the NYSE could adversely affect the market price of our Class A common stock. The underwriters will determine the offer price by negotiation, and this price may not be the price at which the shares offered hereby will trade due to the fact that the offer price may be based on factors that may not be indicative of future performance.

Market volatility may cause the price of our Class A common stock and the value of your investment to decline, and you may not be able to resell your Class A common stock at or above the initial public offering price.

Our share price is likely to be volatile. The initial public offering price may not be indicative of prices that will subsequently prevail in the market. Therefore, if you purchase shares of Class A common stock in this offering, you may not be able to resell your shares at or above the initial public offering price. In addition to other risk factors described in this section, the following factors may have a significant impact on the market price of our Class A common stock:

- n our operating and financial performance and prospects;
- n our quarterly or annual earnings or those of other companies in our industry;
- n the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- n changes in, or failure to meet, earnings estimates or recommendations by research analysts who track our Class A common stock or the stock of other companies in our industry;
- n the failure of research analysts to cover our Class A common stock;
- n strategic actions by us, our customers or our competitors, such as acquisitions or restructurings;
- n new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- n changes in accounting standards, policies, guidance, interpretations or principles;
- n material litigations or government investigations;
- n changes in general conditions in the U.S. and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events;
- n changes in the oil and natural gas industry and other markets in which we operate;
- n adverse events with respect to our customers and suppliers or our relationships with them;
- n our inability to implement our business plan and execute our growth strategies;
- n our failure to pay our indebtedness when it becomes due or other defaults under our debt agreements;

Edgar Filing: Edgen Group Inc. - Form S-1/A

- n issuances of debt securities or restructuring of our indebtedness;
- n changes in key personnel;
- n sales of common stock by us or members of our management team;
- n termination of lock-up agreements with our management team and principal stockholders;
- n the granting or exercise of employee stock options;
- n volume of trading in our common stock;
- n the realization of any risks described under Risk Factors; and
- n other events or factors, many of which are beyond our control.

In addition, in the past two years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our Class A common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price and cause you to lose all or part of your investment. Further, in the past, market fluctuations and price declines in a company's stock have led to securities class action litigations. If such a suit were to arise, it could have a substantial cost and divert our resources regardless of the outcome.

Investors purchasing our Class A common stock will suffer immediate and substantial dilution.

The initial public offering price for our Class A common stock will be substantially higher than the equivalent net tangible book value per share of our Class A common stock immediately after this offering. If you purchase shares of Class A common stock in this offering, you will incur substantial and immediate dilution in the net tangible book value of your investment. Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of shares of Class A common stock then outstanding. See Dilution for a calculation of the extent to which your investment will be diluted.

Shares of Class A common stock eligible for public sale after this offering could adversely affect the price of our Class A common stock.

The market price for our Class A common stock could decline as a result of sales in the market after this offering of our Class A common stock by persons receiving such shares as a result of the Exchange Rights, including our executives, directors and funds managed by affiliates of JCP, or the perception that these sales could occur. These sales could materially impair our future ability to raise capital through offerings of our Class A common stock. The lock-up agreements relating to our stockholders provide that they may not dispose of shares of Class A common stock for 180 days following the date of this prospectus without the consent of the representatives of the underwriters, subject to certain exceptions. For more information on our principal stockholders, their lock-up agreements and their shares of common stock eligible for future sale, see *Principal Stockholders*, *The Reorganization*, *Shares Eligible for Future Sale* and *Underwriting*.

We do not intend to pay dividends on our Class A common stock in the foreseeable future. However, we expect EDG LLC will make cash distributions to EM II LP, B&L and us for taxes on income of EDG LLC.

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our Class A common stock. Under the agreements governing our outstanding indebtedness, we are generally prohibited from paying dividends or distributions on our stock. However, pursuant to the limited liability company agreement of EDG LLC, we expect EDG LLC to make cash distributions to Edgen Group, EM II LP and B&L in respect of the taxable income of EDG LLC. See

Management's Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* *Debt* and *Dividend Policy*.

Future sales and issuances of our Class A common stock or rights to purchase Class A common stock, including pursuant to our equity incentive plans and the Exchange Rights, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.

We may need additional capital in the future to execute our business plan. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in subsequent transactions, investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering.

Pursuant to our equity incentive plans, our board of directors is authorized to grant stock options and other equity-based awards to our employees, directors and consultants. The number of shares available for future grant under our equity incentive plans will be _____ as of the completion of this offering and will automatically increase on January 1 of each year starting January 1, 2013 by an amount equal to the lesser of _____ % of our capital stock outstanding as of December 31 of the preceding calendar year or _____ shares, subject to the ability of our board of directors to take action to reduce the size of such increase in any given year. Moreover, subject to certain limitations, pursuant to the Exchange Rights (assuming we do not elect to settle such Exchange Rights in cash), EM II LP and B&L will have the right to acquire additional shares of our Class A common stock in the aggregate following the completion of this offering. Future option grants and issuances of common stock under our equity incentive plans may have an adverse effect on the market price of our common stock.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act of 2002 and related rules of the SEC and the NYSE regulate corporate governance practices of public companies. We expect that compliance with these public company requirements will increase our costs and make some activities more time consuming. For example, we will create new board committees and adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our SEC reporting requirements. We also expect that it could be difficult and will be significantly more expensive to obtain directors' and officers' liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. Advocacy efforts by stockholders and third parties may also prompt even more changes in governance and reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders or remove our current management. These provisions include:

- n authorizing the issuance of blank check preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- n limiting the removal of directors by the stockholders once JCP ceases to beneficially own a majority of our voting power;
- n creating a staggered board of directors;
- n prohibiting stockholder action by written consent once JCP ceases to beneficially own a majority of our voting power, thereby requiring all stockholder actions to be taken at a meeting of stockholders;
- n having two classes of common stock as discussed above;
- n eliminating the ability of stockholders to call a special meeting of stockholders once JCP ceases to beneficially own a majority of our voting power; and
- n establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. We are also subject to certain anti-takeover provisions under Delaware law which may discourage, delay or prevent someone from acquiring us or merging with us whether or not it is desired by or beneficial to our stockholders. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock, or an interested stockholder, unless the interested stockholder has held the stock for three years or, among other things, the board of directors has approved the transaction. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock. Prior to the completion of this offering, our board of directors will pass a resolution expressly providing that JCP and its affiliates and any group as to which such persons are a party or any transferee of any such person or group of persons will not constitute an interested stockholder for purposes of these provisions.

We will be a controlled company within the meaning of the NYSE rules and, as a result, will qualify for and will rely on exemptions from certain corporate governance requirements.

Upon completion of this offering we will be a controlled company within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a company of which more than 50% of the voting power for the election of directors is held by a person or group of persons acting together is a controlled company and may elect not to comply with certain NYSE corporate governance requirements, including the requirements that:

- n a majority of the board of directors consist of independent directors;

- ⁿ the nominating and corporate governance committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

 - ⁿ the compensation committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

 - ⁿ there be an annual performance evaluation of the nominating and corporate governance and compensation committees.
- Following this offering, we intend to elect to be treated as a controlled company and utilize these exemptions, including the exemption for a board of directors composed of a majority of independent directors. In addition,

although we will have adopted charters for our audit, nominating and corporate governance and compensation committees and intend to conduct annual performance evaluations for these committees, none of these committees will be composed entirely of independent directors immediately following the completion of this offering. We will rely on the phase-in rules of the SEC and the NYSE with respect to the independence of our audit committee. These rules permit us to have an audit committee that has one member that is independent by the date that our Class A common stock first trades on the NYSE, a majority of members that are independent within 90 days of the effectiveness of the registration statement of which this prospectus forms a part, or the effective date, and all members that are independent within one year of the effective date. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our stock would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

The financial statements presented in this prospectus may not give you an accurate indication of what our future results of operations are likely to be.

Because of the Reorganization and this initial public offering, the historical financial statements included in this prospectus may not represent an accurate picture of what our future performance will be. Our limited combined operating history may make it difficult to forecast our future operating results and financial condition. In particular, because of the significance of the Reorganization, the financial statements for periods prior to the Reorganization are not comparable with those after the Reorganization, and the lack of comparable data may make it difficult to evaluate our results of operations and future prospects. Pro forma financial information is presented with respect to the years ended December 31, 2011 and 2010 that assumes that the Reorganization and the initial public offering closed on January 1, 2010 as opposed to the actual closing date of this offering. However, this pro forma financial information may not give you an accurate indication of what our actual results would have been if the Reorganization and initial public offering had been completed at the beginning of the period presented or of what our future results of operations and financial condition are likely to be.

We will be required to pay EM II LP and B&L for most of the tax benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we receive in connection with this offering, subsequent issuances of our Class A common stock pursuant to the Exchange Rights and certain other transactions that result in increases in our share of the tax basis of EDG LLC's assets.

The exercise of the Exchange Rights is expected to result in increases in our share of the tax basis of EDG LLC's assets if our tax basis in the EDG LLC membership units exchanged exceeds our share of the adjusted tax basis of EDG LLC's property. EMC's sale of its interests in B&L Supply, EM II LP's and B&L's sale of EDG LLC membership units to Edgen Group and certain other transactions are also expected to result in increases in our share of the tax basis of EDG LLC's assets. An increase in the tax basis of EDG LLC's assets may reduce the future tax liability of Edgen Group through increased depreciation and amortization deductions for tax purposes. We expect to enter into a tax receivable agreement with each of EM II LP and B&L that will provide for the payment by Edgen Group of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize as a result of increased depreciation and amortization deductions available to us as a result of these transactions that result in increases in our share of the tax basis of EDG LLC's assets, and as a result of our making payments under the tax receivable agreement.

While the actual amount and timing of payments under the tax receivable agreements will depend upon a number of factors, including the amount and timing of taxable income we generate in the future, the value of our individual assets, the portion of our payments under the tax receivable agreements constituting imputed interest and increases

in the tax basis of our assets resulting in payments to EM II LP and B&L, we expect that the payments that may be made to EM II LP and B&L will be substantial. If the Exchange Rights were to be exercised in full and if all of the other transactions that could result in an increase in our share of the basis of EDG LLC's assets were to occur, in each case, in a hypothetical fully taxable transaction upon completion of this offering and assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize the full tax benefit of the increased depreciation and amortization of our assets, we expect that future payments to EM II LP and B&L in respect of the tax receivable agreements will aggregate \$ million and range from approximately \$ million to \$ million per year over the next 15 years. We may need to incur debt to finance payments under the tax receivable agreements to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise. Edgen Group will be a holding company and, as such, will be dependent upon distributions from its subsidiaries to pay its taxes, expenses and other costs.

A tax authority may challenge all or part of the tax basis increases discussed above and a court could sustain such a challenge. In that event, we may be required to pay additional taxes and possibly penalties and interest to one or more tax authorities. Although future payments to EM II LP and B&L under the tax receivable agreements would cease or diminish, EM II LP and B&L will not reimburse us for any payments previously made if such basis increases or other benefits were later not allowed. As a result, in such circumstances we could make payments to EM II LP and B&L under the tax receivable agreements in excess of our actual cash tax savings.

In addition, we do not have a right to terminate the tax receivable agreements, and our obligations under the tax receivable agreements may limit our ability to pursue strategic transactions or engage in other transactions that may maximize the value of our business. These obligations might discourage, delay or prevent a change of control that you may consider favorable.

Our primary U.S. subsidiary, EMC, has net operating loss carryforwards. The utilization of these deferred tax assets is subject to various limitations. If EMC utilizes all or a portion of these net operating loss carryforwards to offset income received from its sale of B&L Supply to EM Holdings LLC in connection with the Reorganization, we will not be able to utilize these net operating loss carryforwards to offset our income in future periods.

At December 31, 2011, EMC, our primary U.S. subsidiary, had a deferred tax asset of \$11.4 million associated with certain net operating loss carryforwards of \$22.1 million, all of which has been offset by a valuation allowance. The actual realizability of these deferred tax assets generally may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such net operating loss carryforwards prior to their expiration. Additionally, our ability to fully use these tax assets will also be adversely affected if we have an ownership change within the meaning of Section 382 of the U.S. Internal Revenue Code of 1986, as amended. An ownership change is generally defined as a greater than 50% increase in equity ownership by 5% shareholders (as that term is defined for purposes of Section 382 of the Internal Revenue Code) in any three-year period. Future changes in our ownership, including as a result of this offering, depending on the magnitude, including the purchase or sale of our Class A common stock by 5% shareholders, and issuances or redemptions of Class A common stock by us, could result in an ownership change that would trigger the imposition of limitations under Section 382. Accordingly, there can be no assurance that in the future we will not experience limitations with respect to recognizing the benefits of our net operating loss carryforwards and other tax attributes, which limitations could have a material adverse effect on our results of operations, cash flows or financial condition.

In connection with the Reorganization, EM II LP may have EM Holdings LLC purchase from EMC all or a portion of EMC's remaining interest in B&L Supply in a taxable transaction. If such sale transaction occurs, we expect that the amount of our payment under the Tax Receivable Agreement with EM II LP will be increased in connection with such sale and that EMC will use all or a significant portion of its net operating loss carryforwards to offset substantially all of EMC's taxable gain from that transaction. In that case, the net operating loss carryforwards will not be available to offset EMC's taxable income in future periods.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, can, continue, potential, predicts, will and the negative of these terms or other comparable terminology. These statements include, among other things, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, industry trends, the impact of the Reorganization, including the consolidation of B&L's business with us, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. You should not put undue reliance on our forward-looking statements. These statements are based on our management's beliefs and assumptions, which, in turn, are based on currently available information. These assumptions could prove inaccurate. Forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from these forward-looking statements as a result of a wide variety of factors, including all the risks discussed in Risk Factors and elsewhere in this prospectus. The following factors, among others, could cause our actual results and performance to differ materially from the results and the performance projected in, or implied by, the forward looking statements:

- n supply, demand, prices and other market conditions for steel and other commodities;
- n the timing and extent of changes in commodity prices, including the cost of energy and raw materials;
- n the effects of competition in our business lines;
- n the condition of the commodities markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions;
- n the ability of our counterparties to satisfy their financial commitments;
- n tariffs and other government regulations relating to the products we supply and services we provide;
- n adverse developments in our relationship with our key employees;
- n operational factors affecting the ongoing commercial operations of our facilities, including catastrophic weather-related damage, regulatory approvals, permit issues, unscheduled blackouts, outages or repairs, unanticipated changes in fuel costs or availability of fuel emission credits or workforce issues;
- n our ability to operate our business efficiently, manage capital expenditures and costs (including general and administrative expenses) tightly and generate earnings and cash flow;
- n our ability to pass through increases in our costs to our customers;
- n restrictive covenants in our indebtedness that may adversely affect our operational flexibility;

- n general political conditions and developments in the U.S. and in foreign countries whose affairs affect supply, demand and markets for the products we supply;
- n conditions in the U.S. and international economies;
- n our ability to obtain adequate levels of insurance coverage;
- n future asset impairment charges;
- n adequate protection of our intellectual property;
- n the impact of federal, state and local tax rules;
- n U.S. and non-U.S. governmental regulation, especially environmental and safety laws and regulations;
- n our ability to retain key employees;
- n the ability of EMC's net operating loss carryforwards to shield the gain EMC may realize from a sale of all or a portion of its membership interests in B&L Supply to EM Holdings LLC;
- n the amount of payments we may be required to make under the Tax Receivable Agreements; and
- n the costs of being a public company, including Sarbanes-Oxley compliance.

Accordingly, we urge you to read this prospectus completely and with the understanding that actual future results may be materially different from what we plan or expect. In addition, these forward-looking statements present our estimates and assumptions only as of the date of this prospectus. Except for our ongoing obligation to disclose material information as required by federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this prospectus.

USE OF PROCEEDS

We estimate that our net proceeds from this offering will be approximately \$ million, after deducting the underwriting discounts and commissions and the estimated fees and expenses of this offering (assuming an initial public offering price of \$ per share, the midpoint of the price range set forth on the cover page of this prospectus).

We intend to use (1) \$ of the net proceeds from this offering to purchase newly-issued membership units in our consolidated subsidiary, EDG LLC, which will be used by EDG LLC to repay certain indebtedness of its consolidated subsidiaries, and (2) up to \$ of any remaining proceeds to purchase membership units of EDG LLC and shares of our Class B common stock from EM II LP and B&L. Specifically, we expect to repay the following indebtedness:

\$ of the amount outstanding and any related accrued interest under B&L's term loan, which we refer to as the BL term loan. At December 31, 2011, \$116.4 million was outstanding under the BL term loan and the weighted average interest rate paid during the year ended December 31, 2011 was 11.0%. The BL term loan matures on August 19, 2015 and is prepayable at any time, subject to the payment of a make-whole prepayment penalty. At December 31, 2011, there was accrued interest of \$0.4 million related to the BL term loan and the prepayment penalty would have been approximately \$14.5 million had we fully repaid this debt.

\$ of the amount outstanding and any related accrued interest under the Seller Note. The Seller Note bears interest at a compounding rate of 8.0% per annum and matures on August 19, 2019. At December 31, 2011, \$50.0 million was outstanding under the Seller Note and there was \$5.3 million of accrued interest.

\$ of the amount outstanding and any related accrued interest under the EM revolving credit facility, which matures on May 11, 2014 and on which the weighted average interest rate paid during the year ended December 31, 2011 was 4.36%. At December 31, 2011, \$20.5 million was outstanding under the EM revolving credit facility and there was accrued interest of \$0.1 million.

\$ of the amount outstanding and any related accrued interest under the BL revolving credit facility, which matures on August 19, 2014 and on which the weighted average interest rate paid during the year ended December 31, 2011 was 4.58%. At December 31, 2011, \$17.0 million was outstanding under the BL revolving credit facility and there was accrued interest of \$0.2 million.

We expect to use the remaining estimated net proceeds from this offering for other general corporate purposes, which may include, among other things, the repayment of other indebtedness, funding of working capital and funding of acquisitions. We have no current commitments or agreements with respect to any acquisitions, and we have not entered into any negotiations with potential targets. There can be no assurance that we will pursue or consummate any acquisition, or if we were to consummate an acquisition, the terms thereof.

Jefferies Finance LLC, an affiliate of Jefferies & Company, Inc., serves as the lead arranger and a lender under the BL term loan. See Underwriting Affiliations and Conflicts of Interest. As a result, Jefferies & Company, Inc. or its affiliates will receive approximately \$ million of the net proceeds to us from this offering. As a result, this offering will be conducted in accordance with Rule 5121 of the Financial Industry Regulatory Authority. See Underwriting Affiliations and Conflicts of Interest.

DIVIDEND POLICY

We have not declared or paid any cash dividends on our Class A common stock, although in the future we may do so. Any such future determination relating to our dividend policy will be made at the discretion of our board of directors, subject to applicable law, and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Our ability to declare and pay dividends is restricted by covenants in our revolving credit agreements, the indenture governing the EMC senior secured notes and the Seller Note. Our ability to declare and pay dividends is also dependent upon cash dividends and distributions or other transfers from our subsidiaries to us because we are a holding company with no business operations, sources of income or assets of our own other than our ownership interests in our subsidiaries. Payment of dividends, distributions, loans or advances by our subsidiaries to us are subject to restrictions imposed by the debt instruments of our subsidiaries. In addition, payments or distributions from our subsidiaries could be subject to restrictions on dividends or repatriation of earnings, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate. See **Risk Factors** Risks related to our existing indebtedness Restrictive covenants in the agreements governing our current or future indebtedness could restrict our operating flexibility. As a result, you should not rely on an investment in our Class A common stock if you require dividend income. You will need to sell your Class A common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

We expect EDG LLC to make cash distributions to Edgen Group, EM II LP and B&L in respect of the taxable income of EDG LLC.

CAPITALIZATION

The following table sets forth our cash and capitalization at December 31, 2011 on a:

- n historical basis, with respect to our predecessor, EM II LP; and

- n pro forma as adjusted basis giving effect to (1) the Reorganization, (2) the issuance of _____ shares of our Class A common stock at an assumed initial public offering price of \$ _____ per share, the midpoint of the price range set forth on the cover page of this prospectus and (3) use of \$ _____ of the net proceeds to purchase newly-issued membership units in EDG LLC, which EDG LLC will use to repay certain outstanding indebtedness of our subsidiaries, and up to \$ _____ of any remaining proceeds to purchase membership units in EDG LLC and shares of our Class B common stock from EM II LP and B&L. We expect to use any remaining net proceeds from this offering for other general corporate purposes.

This table is derived from, and should be read together with, the historical consolidated financial statements of EM II LP and our unaudited pro forma condensed combined financial information included elsewhere in this prospectus. You should also read this table in conjunction with Use of Proceeds, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	AT DECEMBER 31, 2011	
	PREDECESSOR ACTUAL	PRO FORMA AS ADJUSTED FOR EFFECTS OF THE REORGANIZATION, THIS OFFERING AND USE OF PROCEEDS ⁽⁴⁾
	(in thousands except par value)	
Cash and cash equivalents	\$ 26,218	\$
EM II LP		
\$465,000 12.25% EMC senior secured notes	\$ 462,032	\$
\$195,000 EM revolving credit facility ⁽¹⁾	20,523	
\$15,000 EM FZE revolving credit facility ⁽²⁾		
Capital Lease	18,186	
Equity		
General partner	\$ 1	\$
Limited partners	(129,736)	
Accumulated other comprehensive loss	(25,648)	
Common Stock Class A, par value \$0.0001 per share, shares authorized; no shares issued and outstanding actual; shares issued and outstanding pro forma as adjusted for this offering ⁽⁵⁾		
Common Stock Class B, par value \$0.0001 per share, shares authorized; no shares issued and outstanding actual; shares issued and outstanding pro forma as adjusted for this offering;		
Additional paid-in capital		
Retained earnings		
Non-controlling interest	330	
Total capitalization	\$ 345,688	\$

⁽¹⁾ At December 31, 2011, we had availability of \$95.0 million under the EM revolving credit facility.

⁽²⁾ At December 31, 2011, we had availability of \$4.5 million under the EM FZE revolving credit facility.

⁽³⁾ At December 31, 2011, we had availability of \$58.0 million under the BL revolving credit facility.

⁽⁴⁾ In connection with the Reorganization, we will assume and immediately repay with the proceeds from this offering certain amounts outstanding under the BL term loan, the EM revolving credit facility, the BL revolving credit facility and the Seller Note, which at December 31, 2011, were \$116.4 million, \$20.5 million, \$17.0 million and \$50.0 million, respectively. For a detailed summary of the transactions comprising the Reorganization see The Reorganization.

⁽⁵⁾ The number of shares of common stock outstanding on an actual and pro forma as adjusted basis at December 31, 2011 excludes shares of common stock issuable upon the exercise of stock options and shares of non-vested restricted stock awarded to certain of our employees.

DILUTION

If you invest in our Class A common stock, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share of Class A common stock and the pro forma as adjusted net tangible book value per share immediately after this offering. Net tangible book value per share represents the total tangible assets less total liabilities divided by the number of shares of Class A common stock outstanding at December 31, 2011. The number of shares of common stock outstanding after this offering of _____ is based on the number of shares outstanding at December 31, 2011 after giving effect to the Reorganization and the exchange by EM II LP and B&L of their EDG LLC membership units and shares of our Class B common stock for _____ shares in the aggregate of our Class A common stock and excludes _____ shares issuable upon exercise of currently outstanding options to purchase our Class A common stock.

At December 31, 2011, the net tangible book value of our predecessor EM II LP was a deficit of approximately \$203.5 million. After giving effect to the Reorganization and the exchange by EM II LP and B&L of their EDG LLC membership units and shares of our Class B common stock for _____ shares in the aggregate of our Class A common stock, our net tangible book value at December 31, 2011 would have been approximately \$ _____ million, or \$ _____ per share. After giving further effect to the sale by us of approximately _____ shares of our Class A common stock in this offering at an assumed public offering price per share of \$ _____ (the midpoint of the price range set forth on the cover page of this prospectus) and the application of the expected net proceeds therefrom our pro forma as adjusted net tangible book value at December 31, 2011 could have been approximately \$ _____, or \$ _____ per share. This would represent an immediate increase in net tangible book value of \$ _____ per share to existing stockholders and an immediate dilution of \$ _____ per share to investors purchasing our Class A common stock in this offering. The following table illustrates this dilution:

	PER SHARE
Assumed initial public offering price	\$ _____
Net tangible book value at December 31, 2011 after giving effect to the Reorganization	\$ _____
Increase in net tangible book value attributable to this offering	\$ _____
Pro forma as adjusted net tangible book value after giving effect to the Reorganization and this offering	\$ _____
Dilution per share to new investors	\$ _____

A \$1.00 increase or decrease in the assumed initial public offering price of \$ _____ per share would increase or decrease our pro forma as adjusted net tangible book value per share after this offering by \$ _____ per share and would increase or decrease the dilution in pro forma as adjusted net tangible book value per share to investors in this offering by \$ _____ per share. This calculation assumes that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and reflects the deduction of the estimated underwriting discounts and commissions and estimated fees and expenses of this offering.

The following table shows, on the pro forma as adjusted basis described above at December 31, 2011, the differences in the number of shares of Class A common stock purchased from us, the total cash consideration paid and the average price per share paid by our existing stockholders and by new investors (assuming an initial public offering price per share of \$ _____ per share, which is the midpoint of the price range set forth on the cover page of this prospectus).

Edgar Filing: Edgen Group Inc. - Form S-1/A

(millions)	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders		%	\$	%	\$
New investors		%		%	
Total		100%	\$	100%	\$

If the underwriters exercise their over-allotment option in full, the following will occur:

n the pro forma as adjusted percentage of our shares held by existing stockholders will decrease to approximately % of the total number of pro forma as adjusted shares outstanding immediately after this offering; and

n the pro forma as adjusted number of our shares held by investors in this offering will increase to , or approximately %, of the total pro forma as adjusted number of shares outstanding immediately after this offering.

The dilution information above is for illustrative purposes only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our shares and other terms of this offering determined at pricing.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables present certain selected historical consolidated financial data and other data of our predecessor EM II LP, for each of the years ended December 31, 2011, 2010, 2009, 2008 and 2007. The data set forth below should be read in conjunction with the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, Capitalization, and Unaudited Pro Forma Condensed Combined Financial Information, each of which is contained elsewhere in this prospectus, and the consolidated financial statements of EM II LP which are contained elsewhere in this prospectus.

The Reorganization will be consummated concurrently with this offering, and as a result, our future results of operations will include the results of operations of the business of B&L. We have determined that after the Reorganization, EM II LP will be our predecessor and have included summary historical consolidated financial data of EM II LP as a result. The summary historical consolidated statement of operations and other financial data of EM II LP for the years ended December 31, 2011, 2010 and 2009 and the summary historical consolidated balance sheet data of EM II LP at December 31, 2011 and 2010 are derived from the audited consolidated financial statements of EM II LP included elsewhere in this prospectus. The summary historical consolidated statement of operations and other financial data of EM II LP for the years ended December 31, 2008 and 2007 and the historical consolidated balance sheet data of EM II LP at December 31, 2009, 2008 and 2007 are derived from the audited consolidated financial statements of EM II LP that are not included in this prospectus.

Edgar Filing: Edgen Group Inc. - Form S-1/A

- (4) Represents adjustment for the equity in earnings and cash distributions received as a result of our predecessor's 14.5% ownership in B&L.
- (5) Includes prepayment penalties and previously deferred debt issuance costs of \$7.5 million expensed in 2009 related to the prepayment of our predecessor's 2007 term loan and \$31.4 million in 2007 related to the prepayment of our predecessor's 2005 senior notes.
- (6) The year ended December 31, 2010 includes a goodwill impairment charge of \$62.8 million as a result of the fair value of certain of our predecessor's reporting units falling below the carrying value.
- (7) Includes non-cash compensation expense related to the issuance of equity based awards.
- (8) Other (income) expense primarily includes unrealized currency exchange gains and losses on cash balances denominated in foreign currencies and other miscellaneous items.

UNAUDITED PRO FORMA CONDENSED COMBINED

FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information of Edgen Group consists of our unaudited pro forma condensed combined statements of operations for the years ended December 31, 2011 and 2010 and the unaudited pro forma condensed combined balance sheet at December 31, 2011.

The information presented for 2011 has been derived from the audited consolidated financial statements of EM II LP and B&L. The information presented for 2010 has been derived from the audited consolidated financial statements of EM II LP and B&L and the combined financial statements of B&L Predecessor, which is the accounting predecessor of B&L. Each of these audited financial statements is set forth elsewhere in this prospectus.

EM II LP is considered to be our predecessor for accounting purposes and its consolidated financial statements are our historical consolidated financial statements for periods prior to this offering. Edgen Group is a holding company that will manage its consolidated subsidiaries after the Reorganization, but has no business operations or material assets other than its ownership interest in its subsidiaries.

The unaudited pro forma condensed combined statements of operations for the years ended December 31, 2011 and 2010 assume the pro forma transactions noted herein occurred as of January 1, 2010. The unaudited pro forma condensed combined balance sheet presents the financial effects of the pro forma transactions noted herein as if they had occurred on December 31, 2011. The unaudited pro forma condensed combined financial information has been prepared to give effect to the following transactions:

The Reorganization

In connection with this offering, Edgen Group will become our new parent holding company in a transaction we refer to as the Reorganization. See Note 1 to this unaudited pro forma condensed combined financial information.

Initial Public Offering and Use of Offering Proceeds

In connection with this offering, we will issue _____ shares of our Class A common stock at an assumed initial public offering price of \$ _____ per share, the midpoint of the price range set forth on the cover page of this prospectus, and expect to use \$ _____ of the proceeds for the purchase of newly-issued membership units in EDG LLC, which EDG LLC will use to repay certain outstanding indebtedness of its subsidiaries, and up to \$ _____ of any remaining proceeds to purchase membership units in EDG LLC and shares of our Class B common stock from EM II LP and B&L. We expect to use any remaining net proceeds from this offering for other general corporate purposes. See Note 1 to this unaudited pro forma condensed combined financial information.

The adjustments were prepared in conformity with Article 11 of Regulation S-X and are based upon currently available information and certain estimates and assumptions management believes provide a reasonable basis for presenting the significant effects of the transactions as contemplated.

The unaudited pro forma condensed combined financial information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of each of EM II LP, B&L and B&L Predecessor and related notes thereto, each of which is set forth elsewhere in this prospectus. The unaudited pro forma condensed combined financial information is for informational purposes only and is not intended to represent or be indicative of the results of operations or financial position that we would have reported had this offering been completed on the dates indicated and should not be taken as representative of our future consolidated results of operations or financial position.

EDGEN GROUP

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2011

(IN THOUSANDS)	EM II LP Historical	B&L Historical	Pro Forma Adjustments	Edgen Group Pro Forma
SALES	\$ 911,612	\$ 763,659	\$ (62) ^(a)	\$ 1,675,209
OPERATING EXPENSES:				
Cost of sales (exclusive of depreciation and amortization shown below)	777,108	687,222	(62) ^(a)	1,464,268
Selling, general and administrative expense, net of service fee income	75,029	15,937	(1,494) ^(k)	89,580
			108 ^(l)	
Depreciation and amortization expense	21,091	14,520		35,611
Total operating expenses	873,228	717,679	(1,448)	1,589,459
INCOME FROM OPERATIONS	38,384	45,980	1,386	85,750
OTHER INCOME (EXPENSE):				
Equity in earnings of unconsolidated affiliate	3,680		(3,680) ^(c)	
Other income net	1,366	612		1,978
Interest expense net	(63,870)	(22,610)	^(h)	(86,480)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	(20,440)	23,982	(2,294)	1,248
INCOME TAX EXPENSE (BENEFIT)	4,088		^(m)	4,088
NET INCOME (LOSS)	(24,528)	23,982	(2,294)	(2,840)
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	288		⁽ⁱ⁾	288
NET INCOME (LOSS) AVAILABLE TO COMMON STOCK	\$ (24,816)	\$ 23,982	\$ (2,294)	\$ (3,128)
BASIC AND DILUTED EARNINGS PER SHARE:				
Net loss				\$ (3,128)
Number of public shares used in denominator			^(j)	
Basic and diluted earnings per share public				

EDGEN GROUP

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2010

(IN THOUSANDS)	EM II LP HISTORICAL	B&L HISTORICAL	B&L PREDECESSOR HISTORICAL	PRO FORMA ADJUSTMENTS	EDGEN GROUP PRO FORMA
SALES	\$ 627,713	\$ 239,673	\$ 491,617	\$ (1,058) ^(a) (102,796) ^(g)	\$ 1,255,149
OPERATING EXPENSES:					
Cost of sales (exclusive of depreciation and amortization shown below)	536,807	212,572	428,902	(1,058) ^(a) (88,706) ^(g)	1,088,517
Selling, general and administrative expense, net of service fee income	65,256	7,039	12,510	(2,533) ^(g) 907 ^(e) (1,465) ^(b) 310 ^(l)	82,024
Depreciation and amortization expense	20,269	5,274	164	(43) ^(g) 9,187 ^(d)	34,851
Impairment of goodwill	62,805				62,805
Total operating expenses	685,137	224,885	441,576	(83,401)	1,268,197
INCOME (LOSS) FROM OPERATIONS	(57,424)	14,788	50,041	(20,453)	(13,048)
OTHER INCOME (EXPENSE):					
Equity in earnings of unconsolidated affiliate	1,029			(1,029) ^(c)	
Other income net	190	161	1,951	(1,505) ^(g)	797
Interest expense net	(64,208)	(8,456)	(1,091)	1,091 ^(f) (h)	(72,664)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)					
INCOME TAX EXPENSE (BENEFIT)	(120,413)	6,493	50,901	(21,896)	(84,915)
INCOME TAX EXPENSE (BENEFIT)	(22,125)			(m)	(22,125)
NET INCOME (LOSS)	(98,288)	6,493	50,901	(21,896)	(62,790)
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST					
	14			(i)	14
	\$ (98,302)	\$ 6,493	\$ 50,901	\$ (21,896)	\$ (62,804)

Edgar Filing: Edgen Group Inc. - Form S-1/A

NET INCOME (LOSS)
AVAILABLE TO COMMON
STOCK

BASIC AND DILUTED
EARNINGS PER SHARE:

Net loss		\$	(62,804)
Number of public shares used in denominator		(i)	
Basic and diluted earnings per share public			

EDGEN GROUP

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

At December 31, 2011

(IN THOUSANDS)	EM II LP HISTORICAL	B&L HISTORICAL	PRO FORMA ADJUSTMENTS	EDGEN GROUP PRO FORMA
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 26,218	\$ 51	\$ (i) (h)	\$ 26,269
Accounts receivable	198,663	62,492		261,155
Inventory	196,004	143,367		339,371
Prepaid expenses and other current assets	10,034	413	(4) ^(a) (h)	10,443
	430,919	206,323	(4)	637,238
PROPERTY, PLANT AND EQUIPMENT NET	45,510	1,137		46,647
GOODWILL	22,965			22,965
OTHER INTANGIBLE ASSETS NET	25,447	146,589		172,036
OTHER ASSETS	13,036	8,818	(h)	21,854
INVESTMENT IN UNCONSOLIDATED AFFILIATE	13,180		(13,180) ^(c)	
TOTAL ASSETS	\$ 551,057	\$ 362,867	\$ (13,184)	\$ 900,740
LIABILITIES AND CAPITAL (DEFICIT)				
CURRENT LIABILITIES:				
Managed cash overdrafts	\$ 112	\$ 6,376	\$	\$ 6,488
Accounts payable	147,202	76,230	(4) ^(a)	223,428
Accrued expenses and other current liabilities	15,848	5,502		21,350
Income taxes payable	4,307			4,307
Deferred revenue	5,139			5,139
Accrued interest payable	26,443	539		26,982
Deferred tax liability net	991			991
Current portion of long term debt and capital lease	358	18,886	(h)	19,244
	200,400	107,533	(4)	307,929
DEFERRED TAX LIABILITY NET	4,544			4,544
OTHER LONG TERM LIABILITIES	783			783
LONG TERM DEBT AND CAPITAL LEASE	500,383	164,218	(h)	664,601
	706,110	271,751	(4)	977,857
COMMITMENTS AND CONTINGENCIES				
CAPITAL (DEFICIT):				
General partner	1	37,792	(i)	37,793
Limited partners	(129,736)	53,324	(13,180) ^(c) (i)	(89,592)
			(i)	

Edgar Filing: Edgen Group Inc. - Form S-1/A

Common stock Class A, par value \$0.0001 per share, shares authorized; shares issued and outstanding pro forma				
Common stock Class B, par value \$0.0001 per share, shares authorized; no shares issued and outstanding actual; shares issued and outstanding pro forma.			(i)	
Additional paid-in capital			(i)	
Retained earnings				
Accumulated other comprehensive loss	(25,648)			(25,648)
Non-controlling interest	330		(i)	330
Total capital (deficit)	(155,053)	91,116	(13,180)	(77,117)
TOTAL LIABILITIES AND CAPITAL (DEFICIT)	\$ 551,057	\$ 362,867	\$ (13,184)	\$ 900,740

EDGEN GROUP

NOTES TO UNAUDITED PRO FORMA CONDENSED

COMBINED FINANCIAL INFORMATION

1. Basis of Presentation, the Reorganization, Offering, and Use of Proceeds.

The historical financial information is derived from the historical consolidated financial statements of EM II LP, our accounting predecessor, and B&L, and the historical combined financial statements of B&L Predecessor, B&L's accounting predecessor.

EM II LP was formed in 2007 by certain funds controlled by JCP to acquire, along with certain institutional investors and existing management, Edgen/Murray, L.P., EM II LP's predecessor. JCP has controlled EM II LP and its predecessor since 2005.

B&L was formed on July 19, 2010 by the same funds controlled by JCP that were investors in EM II LP. On August 19, 2010, these funds, other investors in EM II LP and EMC, invested in B&L and B&L acquired through its wholly owned subsidiary, Bourland & Leverich Supply Co. LLC, or B&L Supply, certain assets and working capital and other contractual liabilities of B&L Predecessor, which together comprised B&L Predecessor's oil country tubular goods distribution business. This transaction was accounted for as an acquisition and the assets and liabilities of B&L Predecessor were recorded by B&L at fair value. As a result of this transaction, B&L succeeded to substantially all of the business of B&L Predecessor.

The unaudited pro forma condensed combined statements of operations for the years ended December 31, 2011 and 2010 assume the pro forma transactions noted herein occurred on January 1, 2010. The unaudited pro forma condensed combined balance sheet presents the financial effects of the pro forma transactions noted herein as if they had occurred on December 31, 2011.

The pro forma financial statements reflect the following significant transactions:

The Reorganization

Several transactions, which we collectively refer to as the Reorganization, will occur in connection with this offering. These transactions include:

(1) Immediately prior to the completion of this offering, EM II LP will contribute all of the equity interests of EMGH Limited to EMC, thereby making EMGH Limited a wholly-owned subsidiary of EMC. EMGH Limited has historically comprised the Eastern Hemisphere operating segment of EM II LP.

(2) Edgen Group will form EDG LLC as a new intermediate holding company.

(3) EMC's ownership interest in B&L will be redeemed by B&L in exchange for membership units of B&L Supply.

(4) Edgen Group will amend its certificate of incorporation to convert its one outstanding common share, which is held by an affiliate of JCP, into one share of Class A common stock that will be surrendered to Edgen Group.

(5) EM II LP will contribute all of the shares of capital stock of EMC and all of EM II LP's liabilities to us for membership units of EDG LLC and Class B common stock of Edgen Group. As a result, EDG LLC will become the indirect owner of EMC and all of the other direct and indirect subsidiaries that had comprised the entire business of EM II LP.

(6) B&L will contribute all of the membership units of B&L Supply (other than those held by EMC) and all of B&L's liabilities to us for membership units of EDG LLC and Class B common stock of Edgen Group. As a result, EDG LLC will become the sole owner of the subsidiary that had comprised the entire business of B&L (through its direct and indirect ownership of B&L Supply).

(7) EM II LP may elect to have EM Holdings LLC purchase from EMC all or a portion of EMC's membership units in B&L Supply with either cash or a note payable to EMC.

(8) Holders of restricted units of EM II LP and B&L will exchange such units for restricted shares of our Class A common stock.

Edgar Filing: Edgen Group Inc. - Form S-1/A

(9) Holders of options to purchase units of EM II LP or B&L will exchange such options for options to purchase our Class A common stock.

Following these transactions, and upon completion of this offering, EDG LLC will be controlled by Edgen Group, its managing member. Edgen Group, EM II LP and B&L will own approximately %, % and % of the membership units of EDG LLC, respectively.

Following these transactions, and upon completion of this offering % of the Class A common stock of Edgen Group will be owned by purchasers in this offering. Edgen Group will be controlled by EM II LP and B&L through their ownership of % and % of the Class B common stock of Edgen Group, respectively. The Existing Investors will exchange their restricted units of EM II LP and B&L for restricted shares of our Class A common stock, and, to the extent such Existing Investors also own unrestricted units of EM II LP and B&L, will remain the owners of such units of EM II LP and B&L, and EM II LP and B&L will be controlled by the same affiliates of JCP that controlled each of them before these transactions. Holders of our Class A and Class B common stock will be entitled to one vote per share. Holders of shares of Class A common stock and Class B common stock will generally vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders. Holders of our Class A common stock will be entitled to receive dividends if, as and when dividends are declared from time to time by our board of directors. In the event of our liquidation, dissolution or winding up, the holders of our Class A common stock will be entitled to receive ratably the assets available for distribution to our stockholders after payment of liabilities and payment of liquidation preferences on any outstanding shares of our preferred stock. Our Class B common stock will have no economic rights. See Description of our Capital Stock.

Subject to certain limitations, EM II LP and B&L will each have Exchange Rights to exchange from time to time membership units of EDG LLC, and shares of Class B common stock of Edgen Group for shares of Class A common stock of Edgen Group on the basis of one membership unit of EDG LLC and one share of Class B common stock of Edgen Group collectively for one share of Class A common stock of Edgen Group (subject to customary conversion rate adjustments for splits, stock dividends and reclassifications) or, if we so elect, cash equal to the trading price of a share of Class A common stock of Edgen Group, all in accordance with an exchange agreement among it, EDG LLC and Edgen Group. If the Exchange Rights were exercised in full upon the completion of this offering and settled solely for shares of Class A common stock of Edgen Group, approximately %, %, % and % of the Class A common stock of Edgen Group would be owned by purchasers in this offering, Existing Investors receiving restricted stock in the Reorganization, EM II LP and B&L, respectively. Because we will control the decision of whether the exchange is settled with cash or shares of our Class A common stock, we have reflected the Class B common stock as permanent equity within our pro forma financial statements and will do so in our financial statements after this offering. See Certain Relationships and Related Person Transactions Exchange Agreements.

We will also enter into a tax receivable agreement with each of EM II LP and B&L that will provide for the payment by Edgen Group of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize as a result of increased depreciation and amortization deductions available to us as a result of the taxable exchange of EDG LLC membership units for Class A common stock or cash pursuant to the Exchange Rights, as a result of certain other transactions that result in increases in our share of the tax basis of EDG LLC's assets, and as a result of certain other tax benefits arising from our entering into the tax receivable agreement and making payments under that agreement. See and Certain Relationships and Related Person Transactions Tax Receivable Agreement.

As a result of the Reorganization and upon completion of this offering, we will become the new parent holding company of the historical businesses of EM II LP and B&L, and will consolidate the results of these businesses with our own. The Reorganization will be accounted for as a transaction between entities under common control, as the entities involved in the transaction, including all of the direct and indirect subsidiaries of EM II LP and B&L, each were previously and continue to remain after the Reorganization, under the common control of affiliates of JCP. Specifically, the same affiliate of JCP that has the ability to designate the B&L Board (which controls B&L), is also the managing member of the general partner of EM II LP (which controls EM II LP). Following the Reorganization, EM II LP and B&L will together own 100% of the Edgen Group Class B common stock, which will represent a majority of the voting power of Edgen Group.

Initial Public Offering and Use of Offering Proceeds

Assuming the issuance of shares at an assumed initial public offering price of \$ per share, the midpoint of the price range set forth on the cover page of this prospectus, we expect that our net proceeds from

the initial public offering of our Class A common stock will be approximately \$ _____ million, after deducting the estimated underwriting discounts and commissions, and the estimated fees and expenses associated with this offering. We intend to use (1) \$ _____ of such net proceeds to purchase newly-issued membership units from EDG LLC, which will be used by EDG LLC to repay certain indebtedness of its consolidated subsidiaries, and (2), up to \$ _____ of any remaining proceeds to purchase membership units of EDG LLC and shares of our Class B common stock from EM II LP and B&L. We expect to use any remaining net proceeds from this offering for other general corporate purposes. Specifically, we expect to repay the following indebtedness:

BL term loan. The BL term loan was issued by B&L on August 19, 2010 under a credit agreement and had an outstanding balance of \$116.4 million at December 31, 2011 and matures August 19, 2015. The BL term loan accrues interest at LIBOR, plus 9.0% for LIBOR loans, and prime plus 8.0% for base rate loans and the weighted average interest rate paid on the BL term loan during the year ended December 31, 2011 was 11.0%. We will use the proceeds from this offering to repay \$ _____ of the outstanding balance as well as accrued interest of \$ _____ and a prepayment penalty of \$ _____ at December 31, 2011.

EM revolving credit facility. At December 31, 2011, there was \$20.5 million in cash borrowings and \$42.3 million in trade finance instruments outstanding under the EM revolving credit facility. The EM revolving credit facility matures May 11, 2014 and the weighted average interest rate paid on the EM revolving credit facility during the year ended December 31, 2011 was 4.36%. We will use the proceeds from this offering to repay \$ _____ of the outstanding balance as well as accrued interest of \$ _____ at December 31, 2011. There is no repayment penalty associated with the repayment of this debt.

Seller Note. At December 31, 2011, there was \$50.0 million outstanding under a note payable to the former owner of B&L Predecessor which matures on August 19, 2019 and accrues interest at 8.0% annually. We will use the proceeds from this offering to repay \$ _____ of the principal balance as well as accrued interest of \$ _____ at December 31, 2011. There is no prepayment penalty associated with the repayment of the Seller Note.

BL revolving credit facility. At December 31, 2011, there was \$17.0 million in outstanding cash borrowings under the BL revolving credit facility and there were no outstanding trade finance instruments. The BL revolving credit facility matures August 19, 2014 and the weighted average interest rate paid on the BL revolving credit facility during the year ended December 31, 2011 was 4.58%. We will use the proceeds from this offering to repay \$ _____ of the outstanding balance as well as accrued interest of \$ _____ at December 31, 2011. There is no repayment penalty associated with the repayment of this debt.

2. Pro Forma Adjustments and Assumptions.

On July 19, 2010, B&L was formed for the purpose of acquiring through its wholly owned subsidiary, Bourland & Leverich Supply Co. LLC, or B&L Supply, certain assets and working capital and other contractual liabilities of B&L Predecessor, which together comprised B&L Predecessor's oil country tubular goods distribution business. We refer to this transaction as the B&L Acquisition.

The total purchase price of the B&L Acquisition was \$278.5 million, which consisted of \$220.4 million in cash (including a preliminary working capital adjustment of \$18.2 million), a \$50.0 million five-year subordinated note payable to the seller of B&L Predecessor, net of discount of \$6.3 million, a final working capital adjustment of \$13.4 million, and a balance due to B&L Predecessor of \$1.0 million. The cash purchase price of \$220.4 million, deferred financing costs of \$12.0 million, and acquisition costs of \$1.2 million were funded through cash proceeds from the issuance of a \$125.0 million term loan, \$65.0 million from the issuance of Class A common units, and \$43.6 million in borrowings under the BL revolving credit facility.

The B&L Acquisition closed on August 19, 2010 and acquisition accounting was applied to record the purchase price of \$278.5 million to the assets acquired and liabilities assumed at fair value as summarized below:

Accounts receivable	\$ 47.0
Inventory	110.4
Property, plant, and equipment	1.1
Customer relations	154.3
Noncompetition agreement	2.0
Tradenames	10.0
Accounts payable	(42.5)
Accrued expenses and other current liabilities	(3.8)
Purchase price	\$ 278.5

As a result of the determination of the fair value of assets acquired, including other intangible assets, and liabilities assumed from the acquisition, no goodwill was recognized.

Also on August 19, 2010, EM II LP, through its wholly owned subsidiary, EMC, invested approximately \$10.0 million for a 14.5% equity interest in B&L, that has been accounted for historically by EM II LP under the equity method. As a result of the Reorganization, we will own 100% of the equity interests in B&L supply, which constitutes the entire business of B&L, and will consolidate the business of B&L with our own. As this transaction will be accounted for as a reorganization of entities under common control, acquisition accounting will not be applied to the consolidation of B&L's business, and the assets and liabilities of B&L will be recorded in our accounting records at their carryover basis. Adjustments (a) through (g) below reflect the effects of the consolidation of B&L's business:

(a) Reflects the elimination of purchases and sales made between EM II LP and B&L and the elimination of non-trade receivables due to EM II LP from B&L for nominal expenditures paid by EM II LP on B&L's behalf.

EM II LP also receives a service fee of \$2.0 million per year from B&L for support services provided related to information technology, legal, treasury, tax, financial reporting and other administrative expenses. This service fee income and the related expense incurred by B&L is included in selling, general and administrative expense in the historical financial statements of EM II LP and B&L, respectively. As these amounts offset in the combination of the businesses of EM II LP and B&L, no further pro forma adjustment to eliminate this service fee is required.

(b) Reflects the transaction costs of \$1.5 million for the year ended December 31, 2010 associated with the B&L Acquisition that are reflected in the historical financial statements of B&L. These costs primarily include legal, accounting and valuation professional service fees.

(c) Reflects the elimination of EM II LP's equity in earnings of B&L and the elimination of EM II LP's equity method investment in B&L.

(d) Reflects incremental amortization expense of \$9.2 million incurred as a result of the recognition of \$156.3 million of amortizable intangible assets and an immaterial amount of less than \$15.0 thousand of incremental depreciation expense incurred as a result of the approximately \$0.1 million step up in basis of plant, property and equipment due to the application of acquisition accounting on August 19, 2010.

Amortizable intangible assets of \$156.3 million consist of customer relationships of \$154.3 million and non-competition agreements of \$2.0 million. The fair value of these intangible assets was derived using an income/excess earnings valuation method, which is based on the assumption that earnings are generated by all of the assets held by B&L, both tangible and intangible. The income/excess earnings method estimates the fair value of an intangible asset by discounting its future cash flows and applying charges for contributory assets. Certain estimates and assumptions were used to derive the customer relationship intangible, including future earnings projections, discount rates, and customer attrition rates. In determining the fair value for noncompetition agreements, B&L considered future earnings projections, discount rates, and estimates of potential losses resulting from competition, the enforceability of the terms, and the likelihood of competition in the absence of the agreement. The useful lives for customer relationships were estimated based on historical experience of B&L.

Additional amortization expense associated with these customer relationships and noncompetition agreements of approximately \$14.0 million and \$0.4 million per year, respectively, will be recognized annually over the respective useful lives of the assets of 11 and 5 years.

The pro forma adjustment of \$9.2 million reflects the incremental amortization expense that would have been incurred from January 1, 2010 through August 19, 2010, the date of the B&L Acquisition.

(e) Reflects the incremental amortization of equity based compensation expense associated with B&L equity awards that were awarded as part of the B&L Acquisition. The following awards and assumptions were used in determining the pro forma adjustment:

- (i) 3,362.5 restricted units granted on the acquisition date with a per unit fair value of \$1,075 and a five year vesting period. The per unit fair value of a restricted unit of \$1,075 was based on a valuation methodology which uses a combined discounted cash flow valuation and comparable company market value approach;
- (ii) 4,317.2 options granted on the acquisition date with a per unit option fair value of \$745 and a five year vesting period. The fair value per unit option was estimated on the date of grant using the Black-Scholes option pricing model and the related total compensation expense was determined using an estimated forfeiture rate of 14% based on historical experience.

The weighted average assumptions used in the Black-Scholes pricing model were as follows:

Weighted average Black-Scholes assumptions:	2010
Risk-free interest rate	1.87%
Expected volatility	75%
Expected dividend yield	None
Expected term (in years)	6.5 years

As no historical data was available, we calculated the expected term for employee unit options using the simplified method in accordance with the SEC's Staff Accounting Bulletin No. 110. We based the risk-free interest rate on a traded zero-coupon U.S. Treasury bond with a term substantially equal to the option's expected term at the grant date. We used a dividend yield of zero based on the fact that we have never paid cash dividends. The volatility used to value unit options is based on an average of historical volatility of companies in industries in which the Company operates and which the Company believes are comparable.

- (iii) 1,041.6 profits interest, or B&L Class B common units, granted on the acquisition date with a per unit fair value of \$748 and a five year vesting period. The fair value of a B&L Class B common unit was estimated at \$748 per unit and was based on a valuation methodology which uses a combined discounted cash flow valuation and comparable company market value approach which was divided by the total outstanding B&L Class A common units, including B&L Class A restricted units and options, to determine the fair value of a B&L Class B common unit at the grant date.

The difference in fair value of a B&L Class A and B&L Class B unit is due to the significant differences in distribution rights. Specifically, a B&L Class B unit only participates in distributions to the extent prior distributions exceed the sum of B&L's net profits and the amount of capital contributions made by each holder of B&L Class A units as of the date such B&L Class B unit was issued. Given the preferred distribution rights of a B&L Class A unit, its fair value is higher than that of the B&L Class B.

The pro forma adjustment of \$0.9 million reflects the incremental amortization expense associated with the above awards that would have been incurred from January 1, 2010 through August 19, 2010, the date of the B&L Acquisition.

(f) Reflects the removal of \$1.1 million of interest expense-net included in B&L Predecessor's historical financial statements related to assets and liabilities of B&L Predecessor that were not included in the B&L Acquisition. This adjustment consists of \$1.2 million of interest expense related to a liability that was not assumed in the B&L Acquisition, offset partially by \$0.1 million of interest income earned from cash investments not acquired in the B&L Acquisition. These are the only pro forma adjustments necessary to remove the effects of the assets and liabilities of B&L Predecessor that were not included in the B&L Acquisition.

(g) Reflects the removal of amounts related to B&L Predecessor for the period from October 1, 2009 to December 31, 2009. B&L Predecessor's fiscal year end was September 30, 2010. The amounts presented in the B&L Predecessor Historical column in our unaudited pro forma condensed combined statement of operations for the year ended December 31, 2010 include the period October 1, 2009 to August 19, 2010, the date of the B&L Acquisition. Removal of the amounts related to the period from October 1, 2009 to December 31, 2009 is necessary to reflect the historical results of B&L and B&L Predecessor for the year ended December 31, 2010.

(h) Reflects the pro forma adjustments necessary to reflect the repayment of the following amounts of indebtedness:

	Principal Outstanding	% Repaid	Total
BL term loan	\$ 116,406		\$
BL revolving credit facility	17,000		
Seller Note	50,000		
EM revolving credit facility	20,523		
	\$ 203,929		\$

In addition to the removal of total debt of \$ million (including accrued interest of \$ million) that will be repaid at the time of this offering, the pro forma adjustments also include the removal of \$ million and \$ million of interest expense for the years ended December 31, 2011 and 2010, respectively, the write off of any unamortized deferred debt issuance costs and discounts of \$ million at December 31, 2011, and the payment of a prepayment fee of \$ million associated with the early payment of the BL term loan.

The pro forma adjustment for the prepayment fee was calculated based on the agreement governing the BL term loan as the present value of (i) 105.50% of the principal repaid and (ii) interest that would be required through August 19, 2012 on the principal repaid, assuming the adjusted LIBOR is the greater of the rate in effect on the date of determination or 2.0%. The pro forma adjustments to interest expense, accrued interest and unamortized deferred debt issuance costs were calculated pro rata based on the percent of total principal of each outstanding debt instrument that was repaid as shown below:

Pro Forma Interest Expense Adjustment

	Year ended December 31, 2011				Year ended December 31, 2010		
	Interest Expense	% of Principal Repaid	Total Pro Forma Adjustment		Interest Expense	% of Principal Repaid	Total Pro Forma Adjustment
BL term loan	\$ 15,688		\$	BL term loan	\$ 5,878		\$
BL revolving credit facility				BL revolving credit facility	776		
Seller Note	1,883			Seller Note	1,640		
EM revolving credit facility	4,576			EM revolving credit facility	8		
	313						
	\$ 22,460		\$		\$ 8,302		\$

Pro Forma Debt Issuance Costs/Discount Adjustment

Pro Forma Accrued Interest Adjustment

	At December 31, 2011				At December 31, 2011		
	Unamortized Debt Issuance Costs/Discount	% of Principal Repaid	Total Pro Forma Adjustment		Accrued Interest	% of Principal Repaid	Total Pro Forma Adjustment
BL term loan	\$ 7,598		\$	BL term loan	\$ 356		\$
				BL revolving credit facility	184		
Seller Note	5,624			Seller Note	5,322		
				EM revolving credit facility	74		
	\$ 13,222		\$		\$ 5,936		\$

There is no pro forma adjustment to write off any amount of unamortized deferred debt issuance costs associated with the EM revolving credit facility and the BL revolving credit facility as we do not intend to terminate these facilities. We intend to repay certain outstanding indebtedness of these facilities and expect to continue to use these facilities subsequent to this offering for borrowings and the issuance of trade finance instruments as we have done historically. As such, the debt issuance costs associated with these facilities will continue to be amortized over the remaining life of each facility.

The pro forma adjustments to interest expense are calculated based on the amount of debt that will be repaid multiplied by the interest rate associated with each outstanding debt instrument. The interest expense amounts associated with the EM revolving credit facility and the BL revolving credit facility do not include amortization of debt issuance costs as we intend to continue the use of these facilities subsequent to this offering. The weighted average interest rates for the indebtedness that will be repaid were as follows:

	Year Ended December 31,	
	2011	2010
BL term loan	11.0%	11.0%
BL revolving credit facility	4.6%	3.9%
Seller Note	8.0%	8.0%
EM revolving credit facility	4.4%	4.1%

(i) Reflects the pro forma adjustments necessary to present non-controlling interest and income attributable to non-controlling interest associated with ownership interest of EDG LLC that will not be owned by us. Following the Reorganization and this offering, we will own % of EDG LLC and EM II LP and B&L will own the remaining % in the aggregate. We will control EDG LLC as the managing member of EDG LLC which holds 100% of the voting power of EDG LLC. As such, we will consolidate EDG LLC and recognize as non-controlling interest the economic interest EM II LP and B&L will hold in EDG LLC.

The non-controlling interest of \$ million represents (i) the historical equity balances attributed to the limited partnership units of EM II LP and B&L that are held directly by the Existing Investors and (ii) the share of the impact of the pro forma adjustments on the statement of operations allocated to the noncontrolling interests, and is calculated as follows:

Non-controlling Interest

<u>AT DECEMBER 31, 2011</u>	\$
Historical equity of EM II LP attributable to Existing Investors	
Historical equity of B&L attributable to Existing Investors	
Non-controlling interest before pro forma adjustments	
Pro forma adjustments	
Non-controlling interest ownership percentage	
Pro forma adjustments attributable to non-controlling interest	
Total non-controlling interest	\$

The net income attributable to non-controlling interest of \$ million and \$ million for the years ended December 31, 2011 and 2010, respectively, is calculated as follows:

Net Income attributable to non-controlling interest

	YEAR ENDED DECEMBER 31, 2011		YEAR ENDED DECEMBER 31, 2010
Historical net loss of EM II LP	\$	Historical net loss of EM II LP	\$
Historical net income of B&L		Historical net income of B&L	
Pro forma adjustments affecting net income (loss)		Pro forma adjustments affecting net income (loss)	
Non-controlling interest ownership percentage		Non-controlling interest ownership percentage	

Edgar Filing: Edgen Group Inc. - Form S-1/A

Net income attributable to non-controlling interest \$ Net income attributable to non-controlling interest \$

(j) Reflects the pro forma adjustments necessary to reflect the issuance of _____ of our shares of Class A common stock and the effects of the Reorganization. The pro forma adjustments include:

Issuance of _____ of our shares of Class A common stock at an assumed initial public offering price of \$ _____ per share, the midpoint of the price range set forth on the cover page of this prospectus, net of estimated underwriting discounts and commissions, and estimated offering fees and expenses of \$ _____, for total net proceeds of \$ _____.

The contribution by EM II LP of all of the capital stock of EMC and all of the liabilities of EM II LP to us for _____ membership units of EDG LLC and _____ shares of our Class B common stock.

The contribution by B&L of all of the membership units of B&L Supply and all of the liabilities of B&L to us for _____ membership units of EDG LLC and _____ shares of our Class B common stock.

Following these transactions, % of our Class A common stock will be owned by purchasers in this offering and our Class B common stock will be 100% owned by EM II LP and B&L in the aggregate. We will be controlled by EM II LP and B&L, which will be controlled by the same affiliates of JCP that controlled EM II LP and B&L prior to the Reorganization.

(k) Reflects transaction costs of \$1.5 million for the year ended December 31, 2011 associated with this offering that are included in the historical financial statements of EM II LP and B&L. These costs primarily include accounting and professional service fees.

(l) Reflects additional compensation expense associated with new employment agreements for our Chief Executive Officer and Chief Financial Officer that will be entered into in conjunction with this offering. The adjustments of \$0.1 million and \$0.3 million for the years ended December 31, 2011 and 2010, respectively, were calculated based on the difference in each officer's new base salary and the salary that was expensed by EM II LP in each respective year.

(m) Reflects the income tax adjustments necessary as a result of the above pro forma adjustments. The pro forma income tax adjustments are based on an effective tax rate of % and % during the years ended December 31, 2011 and 2010, respectively. The tax rates were calculated based on the U.S. federal statutory rate of 35%, as well as a blended state tax rate of % and % for EM II LP and % and % for B&L for the years ended December 31, 2011 and 2010, respectively, based on the various state and foreign jurisdictions in which EM II LP and B&L operate and in which their income is subject to taxation.

No pro forma adjustment has been made for the effect of the tax receivable agreements between Edgen Group and each of EM II LP and B&L, as the amounts due under the tax receivable agreements are not presently known because such amounts will depend on whether, when and to what extent the Exchange Rights are exercised and certain other transactions that result in increases in our share of the tax basis of EDG LLC occur. Each exchange of EDG LLC membership units is expected to increase the tax basis of the assets we own to fair value at the time of the exchange and is thereby expected to allow us to reduce the amount of future tax payments to the extent that we have future taxable income. We are then required by the tax receivable agreements to pay 85% of these future tax benefits, if any, to EM II LP and B&L.

If the Exchange Rights were to be exercised in full and if all of the other transactions that could result in an increase in our share of the basis of EDG LLC's assets were to occur, in each case, in a hypothetical fully-taxable transaction upon completion of the issuance of of our shares of Class A common stock at an assumed initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, the effect would result in the recognition of:

a deferred tax asset of \$, which represents the tax benefits attributable to Edgen Group as a result of the basis step-up for tax purposes derived from the taxable exchanges (based on an effective tax rate of 37.0% which includes a provision for federal, state and local income taxes), and

a related liability of \$, which represents 85% of these future tax benefits that are payable to EM II LP and B&L. Under the above scenario, and assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize the full tax benefit of the increased depreciation and amortization of our assets, we expect that future payments under the tax receivable agreements would range from approximately \$ million to \$ million per year over the next 15 years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the sections entitled Summary Historical Consolidated and Unaudited Pro Forma Condensed Combined Financial Information, Selected Historical Consolidated Financial Data and the consolidated financial statements and the notes to those statements included elsewhere in this prospectus. The discussion of the overview of our business, including principal factors affecting our business, and our outlook give effect to the Reorganization whereas the discussion of our financial condition and results of operations of our predecessor do not give effect to the Reorganization. The following discussion also contains forward-looking statements that involve risks and uncertainties. See Special Note Regarding Forward-Looking Statements. For additional information regarding some of the risks and uncertainties that affect our business and the industry in which we operate and that apply to an investment in our common stock, please see Risk Factors beginning on page 20.

Overview of Business

General

We are a distributor of our suppliers' manufactured products and earn revenue from the sales of specialty steel products to our customers, though we do not, ourselves, manufacture any products. We primarily serve customers that operate in the upstream, midstream and downstream end-markets for oil and natural gas. We also serve power generation, civil construction and mining applications, which have a similar need for our technical expertise in specialized steel and specialty products.

On August 19, 2010, the predecessor business of Bourland & Leverich, a leading distributor of oil country tubular goods was acquired by certain existing limited partners of EM II LP, including funds controlled by affiliates of JCP, and the management of Bourland & Leverich. In connection with this transaction, EMC invested approximately \$10.0 million in exchange for a 14.5% ownership stake in B&L, the investment vehicle that carried out the acquisition of Bourland & Leverich. We refer to this transaction as the B&L Acquisition. B&L and our predecessor are under the common control of affiliates of JCP. Our predecessor has historically accounted for this investment under the equity method of accounting, but as a result of the Reorganization described below, we will own 100% of the equity interests in B&L Supply, constituting the entire business of B&L, and will consolidate the business of B&L with our own for accounting purposes.

Our service platform consists of a worldwide network of over 25 distribution facilities and over 35 sales offices operating in 15 countries on 5 continents. We source and distribute from our global network of more than 800 suppliers steel components that we believe are of premium quality and highly engineered. We serve a diversified customer base of over 2,000 customers who rely on our supplier relationships, technical expertise, stocking and logistical support for the timely provision around the world of the products we supply.

We believe that we deliver value to our customers around the world by providing (1) access to a broad range of high quality products from multiple supplier sources; (2) coordination and quality control of logistics, staged delivery, fabrication and additional related services; (3) understanding of supplier pricing, capacity and deliveries; (4) ability to provide specialized offerings across multiple suppliers to create complete material packages; (5) on-hand inventory of specialty products to reduce our customers' need to maintain large stocks of replacement product; and (6) capitalization necessary to manage multi-million dollar supply orders.

Prior to the Reorganization, we managed our operations in two geographic markets and reported our results under two reportable segments: Western Hemisphere and Eastern Hemisphere. As a result of the Reorganization, our two reportable segments will now be the E&I Segment and OCTG Segment. See Factors Affecting Comparability of Future Results and Historical Results Change in reportable segments.

Principal factors affecting our business

Our sales are predominantly derived from the sale of specialty steel products which are primarily used by the energy sector for capital expenditures and MRO. As a result, our business is cyclical and substantially dependent upon conditions in the energy industry and, in particular, the willingness by our customers to make capital expenditures for the exploration and production, gathering and transmission, refining and processing of oil and natural gas. The

level of customers expenditures generally depends on prevailing views of future supply and demand for oil, natural gas, refined products, electric power, petrochemicals and mined products. These views are influenced by numerous factors, including:

- n the level of U.S. and worldwide oil and natural gas production;
- n the level of U.S. and worldwide supplies of, and demand for, oil, natural gas and refined products;
- n the discovery rates of new oil and natural gas resources;
- n the expected cost of delivery of oil, natural gas and refined products;
- n the availability of attractive oil and natural gas fields for production, which may be affected by governmental action or environmental policy, which may restrict exploration and development prospects;
- n U.S. and worldwide refinery utilization rates;
- n the amount of capital available for development and maintenance of oil, gas and refined products infrastructure;
- n changes in the cost or availability of transportation infrastructure and pipeline capacity;
- n levels of oil and natural gas exploration activity;
- n national, governmental and other political requirements, including the ability of the Organization of the Petroleum Exporting Countries to set and maintain production levels and pricing;
- n the impact of political instability, terrorist activities, piracy or armed hostilities involving one or more oil and natural gas producing nations;
- n pricing and other actions taken by competitors that impact the market;
- n the failure by industry participants to implement planned capital projects successfully or to realize the benefits expected for those projects;
- n the cost of, and relative political momentum in respect of, developing alternative energy sources;
- n U.S. and non-U.S. governmental regulations, especially anti-bribery law enforcement outside of the U.S., environmental and safety laws and regulations (including mandated changes in fuel consumption and specifications), trade laws, commodities and derivatives trading regulations and tax policies;

- n technological advances in the oil and natural gas industry;

- n natural disasters, including hurricanes, tsunamis, earthquakes and other weather-related events; and

- n the overall global economic environment.

Oil and natural gas prices and processing and refining margins have been volatile. This volatility may cause our customers to change their strategies and expenditure levels. As we experienced in 2009 and through most of 2010, volatile oil and natural gas prices led to decreased capital expenditures and infrastructure project spending by industry participants, which in turn affected demand for the products we supply.

Further, we believe that demand for the products we supply is also driven by the proliferation of new drilling and extraction technologies, including horizontal drilling and hydraulic fracturing and global deepwater offshore drilling, because these activities typically require more specialized and greater volumes of steel products. Additionally, companies undertaking oil and natural gas extraction, processing, and transmission are facing increasingly stringent safety and environmental regulation. Future compliance with these regulations could require the use of more specialized infrastructure products and higher rates of maintenance, repair and replacement, which should further increase demand for the products we supply and services we provide, particularly MRO services.

In addition to demand factors, our results of operations are also affected by changes in the cost of the products we supply. Fluctuations in these costs are largely driven by changes in the cost and availability of raw materials used in steel-making, changes in the condition of the general economy, changes in product inventories held by our customers, our suppliers, and other distributors, prevailing steel prices around the world, production levels and tariffs and other trade restrictions. Our ability to pass on any increases in the cost of steel to our customers will have a direct impact on our profit margins. Alternatively, if the price of steel decreases significantly or if demand for the products we supply decreases because of increased customer, manufacturer, and distributor inventory levels of specialty steel pipe, pipe components, high yield structural steel products and valves, we may be required to reduce the prices we charge for the products we supply to remain competitive. Any reduction of our prices may affect our

gross profit and cash flow. These effects may also require us to write-down the value of inventory on hand that we purchased prior to such steel price decreases. To meet our customers' needs for an extensive product offering and short delivery times, we will need to continue to maintain adequate inventory levels. Our ability to obtain this inventory will depend, in part, on our relationships with suppliers.

A large part of our growth strategy is to continue expansion globally to capitalize on the increased investment in oil and natural gas exploration and production and related infrastructure around the world. As energy demand increases, particularly outside of North America, the oil and natural gas industry is making significant investments to meet this demand, as many of the international regions experiencing growth in exploration activity lack the pipeline, processing and treatment infrastructure that is necessary to transport oil and natural gas resources to end-markets. We believe we are well positioned to take advantage of this trend, but our success in these efforts will be dependent, in part, on our ability to continue to hire and train a skilled and knowledgeable sales force to attract customers in these markets.

In planning for our business, we continue to monitor the global economy, the availability of capital in the market for our customers, the demand for and prices of oil and natural gas, the active drilling rig count, the price and availability of steel and steel-making materials, lead times at our suppliers, and the impact of these factors on the capital spending plans and operations of our customers. The effects of these items, as well as demand for the products we supply, the actions of our competitors and suppliers, and other factors largely out of our control will influence whether, and to what extent, we will be successful in improving our future gross profit and profit margins.

Revenue sources

We are a leading global distributor of specialty products to the energy sector, including steel pipe, valves, quenched and tempered and high yield heavy plate and related components, though we do not, ourselves, manufacture any products. We often purchase the products we supply in large quantities that are efficient for our suppliers to produce, and we subsequently resell these products in smaller quantities to meet our customers' requirements. Additionally, we coordinate the sourcing of complex material requirements related to our customers' large scale projects that often result in direct shipment of product from the supplier to our customers. Our sales to customers generally fall into the following three categories: (1) Project orders, which relate to our customers' capital expenditures for various planned projects across the upstream, midstream and downstream end-markets of the energy sector, such as transmission infrastructure build-out and rig construction and refurbishment as well as capital expenditures in the mining, civil and nuclear end-markets; (2) Drilling program orders, which relate to the delivery of surface casing and production tubulars for the onshore upstream market; and (3) MRO orders, which typically relate to the replacement of existing products that have reached their service limit, or are being replaced due to regulatory requirements. The gross margin we earn varies depending on the type of products we sell, the location and application in which the products are sold and whether the products are part of a larger Project, Drilling program or MRO order. MRO orders are typically fulfilled from our existing inventory, have shorter lead times and carry our highest margins. Project orders generally have longer lead times, are more price sensitive, are often shipped direct and carry lower margins compared to MRO orders. Generally, we earn higher margins on products associated with offshore exploration and production projects, midstream transmission pipeline projects, and downstream refinery projects. Our gross margins tend to be lower for smaller onshore oil and natural gas gathering pipeline projects.

We generate substantially all of our sales from the sale of the products we supply to third parties. We also generate a negligible component of our sales from a range of cutting and finishing services that we coordinate for our customers upon request. Generally, our fees for these services, as well as freight costs, are incorporated into our sales price. Our margins are generally reduced by sales discounts and incentives provided to our customers.

Typically, we sell the products we supply to customers on a purchase order basis. Payments from our customers within North America are generally due within 30 days of the invoice date, while our customers outside of North America may have slightly longer payment terms. There is usually a time lag between the receipt of a purchase order and delivery of the products, particularly for Project orders. While a certain portion of our MRO orders may ship immediately after receipt of a purchase order based on the availability of the product in our inventory, the remaining MRO business and the majority of our Project business is recorded in sales backlog until the product is delivered and title has transferred to the customer. We do not record sales orders related to our Drilling program in sales backlog as

there is generally no interval between the securing of an order and the earning of revenue. In some cases, we enter into master services agreements with our customers. These master services agreements typically specify payment terms, establish standards of performance, and allocate certain operational risks through indemnity and related provisions. These master services agreements do not create an obligation on the part of our customers to purchase products from us and are generally supplemented by purchase orders that specify pricing, volume and other order-specific terms.

Pricing

Pricing for the products we supply could significantly impact our results of operations. Generally, as pricing increases, so do our sales. Our pricing usually increases when demand for the products we supply, the cost of our materials or freight and shipping expense increase. If prices increase and we maintain the same gross profit percentage, we generate higher levels of gross profit dollars for the same operational efforts. Conversely, if pricing declines, we will typically generate lower levels of gross profit. Because changes in pricing do not necessarily lower our expense structure, the impact on our results of operations from changes in pricing may be greater than the effect of volume changes.

Principal costs and expenses

Our principal costs and expenses consist of the following: cost of sales (exclusive of depreciation and amortization); selling, general and administrative expense, net of service fee income; depreciation and amortization expense; and interest expense. Our most significant expense is cost of sales which consists primarily of the cost of the products we supply at weighted average cost, plus inbound and outbound freight expense, outside processing expenses, physical inventory adjustments and inventory obsolescence charges, less earned incentives from suppliers.

Our cost of sales is influenced significantly by the prices we pay our suppliers to procure or manufacture the products we supply to our customers. Changes in these costs may result, for example, from increases or decreases in raw material costs, changes in our relationships with suppliers, earned incentives from our suppliers, freight and shipping costs and tariffs and other trade restrictions. Generally, we are able to pass on cost increases to our customers. However, during certain periods when we, our suppliers, our customers or our competitors have excess inventories, discounting occurs, and we are unable to realize full value for our stocked inventory products. Market conditions in the future may not permit us to fully pass through future cost increases or may force us to grant other concessions to customers. An inability to promptly pass through such increases and to compete with excess inventories may reduce our profitability, and there can be no assurance that we will be able to recover any of these increased costs. Our cost of sales is reduced by supplier discounts and purchase incentives. Payment for the products we supply is typically due to our suppliers within 30 to 60 days of delivery.

Selling, general and administrative expense includes employee compensation (including discretionary compensation awards) and benefit costs, as well as travel expenses, information technology infrastructure and communications costs, office rent and supplies, professional services and other general expenses. Selling, general and administrative expense also includes compensation and benefit costs for yard and warehouse personnel, supplies, equipment maintenance and rental, and contract storage and distribution expenses. Historical selling, general and administrative expense are presented net of service fee income from B&L, an unconsolidated affiliate, for support services we have provided related to information technology, legal, treasury, tax, financial reporting and other administrative expenses. After the Reorganization, we will consolidate the results and operations of B&L's business and there will be no service fee income.

Depreciation and amortization expense consists of amortization of acquired intangible assets, including customer relationships and sales backlog, and the depreciation of property, plant, and equipment including leasehold improvements and capital leases.

Interest expense net includes interest on the EMC senior secured notes, amortization of deferred financing costs and original issue discount, interest associated with a capital lease in the U.K. and interest expense related to borrowings and fees associated with the utilization of the EM revolving credit facility for trade finance instruments issued in support of our normal business operations. After the Reorganization and this offering, we intend to use the net proceeds to purchase newly-issued EDG LLC membership units from EDG LLC (1) \$ _____ of, which would use such funds to repay certain

amounts outstanding under the BL term loan, the EM revolving credit facility, the BL revolving credit facility and the Seller Note and (2) up to \$ _____ of any remaining proceeds will be used to purchase EDG LLC membership units and shares of our Class B common stock from EM II LP and B&L. We expect to use any remaining net proceeds from this offering for other general corporate purposes.

Effects of currency fluctuations

In the ordinary course of our business, we enter into purchase and sales commitments that are denominated in currencies that differ from the functional currency used by our operating subsidiaries. Currency fluctuations can create volatility in our consolidated financial position, results of operations or cash flows. We enter into hedging transactions to manage the risk associated with foreign currency. Our derivative policy requires that only known firm commitments are hedged and that no trading in financial instruments is undertaken for speculative purposes. To the extent that we are unable to match sales received in foreign currencies with expenses paid in the same currency, exchange rate fluctuations could impact our consolidated financial position, results of operations and/or cash flows.

For the year ended December 31, 2011, approximately 38% of our sales and 21% of our pro forma sales originated from subsidiaries outside of the U.S. in currencies including, among others, the pound sterling, euro and U.S. dollar. As a result, a material change in the value of these currencies could significantly impact our consolidated financial position, results of operations or cash flows. The balance sheet amounts are translated into U.S. dollars at the exchange rate at the end of the month, and the statement of operations amounts are translated at an average exchange rate for each month in the period.

Outlook

We believe that global energy consumption will continue to increase in the long term and that additional oil and natural gas production will be required to meet this demand. We believe this increased energy consumption will result in increased exploration and production activities such as onshore and offshore drilling and production, facilitated in part by the proliferation of new drilling and extraction technologies. This increased exploration and production activity should, in turn, lead to an increased need for new or improved infrastructure for the transmission, processing, and storage of oil and natural gas in the midstream end-market as well as additional capital expenditures associated with the build out and maintenance of global refining facilities and systems to deliver consumable energy products to the end-markets.

The planned capital spending of our customers is a primary indicator of our business. We believe that forecasted increases in global energy demand, driven by the continued development and industrialization of non-OECD countries, such as China, India and Brazil, will result in increased investment in energy infrastructure by our customers. We expect this investment to increase demand for the specialty products that we supply.

We believe that continued high global oil prices and high natural gas prices that exist in certain global locations, as well as the arbitrage that exists between these areas and those of lower prices, will contribute to further energy-related investments by our customers.

Steel prices also have an impact on our gross profit and gross margins. High levels of steel inventory tend to drive prices down, which impacts the price for the specialty steel products we supply. Excess steel mill capacity also negatively affects mills pricing power and our ability to command higher prices from our customers.

The addition of B&L to our business as a result of the Reorganization considerably increases our presence in the U.S., particularly in markets focused on developing unconventional energy resources, such as oil and natural gas shale. We believe our significant North American presence combined with our long established global footprint enables us to benefit from the expected increase in global capital spending on infrastructure associated with the anticipated increase in global energy consumption. We plan to use our considerable global presence and long standing relationships with our customers and suppliers to grow our business.

We also serve other select markets that have a similar need for our technical expertise and specialty products, including power generation, civil construction and mining applications. We have experienced recent success in growing these markets and expect continued growth as a result of increased demand as well as increased market share as we further penetrate these markets.

Factors Affecting Comparability of Future Results and Historical Results

You should read the discussion of our financial condition and results of operations in conjunction with our historical financial statements, the unaudited condensed combined pro forma financial information, as well as the historical financial statements of B&L and B&L Predecessor, each of which is included elsewhere in this prospectus. Our future results could differ materially from our historical results due to a variety of factors, including the following:

Consolidation of B&L's business

After this offering, as a result of the Reorganization, we will own 100% of the equity interests in B&L supply, constituting the entire business of B&L, and will consolidate the business of B&L with our own for accounting purposes. B&L's sales and total assets are approximately equal to our predecessor's and the consolidation of B&L's business will substantially increase our sales and expenses as well as our total assets and total equity. Additionally, as a result of the Reorganization, our capital structure will change and we will become a U.S. corporation, rather than a limited partnership. We expect that the consolidation of B&L's business will significantly increase our domestic footprint and our percentage of sales to upstream markets.

Decrease in outstanding indebtedness

Historically, our predecessor's consolidated indebtedness has included the EMC senior secured notes and the EM revolving credit facility. B&L's historical consolidated indebtedness at December 31, 2011 includes the \$116.4 million aggregate principal amount BL term loan, the BL revolving credit facility and the \$50.0 million Seller Note. After this offering, we expect to reduce our overall debt and improve our overall leverage by repaying \$ of B&L's outstanding indebtedness. This reduction in indebtedness is expected to decrease interest expense by approximately \$ million per year assuming an interest rate of % and amortization of debt issuance costs of \$.

Additional general and administrative expenses

We expect to incur incremental general and administrative expenses as a result of our consolidation of B&L's business and becoming a publicly traded entity. Although we have publicly traded debt, we believe our costs will increase as a result of the initial public offering of our common stock. These costs include fees associated with annual and quarterly reports to stockholders, tax returns and Schedule K-1 preparation and distribution, investor relations, registrar and transfer agent fees, incremental insurance costs and accounting and legal services.

Impact on gross profit and gross margin

The consolidation of B&L's business is expected to increase our total gross profit and lower our overall gross margin from historical levels as B&L's business typically earns a lower gross margin on sales of oil country tubular goods than the margins our predecessor has historically earned on sales of its energy and infrastructure products. If the rate of growth in energy and infrastructure products exceeds the growth in oil country tubular goods, we expect the impact to our gross margin will be mitigated.

Control by JCP

As a result of the Reorganization, we will continue to be controlled by the same affiliates of JCP that controlled our predecessor and B&L prior to the Reorganization. The same affiliate of JCP that has the ability to designate the B&L board (which controls B&L) is also the managing member of the general partner of our predecessor (which controls our predecessor). Upon the Reorganization, our predecessor and B&L will together own 100% of the Edgen Group Class B common stock, which will represent a majority of the voting power of Edgen Group. As such, these affiliates of JCP will be able to (1) determine the outcome of all matters requiring stockholder approval; (2) cause or prevent a change of control of our company or a change in the composition of our board of directors; and (3) preclude any unsolicited acquisition of our company.

Holders of our Class A and Class B common stock will be entitled to one vote per share. Holders of shares of Class A common stock and Class B common stock will generally vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders. Holders of our Class A common stock will be entitled to receive dividends if, as and when dividends are declared from time to time by our board of directors. In the event of our liquidation, dissolution or winding up, the holders of our Class A common stock will be entitled to receive ratably the assets available for distribution to our stockholders after payment of liabilities and payment of liquidation preferences on any outstanding shares of our preferred stock. Our Class B common stock will have no economic rights. See Description of our Capital Stock.

Change in reportable segments.

Our predecessor has historically managed operations in two geographic markets, the Western Hemisphere and Eastern Hemisphere. The Western Hemisphere operations are headquartered in Houston, Texas and operate through a regional and branch network of locations in the U.S., Canada and Latin America. Our primary Eastern Hemisphere operations are in Newbridge (Scotland), Dubai (UAE) and Singapore, and operate through a regional and branch network of locations in Europe, Asia/Pacific, and the Middle East. The Results of Operations discussion that follows discusses our predecessor's operations under these two segments. After this offering and our consolidation of B&L's business pursuant to the Reorganization, we plan to realign our segments and reports that our Chief Operating Decision Maker uses to evaluate our business and allocate resources. After this offering, we expect to supply specialty products through two reportable segments:

Energy and Infrastructure Products, or E&I. The E&I Segment serves customers in the Americas, EMEA and APAC regions, distributing pipe, plate, valves, and related-components to upstream, midstream, downstream, and select power generation, civil construction, and mining customers across more than 30 global locations. This operating segment provides project and MRO order fulfillment capabilities from state of the art warehouses throughout the world. For the year ended December 31, 2011, the E&I Segment represented 54% of our pro forma sales and 46% of our pro forma operating income.

Oil Country Tubular Goods, or OCTG. The OCTG Segment provides oil country tubular goods to the upstream conventional and unconventional onshore drilling market in the U.S. We deliver products through nine customer sales and service locations, over 50 third-party owned distribution facilities and our Pampa, Texas operating center. For the year ended December 31, 2011, the OCTG Segment represented 46% of our pro forma sales and 54% of our pro forma operating income.

Our predecessor has historically included operating expenses of our non-trading entities, including EM II LP, EMGH Limited, or EMGH, Pipe Acquisition Limited and Bourland & Leverich Holdings LLC in General Company. After this offering, we will include these expenses in Corporate.

Results of Operations of our Predecessor

Overview

Our business is highly dependent on the conditions in the energy industry and, in particular, the willingness by our customers to make capital expenditures for oil and gas infrastructure. Our business was challenged in 2009 and throughout most of 2010 as oil prices dropped significantly from 2008 levels and credit availability for many of our customers was unpredictable. These conditions negatively impacted our business as capital expenditures made by our customers for major projects were reduced and/or deferred and lower operating levels by our customers curtailed their maintenance and repair expenditures, which reduced our MRO sales. This overall reduction in global demand depressed steel prices and our profit margins were negatively affected as competitors significantly decreased their prices to reduce inventories and to seek to obtain any business opportunities that were available.

These operating conditions started to reverse in the latter half of 2010 as financing became more readily available and oil prices started to rise. In spite of the current political and economic uncertainties within the global marketplace, these trends and the recovery have continued through 2011. Capital spending in the energy markets has steadily improved relative to 2010 and 2009 and, after dropping below \$40 per barrel in 2009, oil prices have now climbed towards their 2008 record levels. Additionally, while natural gas prices have remained depressed in the U.S., the demand for natural gas liquids remains strong. We believe these factors have encouraged both international and domestic spending on oil and natural gas opportunities and the related infrastructure, which has in turn increased the demand for the products we supply. As the economy has improved, we have experienced sales increases in 2011 in all market segments of our business and across all lines of the products we supply. Additionally, despite competitive pricing in our industry, we were able to maintain our margins through increases in our MRO sales, as well as increases in our upstream market segment, both of which typically carry a higher margin than our larger Project sales.

During 2011, we noted a product demand and sales mix shift from our larger diameter products associated with midstream energy infrastructure projects to smaller diameter carbon pipe, valve and fitting products associated with

midstream gathering lines. We have also noted a similar sales mix shift toward our quenched and tempered and high yield heavy plate used in the construction of upstream offshore high performance multi-purpose rigs. We believe these sales mix shifts have, to a large extent, been driven by an increase in drilling and production activity related to unconventional resource developments in North America, particularly the gathering and storage systems associated with the development of onshore and offshore oil and natural gas resources, and an increase in international deepwater offshore drilling associated with oil and natural gas exploration and production.

As our business has recovered, we have continued to record higher sales order bookings and our sales backlog has increased as shown below:

(IN MILLIONS)	DECEMBER 31, 2011	DECEMBER 31, 2010	DECEMBER 31, 2009	DECEMBER 31, 2008
Sales backlog (end of period)	\$ 353	\$ 210	\$ 144	\$ 328

Sales backlog at December 31, 2011 is comprised primarily of sales orders related to (1) the construction of offshore high performance multi-purpose platform, or jack-up, oil rigs; (2) natural gas gathering and storage systems; and (3) offshore exploration and production. Sales backlog also includes orders related to offshore renewable energy projects, refinery upgrades and turnarounds and civil infrastructure projects.

Our sales backlog represents management's estimate of potential future revenues that may result from contracts/ orders currently awarded to us by our customers. Sales backlog is determined by the amount of unshipped third party customer purchase orders and may be revised upward or downward, or cancelled by our customers in certain instances. There can be no assurance that sales backlog will ultimately be realized as revenue, or that we will earn a profit on any of our sales backlog. Realization of revenue from sales backlog is dependent on, among other things, our ability to fulfill purchase orders and transfer title to customers, which in turn is dependent on a number of factors, including our ability to obtain product from our suppliers. Further, because of the project nature of our business, sales orders and sales backlog can vary materially from period to period.

The oil and natural gas industry continues to comprise the majority of our business. During the years ended December 31, 2011 and 2010, we derived the following percentage of our sales from customers in the oil and natural gas industry:

	YEAR ENDED DECEMBER 31, 2011	2010
Percentage of sales derived from the oil & natural gas industry	89%	82%

Our ten largest customers and ten largest suppliers represented the following percentages of our sales and product purchases for the years ended December 31, 2011 and 2010:

Edgar Filing: Edgen Group Inc. - Form S-1/A

	YEAR ENDED DECEMBER 31,	
	2011	2010
Top 10 customers as a percentage of sales	33%	28%
Top 10 suppliers as a percentage of product purchases	52%	39%

No one customer accounted for more than 10% of our sales in any of the periods presented. During the year ended December 31, 2011, our largest supplier accounted for approximately 11% of our product purchases. No one supplier accounted for more than 10% of our product purchases during the year ended December 31, 2010.

Year ended December 31, 2011 compared to the year ended December 31, 2010

The following tables compare sales and income (loss) from operations for the years ended December 31, 2011 and 2010. The period-to-period comparisons of financial results are not necessarily indicative of future results.

(IN MILLIONS, EXCEPT PERCENTAGES)	YEAR ENDED DECEMBER 31,			
	2011	2010	\$ CHANGE	% CHANGE
Sales				
Western Hemisphere	\$ 600.2	\$ 397.9	\$ 202.3	51%
Eastern Hemisphere	335.6	233.7	101.9	44%
Eliminations	(24.2)	(3.9)	(20.3)	
Total	\$ 911.6	\$ 627.7	\$ 283.9	45%
Income (loss) from operations				
Western Hemisphere	\$ 18.5	\$ (56.9)	\$ 75.4	NM
Eastern Hemisphere	33.6	22.0	11.6	53%
General Company	(13.7)	(22.5)	8.8	39%
Total	\$ 38.4	\$ (57.4)	\$ 95.8	NM

Sales

Consolidated. Sales increased to \$911.6 million for the year ended December 31, 2011, compared to \$627.7 million for the year ended December 31, 2010. The \$283.9 million, or 45%, increase was driven by sales increases across all of our market segments, most notably the upstream and downstream energy markets as a result of increased Project and MRO spending by our customers which we believe is due to higher oil prices and the increased availability of financing. Volume, product sales mix and sales price each had a favorable impact on our sales during the year ended December 31, 2011 compared to 2010.

Western Hemisphere. For the year ended December 31, 2011, sales from the Western Hemisphere increased \$202.3 million, or 51%, to \$600.2 million compared to \$397.9 million for the year ended December 31, 2010 and were driven by both higher sales volumes and prices, as well as a more favorable product sales mix towards higher priced products associated with offshore oil and natural gas exploration and production.

Eastern Hemisphere. Sales from the Eastern Hemisphere increased \$101.9 million, or 44%, to \$335.6 million for the year ended December 31, 2011 compared to \$233.7 million for the prior year period. Sales throughout 2011 benefitted from increased sales volumes and an improved product sales mix due to activity around offshore oil and natural gas exploration and production in the North Sea and the African and Australian coasts, as well as increased sales prices.

Income (loss) from operations

Consolidated. For the year ended December 31, 2011, consolidated income from operations was \$38.4 million, an increase of \$95.8 million compared to a loss from operations of \$57.4 million for the year ended December 31, 2010. Included in the \$57.4 million loss from operations for the year ended December 31, 2010 was a \$62.8 million pre-tax goodwill impairment charge related to a decrease in our operating forecasts due to the global economic recession. Excluding the impact of this goodwill impairment charge, the increase is primarily the result of increased sales volumes and a shift in product sales mix resulting in a larger percentage of our sales coming from higher margin products associated with offshore exploration and production activities and civil infrastructure projects. Selling, general and administrative expense, net of service fee

Edgar Filing: Edgen Group Inc. - Form S-1/A

income, was higher by \$9.8 million when compared to the year ended December 31, 2010. Excluding service fee income of \$2.0 million and \$0.7 million recognized in the years ended December 31, 2011 and 2010, respectively, and the effects of realized and unrealized losses on foreign currency transactions, selling, general and administrative expenses increased by \$11.5 million in the year ended December 31, 2011 compared to the year ended December 31, 2010. This increase was mainly due to increased staffing and other expenses to support our sales growth and international office expansions, compensation adjustments, higher employee related variable expenses, and a reserve for an uncollectible receivable associated with an outstanding customer warranty claim.

Western Hemisphere. For the year ended December 31, 2011, income from operations for the Western Hemisphere was \$18.5 million compared to a loss from operations of \$56.9 million for the year ended December 31, 2010, representing an increase of \$75.4 million. The loss from operations in the prior year period includes a pre-tax goodwill impairment charge of \$55.8 million. Excluding the goodwill impairment charge, the increase in income from operations between periods was driven by gross profit from increased sales volumes, higher prices on certain products, and a more favorable product sales mix to higher margin products associated with offshore oil and natural gas exploration and production and civil infrastructure projects. This increase was partially offset by higher selling, general and administrative expenses in the current year due primarily to increases in staffing and other expenses to support our sales growth, compensation adjustments, higher employee related variable expenses and a reserve for an uncollectible receivable associated with an outstanding customer warranty claim.

Eastern Hemisphere. For the year ended December 31, 2011, income from operations for the Eastern Hemisphere increased \$11.6 million to \$33.6 million compared to \$22.0 million for the year ended December 31, 2010. The 53% increase in income from operations was driven primarily by gross profit from increased sales volumes associated with certain large offshore upstream projects and an increase in MRO activity. Excluding realized and unrealized losses from foreign currency transactions, selling, general and administrative expenses increased \$6.0 million when compared to the year ended December 31, 2010 as a result of increases in staffing and other expenses to support our sales growth and the expansion of our international offices.

General Company. For the year ended December 31, 2011, loss from operations for General Company decreased \$8.8 million, or 39%, to \$13.7 million compared to a loss from operations of \$22.5 million for the year ended December 31, 2010. General Company expenses primarily consist of corporate overhead expenses and amortization expense related to acquired and identified intangible assets from the Eastern Hemisphere, partially offset by service fee income. For the year ended December 31, 2010, General Company expenses include a \$7.0 million goodwill impairment charge related to reporting units in the Eastern Hemisphere segment. Goodwill and other intangibles are allocated to the individual reporting units in the Eastern Hemisphere for impairment testing purposes based on their relative fair values at their acquisition date. Excluding the effect of the prior period goodwill impairment charge for the year ended December 31, 2010 and the service fee income, the loss from operations for General Company remained relatively flat in 2011 compared to the year ended December 31, 2010.

Other income (expense)

The following table displays our equity in earnings of unconsolidated affiliate, interest expense net and income tax expense (benefit) for the years ended December 31, 2011 and 2010.

(IN MILLIONS, EXCEPT PERCENTAGES)	YEAR ENDED DECEMBER 31,			
	2011	2010	\$ CHANGE	% CHANGE
Equity in earnings of unconsolidated affiliate	\$ 3.7	\$ 1.0	\$ 2.7	NM
Interest expense net	(63.9)	(64.2)	0.3	(1)%
Income tax expense (benefit)	4.1	(22.1)	26.2	NM

Equity in earnings of unconsolidated affiliate

Equity in earnings of unconsolidated affiliate of \$3.7 million and \$1.0 million for the year ended December 31, 2011 and for the period August 19, 2010 through December 31, 2010, respectively, reflects income from our 14.5% ownership interest in B&L. Our investment in B&L was made on August 19, 2010.

Interest expense net

Interest expense net for the years ended December 31, 2011 and 2010 was \$63.9 million and \$64.2 million, respectively. Interest expense net, includes interest on the EMC senior secured notes, amortization of deferred financing costs and original issue discount, interest associated with a capital lease in the U.K. and interest expense related to borrowings, if any, and fees associated with the utilization of the EM revolving credit facility for trade finance instruments issued in support of our normal business operations. The slight decrease in interest expense-net for year ended December 31, 2011 when compared to the prior year comparable period is primarily due to reduced amortization of deferred financing costs.

Income tax expense (benefit)

Income tax expense was \$4.1 million at an effective tax rate of 20% for the year ended December 31, 2011 compared to an income tax benefit of \$22.1 million at an effective tax rate of 18% for the year ended December 31, 2010. The income tax benefit for the year ended December 31, 2010 is due to our ability to carry back certain net operating losses, or NOLs, in the Western Hemisphere. We have recorded a deferred tax asset for our remaining NOLs in the Western Hemisphere at December 31, 2011, but are unable to recognize any tax benefit, as the deferred tax assets are offset by a valuation allowance.

At December 31, 2011, a valuation allowance of \$24.3 million was recorded against deferred tax assets and net operating loss carryforwards associated with our U.S. operations, an increase of \$12.8 million from the valuation allowance of \$11.5 million at December 31, 2010. Our estimated future U.S. taxable income may limit our ability to recover the net deferred tax assets and also limit our ability to utilize the NOLs during the respective carryforward periods. Additionally, statutory restrictions limit the ability to recover NOLs via a carryback claim. The NOLs are scheduled to expire beginning in 2024 through 2031.

Year ended December 31, 2010 compared to the year ended December 31, 2009

The following table compares sales and income (loss) from operations for the year ended December 31, 2010 and 2009. The period-to-period comparisons of financial results are not necessarily indicative of future results.

(IN MILLIONS, EXCEPT PERCENTAGES)	YEAR ENDED DECEMBER 31,			
	2010	2009	\$ CHANGE	% CHANGE
Sales				
Western Hemisphere	\$ 397.9	\$ 508.0	\$ (110.1)	(22)%
Eastern Hemisphere	233.7	285.1	(51.4)	(18)%
Eliminations	(3.9)	(19.8)	15.9	
Total	\$ 627.7	\$ 773.3	\$ (145.6)	(19)%
Income (loss) from operations				
Western Hemisphere	\$ (56.9)	\$ 2.9	\$ (59.8)	NM
Eastern Hemisphere	22.0	25.5	(3.5)	(14)%
General Company	(22.5)	(18.5)	(4.0)	22%
Total	\$ (57.4)	\$ 9.9	\$ (67.3)	NM

Sales

Consolidated. For the year ended December 31, 2010, our consolidated sales decreased \$145.6 million, or 19%, to \$627.7 million compared to \$773.3 million for the year ended December 31, 2009. The decrease in sales reflects the effects of the global economic downturn and the associated spending cuts by our customers in all segments of the energy industry, which impacted our results during the latter half of 2009 and throughout 2010. We believe that our customers focused on preserving cash during an uncertain economic recovery, which negatively affected both new project expenditures and routine maintenance and repair expenditures. Lower demand also negatively affected selling prices which also decreased overall sales. Sales for the year ended December 31, 2009 also reflect a strong order backlog at December 31, 2008 of approximately \$328.0 million which drove sales volumes, higher gross profits and gross margins into the first half of 2009.

Edgar Filing: Edgen Group Inc. - Form S-1/A

Western Hemisphere. For the year ended December 31, 2010, sales in our Western Hemisphere segment decreased \$110.1 million, or 22%, to \$397.9 million compared to \$508.0 million for the year ended December 31, 2009. The decrease in Western Hemisphere sales was primarily the result of lower demand from our customers in the downstream market and from the absence of large natural gas transportation projects in the midstream market. Additionally, our sales mix shifted from higher gross margin products, including alloy pipe and components and large diameter high yield carbon pipe products associated with midstream energy infrastructure projects, to smaller diameter carbon pipe, valve, and fitting products which generally have lower selling prices and margins.

Eastern Hemisphere. For the year ended December 31, 2010, sales in our Eastern Hemisphere segment decreased \$51.4 million, or 18%, to \$233.7 million compared to \$285.1 million for the year ended December 31, 2009. This decrease is primarily the result of a decline in offshore oil and natural gas structure construction in the markets served by our Singapore office. We also experienced a significant drop in selling prices across the Eastern Hemisphere segment as excess market inventories and short mill lead times created a competitive pricing environment.

Income (loss) from operations

Consolidated. For the year ended December 31, 2010, our consolidated income (loss) from operations decreased \$67.3 million to an operating loss of \$57.4 million compared to operating income of \$9.9 million for the year ended December 31, 2009. The decrease in operating income was primarily the result of a goodwill impairment charge of \$62.8 million, before taxes, and to a lesser extent, lower gross profit resulting from reduced sales volumes and lower sales prices as described above. Gross margins for the year ended December 31, 2009 were adversely impacted by a sharp decline in product prices which resulted in significant inventory valuation write-downs during the period of \$22.5 million. Selling, general and administrative expenses for the year ended December 31, 2009 included the write off of \$3.3 million of expenses related to a financing that was not consummated. No similar charge occurred for the year ended December 31, 2010.

Western Hemisphere. For the year ended December 31, 2010, income (loss) from operations for our Western Hemisphere segment decreased \$59.8 million to an operating loss of \$56.9 million compared to operating income of \$2.9 million for the year ended December 31, 2009. This decrease in operating income in 2010 was primarily the result of a goodwill impairment charge of \$55.8 million, before taxes, and to a lesser extent, lower gross profit resulting from lower sales volume and prices.

Eastern Hemisphere. For the year ended December 31, 2010, income from operations for our Eastern Hemisphere segment decreased \$3.5 million, or 14%, to \$22.0 million compared to \$25.5 million for the year ended December 31, 2009. The decrease in income from operations between years was primarily the result of lower selling prices across all Eastern Hemisphere markets. In addition, income from operations for the year ended December 31, 2009 included significant inventory valuation write-downs resulting from a sharp decline in inventory prices in the Middle East. In 2010, market conditions in the Middle East improved significantly and no inventory valuation write-down was required.

General Company. General Company expenses normally consist of amortization expenses related to acquired and identified intangible assets and corporate overhead expenses. For the year ended December 31, 2010, operating loss for General Company increased \$4.0 million, or 22%, to \$22.5 million compared to \$18.5 million for the year ended December 31, 2009. For the year ended December 31, 2010, General Company expenses include a \$7.0 million goodwill impairment charge related to the Eastern Hemisphere UAE reporting unit. Goodwill and other intangibles are allocated to the Eastern Hemisphere reporting units for goodwill impairment testing purposes based on their relative fair values at acquisition date. For the year ended December 31, 2009, General Company expenses include the write off of \$3.3 million of expenses related to a financing that was not consummated. Excluding these charges and the \$7.0 million goodwill impairment charge, General Company expenses remained relatively consistent between periods.

Other income (expense)

The following table displays our equity in earnings of unconsolidated affiliate, interest expense net, loss on prepayment of debt and income tax benefit for the years ended December 31, 2010 and 2009.

(IN MILLIONS, EXCEPT PERCENTAGES)	YEAR ENDED DECEMBER 31,			
	2010	2009	\$ CHANGE	% CHANGE
Equity in earnings of unconsolidated affiliate	\$ 1.0	\$	\$ 1.0	NM
Interest expense net	(64.2)	(47.1)	(17.1)	36%
Loss on prepayment of debt		(7.5)	7.5	NM
Income tax benefit	(22.1)	(22.4)	(0.3)	(1%)

Equity in earnings of unconsolidated affiliate

On August 19, 2010, EM II LP's subsidiary, EMC, invested \$10.0 million in exchange for 14.5% of the common equity in B&L. The B&L investment is accounted for using the equity method of accounting. Income from the B&L investment for the period August 19, 2010 through December 31, 2010 was \$1.0 million.

Interest expense net

Interest expense net, for the year ended December 31, 2010 increased \$17.1 million, or 36%, to \$64.2 million compared to \$47.1 million for the year ended December 31, 2009. The overall increase in interest expense net, for the year ended December 31, 2010 was primarily the result of higher period interest rates on our \$465.0 million of the EMC senior secured notes issued on December 23, 2009 compared to interest rates on the \$500.0 million term loans outstanding during the year ended December 31, 2009.

Loss on prepayment of debt

Loss on prepayment of debt of \$7.5 million for the year ended December 31, 2009 was the result of the write-off of deferred financing costs as a result of the repayment of our first and second lien term loans on December 23, 2009 using the proceeds from the issuance of the EMC senior secured notes.

Income tax expense (benefit)

Income tax benefit was \$22.1 million for the year ended December 31, 2010, compared to income tax benefit of \$22.4 million for the year ended December 31, 2009. The income tax benefit for the year ended December 31, 2010 was due to our ability to carry back certain NOLs in the Western Hemisphere. In addition, for the year ended December 31, 2010, the estimated annual effective tax rate and income tax benefit reflect the impact of a goodwill impairment charge of \$62.8 million for which \$29.9 million was related to non-deductible goodwill and \$9.0 million related to recording a valuation allowance against certain deferred tax assets.

At December 31, 2010, a valuation allowance of \$11.5 million was recorded against deferred tax assets and net operating loss carryforwards as we believed it was more likely than not that the future income tax benefits would not be realized in subsequent periods. The estimated future U.S. taxable income will limit our ability to recover the net deferred tax assets and also limit the ability to utilize the NOLs during the respective carryforward periods. Additionally, statutory restrictions limit the ability to recover the NOLs via a carryback claim.

Bourland & Leverich Holdings LLC and Subsidiary

On August 19, 2010, we purchased a 14.5% ownership interest in B&L, an unconsolidated affiliate accounted for under the equity method. B&L's accounting policies are identical to ours and the factors affecting B&L's business, including oil and natural gas prices, availability of financing for customers to fund capital expenditures and the level of oil and gas exploration and production, among others, are largely similar to ours, though B&L operates almost exclusively in the U.S. After this offering, as a result of the Reorganization, we will own 100% of the equity interests of B&L Supply, constituting the entire business of B&L, and will consolidate the results of operations of B&L's business with our own for accounting purposes. Due to the significance of this business to our future operations, we have included below a discussion of the results of operations of B&L for the year ended December 31, 2011. These results are included in our historical consolidated financial statements only to the extent of our equity in earnings from our investment. We have not included results of B&L Predecessor, as the results would not be comparable due to (1) a difference in the December 31 fiscal year end adopted by B&L and B&L Predecessor's September 30 fiscal year end and (2) acquisition accounting adjustments including, among others, (a) increased depreciation and amortization as a result of the recognition of intangible assets and the step-up in basis of existing fixed assets, (b) increased interest expense associated with indebtedness outstanding as a result of the B&L Acquisition, and (c) service fees paid by B&L to us for certain support services related to information technology, legal, treasury, tax, financial reporting, and other administrative expenses. These financial results are not necessarily indicative of future results we expect to achieve when we consolidate B&L subsequent to this offering. We have also included elsewhere in this prospectus unaudited pro forma condensed combined financial information giving effect to the Reorganization and this offering. You should read Unaudited Pro Forma Condensed Combined Financial Information in conjunction with your review of the following discussion.

B&L's financial results for the year ended December 31, 2011 have benefited from sustained high levels of drilling activity driven by continuing oil and natural gas exploration in North America. We believe higher oil prices and an increase in the availability of financing for capital expenditures through 2011 have incentivized E&P companies to

increase onshore U.S. drilling activity, particularly in unconventional resources such as oil sands and oil and natural gas shales. Although the average active onshore oil and gas rig count in the U.S. is still considerably lower than the high levels that were operating in 2008, it has continued to steadily increase since the first quarter of 2010, a quarter which witnessed the lowest average U.S. oil and gas rig count levels in this recent recessionary period. Average active U.S. onshore oil and gas rig count, as measured by Baker Hughes Incorporated, for the year ended December 31, 2011 was approximately 1,829 compared to approximately 1,496 for the year ended December 31, 2010, an increase of 22%. The steady improvement in the average onshore rig count in the U.S. has contributed to an increase in demand for B&L's oil country tubular goods and translated into a pricing environment that has improved sequentially each month through the first half of 2011. More recently, prices are relatively stable despite the persistence of challenging market conditions, but remain significantly lower than pre-recessionary highs due to excess mill capacity and a competitive market environment. Gross profit for the year ended December 31, 2011 benefitted from increased levels of U.S. onshore drilling activity.

The following table reflects B&L's results of operations for the year ended December 31, 2011.

	YEAR ENDED DECEMBER 31, 2011	
(IN MILLIONS)		
Statement of Operations Data:		
Sales	\$	763.7
Income from operations		46.0
Other income net		0.6
Interest expense		(22.6)
Net income	\$	24.0

Sales

For the year ended December 31, 2011, B&L's sales were \$763.7 million. Sales in the year ended December 31, 2011 were the result of a high level of onshore drilling activity in the U.S., particularly in unconventional oil and natural gas resource developments. In the year ended December 31, 2011, B&L sold approximately 404,600 tons of oil country tubular goods at an average selling price of approximately \$1,887 per ton. During the year ended December 31, 2011, B&L's top ten customers represented 62% of sales and two customers accounted for 18% and 11%, respectively, of sales. No other single customer accounted for more than 10% of sales during this period.

Income from operations

For the year ended December 31, 2011, B&L's income from operations was \$46.0 million. Income from operations was impacted by steel prices, which have increased substantially since the market downturn in 2009, but have remained relatively steady throughout 2011, and increased demand for oil country tubular goods as U.S. onshore drilling activity has increased. Income from operations also includes selling, general and administrative expense of \$15.9 million, or 2% of sales for the period, of which approximately \$9.9 million was attributable to employee related costs including salaries, employee benefits and travel expenses for sales staff, \$2.0 million was attributable to service fees paid to EMC, and approximately \$0.6 million was attributable to nonrecurring transaction costs. Also included in income from operations is depreciation and amortization expense of \$14.5 million, nearly all of which relates to amortization of intangible asset customer relationships and noncompetition agreements recorded in connection with the B&L Acquisition.

Interest expense

Edgar Filing: Edgen Group Inc. - Form S-1/A

Interest expense for the year ended December 31, 2011 was \$22.6 million, resulting from interest incurred on B&L's indebtedness during the period and amortization of deferred financing costs.

Quarterly Results of Operations of our Predecessor and B&L

The following tables present our predecessor's unaudited quarterly results of operations for the eight quarters in the period ended December 31, 2011 and B&L's unaudited quarterly results of operations for the five quarters in the period ended December 31, 2011. This information has been prepared on the same basis as the audited financial

statements of our predecessor and B&L and includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the information for the quarters presented. You should read this information in conjunction with the audited consolidated financial statements of EM II LP, the audited consolidated financial statements of B&L, and the related notes thereto. The unaudited results of operations for any quarter are not necessarily indicative of results of operations for any future period.

Our predecessor's unaudited quarterly results of operations were as follows:

STATEMENT OF OPERATIONS (IN THOUSANDS)	THREE MONTHS ENDED							
	DECEMBER 31, 2011	SEPTEMBER 30, 2011	JUNE 30, 2011	MARCH 31, 2011	DECEMBER 31, 2010	SEPTEMBER 30, 2010	JUNE 30, 2010	MARCH 31, 2010
Sales	\$ 258,663	\$ 244,838	\$ 222,549	\$ 185,562	\$ 173,295	\$ 174,217	\$ 135,711	\$ 144,490
Gross profit (exclusive of depreciation and amortization)	34,607	36,934	36,269	26,694	23,394	25,018	20,610	21,884
Income (loss) from operations	9,800	10,858	12,673	5,053	3,445	4,586	(66,190)	735
Net loss	(6,379)	(4,263)	(3,868)	(10,018)	(11,040)	(4,864)	(75,419)	(6,965)

The global economic recession impacted our sales and income (loss) from operations in 2009 and through the first half of 2010 as oil prices dropped significantly from previous levels and credit availability for many of our customers was unpredictable. In the latter half of 2010, these operating conditions started to reverse as oil prices recovered and the availability of financing improved which led to increases in our sales and income (loss) from operations. The improvement in operating conditions continued throughout 2011 as capital spending in energy markets steadily improved. As a result, our sales have sequentially increased since the three months ended December 31, 2010. In the recent six quarters, income from operations has generally increased with slight fluctuations due mainly to variations in gross margin.

Selling, general and administrative expense, net of service fee income fluctuates from quarter to quarter primarily due to fluctuations in employee related variable expenses and the effects of realized and unrealized gains and losses from foreign currency transactions. Selling, general and administrative expense, net of service fee income, has generally increased since the three months ended December 31, 2010 mainly due to increased staffing and other expenses to support our sales growth. As a percentage of sales, selling, general and administrative expense, net of service fee income has remained generally consistent through the second half of 2010 and throughout 2011 with a slight increase in the three months ended September 30, 2011 due to the recording of a reserve for an uncollectible receivable associated with an outstanding customer warranty claim.

Equity in the earnings of unconsolidated affiliate, which represents our 14.5% investment in B&L, has sequentially increased since the date of our investment on August 19, 2010.

Income (loss) from operations and net loss for the three months ended June 30, 2010 include a goodwill impairment charge of \$62.8 million as a result of the fair value of certain of our reporting units falling below the carrying value.

B&L's unaudited quarterly results of operations were as follows:

STATEMENT OF OPERATIONS (IN THOUSANDS)	THREE MONTHS ENDED				DECEMBER 31, 2010
	DECEMBER 31, 2011	SEPTEMBER 30, 2011	JUNE 30, 2011	MARCH 31, 2011	
Sales	\$ 217,264	\$ 212,328	\$ 192,619	\$ 141,448	\$ 160,554
Gross profit (exclusive of depreciation and amortization)	20,568	21,365	18,920	15,584	17,220
Income from operations	12,540	13,403	11,458	8,579	9,444
Net income	7,139	7,890	5,869	3,084	3,343

B&L's sales and income from operations are directly affected by the level of U.S. onshore oil and natural gas drilling. Increased domestic onshore rig count, higher oil prices, and an increase in the availability of financing for capital expenditures since those at the beginning of the fiscal year have led to a sequential increase in B&L's sales over the year. Gross margin has remained consistent between quarters resulting in income from operations which has generally increased each quarter since December 31, 2010. Selling, general and administrative expenses have increased since the quarter ended March 31, 2011 due mainly to increases in staffing and other expenses to support sales growth. As a percentage of sales, selling, general and administrative expense has remained relatively consistent.

Liquidity and Capital Resources

At December 31, 2011, our predecessor had \$26.2 million of unrestricted cash on hand and \$99.5 million of available credit under the EM revolving credit facility and the revolving credit facility of its consolidated subsidiary Edgen Murray FZE, or EM FZE. B&L had unrestricted cash on hand of \$0.1 million and \$58.0 million of availability under its revolving credit facility. On a pro forma basis, our cash on hand and available borrowing capacity under our revolving credit facilities was \$26.3 million and \$157.5 million, respectively, at December 31, 2011. Our primary cash requirements, in addition to normal operating expenses and debt service, are for working capital, capital expenditures, and business acquisitions. We have historically financed our operations through cash flows generated from operations and from borrowings under our credit facilities, while our primary source of acquisition funds has historically been the issuance of debt securities and preferred and common equity. Our debt service requirements have historically been funded by operating cash flows and/or refinancing arrangements.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures depends on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our cash flows are primarily dependent on sales of the products we supply to our customers at profit margins sufficient to cover fixed and variable expenses as well as our ability to successfully collect receivables from our customers on a timely basis. Additionally, provisions of our revolving credit facilities and the indenture governing the EMC senior secured notes, as well as the laws of the jurisdictions in which our companies are organized, restrict our ability to pay dividends or make certain other restricted payments.

We believe that we will continue to have adequate liquidity and capital resources to fund future recurring operating and investing activities and to service our indebtedness. We cannot provide assurance that if our business declines we would be able to generate sufficient cash flows from operations or that future borrowings will be available to us under our revolving credit facilities in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. If we are unable to generate sufficient cash flow from operations in the future to service our indebtedness and to meet our other commitments and liquidity needs, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or raising additional debt or equity capital. We cannot provide assurance that any of these actions could be effected on a timely basis or on satisfactory terms, if at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing or future debt agreements may contain provisions prohibiting us from

adopting any of these alternatives. Our failure to comply with these provisions could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

Debt

At December 31, 2011, our predecessor's total indebtedness, including capital leases, was \$500.7 million and our indebtedness was \$683.8 million on a pro forma basis before use of proceeds from this offering. Included within our total indebtedness is the following:

EMC senior secured notes. On December 23, 2009, EMC issued \$465.0 million aggregate principal amount of 12.25% senior secured notes with an original issue discount of \$4.4 million. Approximately \$57.0 million of annual interest accrues on the EMC senior secured notes at a rate of 12.25% and is payable in arrears on each January 15 and July 15, commencing on July 15, 2010.

We may redeem some, or all, of the EMC senior secured notes at any time prior to January 15, 2013 at a redemption price equal to 100% of the principal plus an applicable premium and accrued and unpaid interest at the redemption date. The applicable premium, with respect to any senior secured note on the redemption date, is calculated as the greater of:

- (1) 1.0% of the principal amount of the note; or
- (2) the excess of:
 - (a) the present value at the redemption date of (i) the redemption price of the note at January 15, 2013 (such price as set forth in the table below) plus (ii) all required interest payments due on the note through January 15, 2013 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over
 - (b) the principal amount of the note.

On or after January 15, 2013, we have the option to redeem some, or all, of the EMC senior secured notes at the following redemption prices, plus accrued and unpaid interest to the date of redemption:

ON OR AFTER:	PERCENTAGE
January 15, 2013	106.125%
January 15, 2014 and thereafter	100.000%

In addition, at any time prior to January 15, 2013, we may redeem up to 35% of the aggregate original principal amounts of the notes issued under the indenture at a price equal to 112.25% of the principal amount, plus accrued and unpaid interest, to the date of redemption with the net cash proceeds of certain equity offerings. The terms of the EMC senior secured notes also contain certain change in control and sale of asset provisions under which the holders of the EMC senior secured notes have the right to require us to repurchase all or any part of the notes at an offer price in cash equal to 101% and 100%, respectively, of the principal amount, plus accrued and unpaid interest, to the date of the repurchase.

Edgar Filing: Edgen Group Inc. - Form S-1/A

The indenture governing the EMC senior secured notes contains various covenants that limit our discretion in the operation of our business. Among other things, it limits our ability and the ability of our subsidiaries to incur additional indebtedness, issue shares of preferred stock, incur liens, make certain investments and loans and enter into certain transactions with affiliates. It also places restrictions on our ability to pay dividends or make certain other restricted payments and our ability or the ability of our subsidiaries to merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of their respective assets.

The EMC senior secured notes are guaranteed on a senior secured basis by EM II LP and each of its existing and future U.S. subsidiaries that (1) is directly or indirectly 80% owned by EM II LP, (2) guarantees the indebtedness of EMC or any of the guarantors and (3) is not directly or indirectly owned by any non-U.S. subsidiary. At December 31, 2011, EMC is EM II LP's only U.S. subsidiary, and, therefore, EM II LP is currently the only guarantor of the EMC senior secured notes. As part of the Reorganization, EM Holdings will replace EM II LP as the only guarantor of the EMC senior secured notes.

The EMC senior secured notes and related guarantees are secured by:

- n first-priority liens and security interests, subject to permitted liens, in EMC's and the guarantors' principal U.S. assets (other than the working capital assets which collateralize the EM revolving credit facility), including material real property, fixtures and equipment, certain intellectual property and certain capital stock of EM II LP's direct restricted subsidiaries now owned or hereafter acquired; and
- n second-priority liens and security interests, subject to permitted liens (including first-priority liens securing the EM revolving credit facility), in substantially all of EMC's and the guarantors' cash and cash equivalents, deposit and securities accounts, accounts receivable, inventory, other personal property relating to such inventory and accounts receivable and all proceeds there from, in each case now owned or acquired in the future.

Under an intercreditor agreement, the security interest in certain assets consisting of cash and cash equivalents, inventory, accounts receivable, and deposit and securities accounts is subordinated to a lien thereon that secures the EM revolving credit facility. As a result of such lien subordination, the EMC senior secured notes are effectively subordinated to the revolving credit facility to the extent of the value of such assets.

EM revolving credit facility. On September 2, 2011, our predecessor entered into a sixth amendment to the EM revolving credit facility among JPMorgan Chase Bank, N.A. and other financial institutions party thereto, EMC, EM Europe, Edgen Murray Canada Inc., or EM Canada, and Edgen Murray Pte. Ltd., or EM Pte, collectively, the Borrowers. The sixth amendment extended the maturity date of the EM revolving credit facility from May 11, 2012 to May 11, 2014 and increased the aggregate amount available under the EM revolving credit facility from \$175.0 million to \$195.0 million (subject to an increase by the Company of up to \$25.0 million for a total of \$220.0 million), of which:

- n EMC may utilize up to \$180.0 million (\$25.0 million of which can only be used for trade finance instruments) less any amounts utilized under the sublimits of EM Canada and EM Europe;
- n EM Europe may utilize up to \$60.0 million;
- n EM Canada may utilize up to \$10.0 million; and
- n EM Pte may utilize up to \$15.0 million.

Actual credit availability under the EM revolving credit facility for each Borrower fluctuates because it is subject to a borrowing base limitation that is calculated based on a percentage of eligible trade accounts receivable and inventories, the balances of which fluctuate, and is subject to discretionary reserves, revaluation adjustments, and sublimits as defined by the EM revolving credit facility and imposed by the administrative agent. The Borrowers may utilize the EM revolving credit facility for borrowings as well as for the issuance of various trade finance instruments, such as letters of credit and bank guarantees, and other permitted indebtedness. The EM revolving credit facility is secured by a first priority security interest in all of the working capital assets, including trade accounts receivable and inventories, of EMC, EM Canada, EM Europe, EM Pte and each of the guarantors. Additionally, the common shares of EM Pte and EM FZE secure the portion of the EM revolving credit facility utilized by EM Europe. The EM revolving credit facility is guaranteed by EM II LP. EM II LP will be released from this guarantee as part of the Reorganization. Additionally, each of the EM Canada sub-facility, the EM Europe sub-facility and the EM Pte sub-facility is guaranteed by EMGH, PAL, EM Europe, EM Canada and EM Pte.

At December 31, 2011, cash borrowings of \$20.5 million were outstanding under the EM revolving credit facility. Trade finance instruments under the EM revolving credit facility at December 31, 2011 totaled \$42.3 million and reserves totaled \$3.7 million. During the year ended December 31, 2011, our maximum utilization under the EM revolving credit facility was \$87.6 million and our weighted average interest rate incurred for indebtedness under this facility was 4.36%. Borrowings under the EM revolving credit facility incur interest rates and various base rates including Alternate Base Rate, Adjusted LIBOR, Banker's Acceptance Rate, U.K. Base Rate, Canadian Prime Rate or Singapore Base Rate, plus, in each case, a percentage spread that varies from 0.5% to 3.0% based on the type of borrowing and our average credit availability.

At December 31, 2011, credit availability under the EM revolving credit facility was as follows (based on the value of the Company's borrowing base on that date):

(IN MILLIONS)	EMC	EM Canada	EM Europe	EM Pte	Total	
Total availability	\$ 118.4	\$ 1.7	\$ 26.4	\$ 15.0	\$ 161.5	
Less utilization and reserves	(53.1) ^(a)	(0.1)	(8.4)	(4.9)	(66.5)
Net availability	\$ 65.3	\$ 1.6	\$ 18.0	\$ 10.1	\$ 95.0	

(a) Includes a letter of credit in the amount of \$5.0 million which supports the local credit facility of EM FZE.

The EM revolving credit facility contains a minimum fixed charge coverage ratio covenant of not less than 1.25 to 1.00 that applies if our aggregate availability is reduced below \$27.0 million, or the sum of EMC and EM Canada availability is less than \$16.5 million until the date that both aggregate availability is greater than \$32.0 million and the sum of EMC and EM Canada availability is greater than \$21.5 million for a consecutive ninety day period, and no default or event of default exists or has existed during the period. The EM revolving credit facility fixed charge coverage ratio is a ratio of our earnings before interest, depreciation and amortization, and income taxes, subject to certain adjustments and minus capital expenditures and cash taxes, to the sum of our cash interest expense, scheduled principal payments, cash management fees, dividends and distributions and cash earnout or similar payments, all as more specifically defined in the EM revolving credit facility. It is calculated as of the end of each of our fiscal quarters for the period of the previous four fiscal quarters. For the year ended December 31, 2011 the EM revolving credit facility fixed charge coverage ratio exceeded 1.25 to 1.00. Although the EM revolving credit facility fixed charge coverage ratio covenant was not applicable because our aggregate availability was above the applicable thresholds, there can be no assurance that our aggregate availability will not fall below one of the applicable thresholds in the future. Our credit availability could decline if the value of our borrowing base declines, the administrative agent under the EM revolving credit facility imposes reserves in its discretion, our borrowings under the EM revolving credit facility increase or for other reasons. In addition, the agents under the EM revolving credit facility are entitled to conduct borrowing base field audits and inventory appraisals at least annually, which may result in a lower borrowing base valuation. Our failure to comply with the EM revolving credit facility minimum fixed charge coverage ratio at a time when it is applicable would be an event of default under the EM revolving credit facility, which could result in a default under and acceleration of our other indebtedness.

We believe that the inclusion of this fixed charge coverage ratio calculation in this discussion provides useful information to investors about our compliance with the minimum fixed charge coverage ratio covenant in our EM revolving credit facility. The EM revolving credit facility fixed charge coverage ratio is not intended to represent a ratio of our fixed charges to cash provided by operating activities as defined by generally accepted accounting principles and should not be used as an alternative to cash flow as a measure of liquidity. Because not all companies use identical calculations, this fixed charge coverage ratio presentation may not be comparable to other similarly titled measures of other companies.

The EM revolving credit facility also provides for limitations on additional indebtedness, the payment of dividends and distributions, investments, loans and advances, transactions with affiliates, dispositions or mergers and the sale of assets. At December 31, 2011, we were in compliance with the covenants applicable under the EM revolving credit facility, and our availability requirements exceeded the thresholds described above.

EM FZE credit facility. EM FZE has a credit facility with local lenders in Dubai under which it has the ability to borrow up to the amount it has secured by a letter of credit. At December 31, 2011, EM FZE had the ability to borrow up to \$5.0 million because the facility was secured by a letter of credit in the amount of \$5.0 million issued under the EM revolving credit facility. EM FZE may utilize the local facility for borrowings, foreign currency exchange contracts, trade finance instruments, such as letters of credit and bank guarantees, and other permitted indebtedness. This facility is primarily used to support the trade activity of EM FZE. At December 31, 2011 there were no outstanding cash borrowings and there was approximately \$0.5 million in trade finance instruments issued under the EM FZE Facility. Availability under the EM FZE facility was \$4.5 million at December 31, 2011.

BL revolving credit facility. After the Reorganization, we will be party to the BL revolving credit facility. On August 19, 2010, B&L Supply entered into the BL revolving credit facility with Regions Bank and RBS Business Capital, a division of RBS Asset Finance, Inc., as co-collateral agents. B&L may utilize the BL revolving credit facility for borrowings as well as for the issuance of trade finance instruments. At December 31, 2011, there was \$17.0 million in outstanding cash borrowings under the BL revolving credit facility and there were no outstanding bank guarantees or letters of credit. During the year ended December 31, 2011, B&L's maximum utilization under the BL revolving credit facility was \$62.5 million. During the year ended December 31, 2011, the weighted average interest rate incurred for indebtedness under the BL revolving credit facility was 4.58%. Interest on the BL revolving credit facility accrues at adjusted LIBOR, plus 3.0% to 3.5% for LIBOR loans, and Prime plus 2.0% to 2.5% for base rate loans.

Credit availability under the BL revolving credit facility at December 31, 2011 was \$58.0 million. Credit availability is defined as the lesser of (1) the revolving commitment of \$75.0 million or (2) an availability amount based on a percentage of eligible trade accounts receivable and inventories, subject to adjustments and sublimits as defined by the BL revolving credit facility, or the BL Borrowing Base. The credit availability under the BL revolving credit facility could decline if the value of BL Borrowing Base declines, the administrative agent under the BL revolving credit facility imposes reserves in its discretion, B&L's borrowings under the BL revolving credit facility increase or for other reasons. In addition, the agents under the BL revolving credit facility are entitled to conduct borrowing base field audits and inventory appraisals at least annually, which may result in a lower borrowing base valuation. The BL revolving credit facility also contains an unused line commitment fee calculated on a quarterly basis at a rate of 0.5%, 0.625% and 0.75% based on the daily average excess of the lesser of the total revolving commitment over outstanding borrowings and utilization of availability for bank guarantees and letters of credit.

The BL revolving credit facility is secured by a first-priority security interest in all of the working capital assets of B&L, including trade accounts receivable and inventory and contains affirmative, and negative covenants, including a consolidated fixed charge coverage ratio, as defined by the BL revolving credit facility, not to be less than a ratio of 1.10 to 1.00, and a limitation of capital expenditures not to exceed \$3.5 million for the period August 19, 2010 through December 31, 2011 and \$3.0 million in 2012 and thereafter. The BL revolving credit facility also provides for limitations, among others, on additional indebtedness, the making of distributions, certain investments loans, and advances, transactions with affiliates, mergers and the sale of assets.

BL term loan. After the Reorganization and before giving effect to our use of the net proceeds from this offering, we will have outstanding the BL term loan, which was issued by B&L Supply on August 19, 2010 under a credit agreement, or the BL term loan agreement. At December 31, 2011, there is \$116.4 million outstanding under the BL term loan. The BL term loan agreement requires quarterly principal payments which began December 31, 2010, of \$1.6 million, or 0.0125%, of the original principal amount through September 30, 2011; \$2.3 million, or 0.0188%, of the original principal amount through September 30, 2012; and \$3.1 million, or 0.025%, of the original principal amount thereafter through the maturity date of August 19, 2015, at which time the remainder of the loan balance is due. Principal payments for the year ended December 31, 2011 were \$7.0 million.

Effective for the year ended December 31, 2011, the agreement governing the BL term loan, or the Term Loan Agreement, also requires B&L Supply to make potential mandatory annual principal prepayments from Excess Cash Flow, or the ECF Prepayment, as defined by the Term Loan Agreement, based on financial statements of B&L Supply for the five quarters ended December 31, 2011 and the four quarters ended each fiscal year end thereafter. Such mandatory prepayments are required to be paid within two business days after the issuance of B&L Supply's audited financial statements for the year then ended, which must be submitted within 90 days after year-end. These mandatory prepayments will be deferred to the extent necessary for B&L Supply to maintain certain liquidity, or the Liquidity Test, as defined by the Term Loan Agreement. Deferred amounts may be payable in future periods to the extent B&L Supply satisfies the Liquidity Test, which is performed on a monthly basis.

Based on the financial statements of B&L Supply for the five quarters ended December 31, 2011, B&L has determined that it is required to make an ECF Prepayment of approximately \$9.6 million. B&L has classified the amount of the ECF Prepayment in the current portion of long-term debt within the consolidated balance sheet at December 31, 2011 as it is expected that the full amount of the ECF Prepayment will be paid prior to December 31, 2012. The amount of the ECF Prepayment will be applied to reduce on a pro rata basis the remaining quarterly

principal payments under the Term Loan. Accordingly, the remaining quarterly principal repayments will be \$2.2 million through September 30, 2012 and \$2.9 million thereafter through the maturity date of August 19, 2015, at which time the remainder of the loan balance is due.

B&L Supply can prepay the BL term loan at any point in time subject to a make-whole payment or prepayment fee as defined by the BL term loan agreement payable prior to the fourth anniversary of the BL term loan. The BL term loan also contains a mandatory prepayment with respect to additional debt issuance, which is subject to the same make-whole payment or prepayment fee. The ECF Prepayments are not subject to a make-whole payment or prepayment fee. Other than ECF Prepayment discussed above, there were no prepayments for the year ended December 31, 2011.

Prior to August 19, 2012, B&L Supply may, at its option, redeem some or all of the BL term loan plus a make-whole amount calculated with respect to the amount repaid. The make-whole amount is defined as the present value of (1) the prepayment fee as of the second anniversary of the closing and (2) interest that would be required through August 19, 2012, assuming the adjusted LIBOR is the greater of the rate in effect on the date of determination or 2.0%. The present value is determined using a discount rate equal to the U.S. Treasury rate as of the date of determination plus 50 basis points. On or after August 19, 2012, a prepayment fee is paid as follows:

	PERCENTAGE
On or prior:	
August 19, 2013	105.50%
August 19, 2014	102.75%

The BL term loan agreement contains various covenants that limit B&L's discretion, and will limit our discretion, in the operation of its business. The various covenants include:

- (i) a maximum total leverage ratio by B&L Supply, as defined by the BL term loan agreement, requiring a ratio of no more than 2.5 to 1.0 at September 30, 2011; 2.25 to 1.0 at December 31, 2011; and 2.0 to 1.0 at March 31, 2012 and thereafter;
- (ii) a minimum consolidated interest coverage ratio by B&L Supply, as defined by the BL term loan agreement, requiring a minimum ratio of 3.25 to 1.0 through December 31, 2011, and 3.5 to 1.0 for the period March 31, 2012, and thereafter; and
- (iii) limitations on B&L Supply's capital expenditures with maximum annual capital expenditures of \$3.5 million for the year ending December 31, 2011, and \$3.0 million for the years ending December 31, 2012 and thereafter.

The BL term loan agreement, among other things, also limits B&L's ability, B&L Supply's ability, and will limit our ability to:

- (i) incur additional indebtedness, incur liens, make certain investments and loans, enter into sale and leaseback transactions, make material changes in the nature or conduct of B&L's business, and enter into certain transactions with affiliates;
- (ii) pay dividends or make certain other restricted payments; and

Edgar Filing: Edgen Group Inc. - Form S-1/A

(iii) merge or consolidate with any other person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of their respective assets.

At December 31, 2011, B&L was in compliance with the affirmative and negative covenants applicable under the BL term loan agreement.

Seller Note. After the Reorganization and prior to our use of proceeds from this offering, we will be party to the Seller Note. The carrying value of the Seller Note at December 31, 2011 is \$49.7 million, net of discount of \$5.6 million. The Seller Note accrues interest at a base rate of 2.18% and a contingent interest rate of 5.82% for an aggregate interest rate of 8.0%. A portion of the accrued interest equal to 37.5% of the base rate is due annually on April 15 until maturity. The remaining portion of the accrued interest is added to the Seller Note principal balance to be paid

at maturity. At December 31, 2011, cumulative interest added to the note payable to the former owner of B&L Predecessor was \$5.3 million and is included in its carrying value. The Seller Note imposes certain limitations on B&L's ability to declare dividends, issue new securities and enter into certain transactions with affiliates.

Statement of Cash Flows Data

Net cash flows provided by operating activities are largely dependent on earnings from our business activities and are exposed to certain risks. Since we operate predominantly in the energy industry and provide the products we supply to customers within this industry, reduced demand for oil and gas and reduced spending by our customers for the exploration, production, processing, transportation, storage, and refining of oil and natural gas, whether because of a decline in general economic conditions, reduced demand for the products we supply, increased competition from our competitors, or adverse effects on relationships with our customers and suppliers could have a negative impact on our earnings and operating cash flows.

Our consolidated statements of cash flows are prepared using the indirect method. The indirect method derives net cash flows from operating activities by adjusting net income to remove (1) the effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income and similar transactions; (2) the effects of all accruals of expected future operating cash receipts and cash payments, such as changes during the period in receivables and payables; (3) other non-cash amounts such as depreciation, amortization, accretion, changes in the fair market value of derivative instruments, and equity in income from our unconsolidated affiliate (net cash flows provided by operating activities reflect the actual cash distributions we receive from our unconsolidated affiliate); and (4) the effects of all items classified as investing or financing cash flows, such as proceeds from asset sales and related transactions or extinguishment of debt. In general, the net effect of changes in operating accounts results from the timing of cash receipts from sales and cash payments for purchases and other expenses during each period. Increases or decreases in inventory are influenced by the demand and prices for the products we supply. As a result of the worldwide economic recession and its impact on steel demand and prices, our suppliers have experienced a reduction in trade credit insurance available to them for sales to foreign accounts. This has resulted in our suppliers (1) reducing the available credit they grant to us and others; and (2) requiring other forms of credit from us, such as trade finance instruments under the EM revolving credit facility which has decreased availability under this facility. Since we incur costs for letters of credit under the EM revolving credit facility, this trend has increased our borrowing costs, although not significantly.

Cash provided by or used in investing activities primarily represents expenditures for additions to property, plant and equipment, business combinations and investments in our unconsolidated affiliate, and proceeds from the sale of property, plant and equipment. Cash provided by or used in financing activities generally consists of borrowings and repayments of debt and fluctuations in our managed cash overdraft. Our borrowings and repayments of debt are influenced by changes in our credit availability, which is driven by the amount of eligible inventory and receivables we have at a given time, and changes in demand for the products we supply.

The following information highlights the significant year-to-year variances in our cash flow amounts:

(IN MILLIONS)	YEAR ENDED DECEMBER 31,		
	2011	2010	2009
Cash flows provided by (used in) activities:			
Cash flows provided by (used in) operating activities	\$ (57.6)	\$ 30.2	\$ 91.9
Cash flows provided by (used in) investing activities	3.4	(26.8)	(8.0)
Cash flows provided by (used in) financing activities	19.0	(5.6)	(59.9)
Effect of exchange rate changes on cash and cash equivalents	(1.1)	(1.0)	
Net change in cash and cash equivalents	(36.3)	(3.2)	24.0
Cash and cash equivalents beginning of period	62.5	65.7	41.7
Cash and cash equivalents end of period	\$ 26.2	\$ 62.5	\$ 65.7

Operating activities. Net cash outflows from operating activities were \$57.6 million for the year ended December 31, 2011 compared to net cash inflows of \$30.2 million and \$91.9 million for the years ended December 31, 2010 and 2009, respectively. The decrease in cash inflows from operations from 2009 to 2010 is primarily due to reduced sales in 2010 due to the global economic recession. Cash used in operations for the year ended December 31, 2011 reflects cash used for working capital requirements to support increased sales activity resulting from improved economic conditions worldwide and particularly in the energy industry. As our sales have increased, we have entered into and fulfilled more purchase orders with our customers and suppliers which has increased our accounts receivable from our customers, our inventory on hand and our accounts payable with our suppliers. Cash outflows from operating activities also include interest paid of \$60.6 million primarily associated with the EMC senior secured notes. These cash outflows were partially offset by federal and state income tax refunds of \$18.4 million received during the year ended December 31, 2011.

Investing activities. Net cash provided by investing activities was \$3.4 million for the year ended December 31, 2011 compared to net cash outflows of \$26.8 million and \$8.0 million for the years ended December 31, 2010 and 2009, respectively. Net cash inflows for the year ended December 31, 2011 include cash proceeds of \$6.3 million from the sale of our former Singapore sales and distribution facility in January 2011. Net cash outflows for the year ended December 31, 2010 include EMC's \$10.0 million investment in B&L, \$14.0 million primarily related to the expansion of our Singapore and Middle East warehouse facilities and a \$4.0 million cash payment for the final purchase price adjustment for the purchase of the businesses of Petro Steel International, L.P. and Petro Steel International, LLC, or PetroSteel. Cash outflows for the year ended December 31, 2009 also include a \$4.0 million earn-out payment to the former owners of PetroSteel and \$2.0 million of capital expenditures for routine improvement of warehouse facilities and machinery and equipment.

Financing activities. Net cash provided by financing activities was \$19.0 million during the year ended December 31, 2011 compared to net cash outflows of \$5.6 million and \$59.9 million for the years ended December 31, 2010 and 2009, respectively. Cash inflows for the year ended December 31, 2011 are primarily the result of net borrowings under the EM revolving credit facility. The net cash outflow in the year ended December 31, 2010 includes payment of \$4.0 million for a note payable to the former owners of PetroSteel. Cash outflows from financing activities for the year ended December 31, 2009 include \$498.2 million of payments associated with the EM revolving credit facility and previously outstanding term loans, \$9.0 million of repayments of managed cash overdrafts and short-term loans and \$13.3 million of deferred financing costs, offset by \$460.6 million of proceeds from the issuance of the EMC senior secured notes.

Off-Balance Sheet Transactions

In the normal course of business, we are a party to certain off-balance sheet arrangements. These arrangements include guarantees and financial instruments with off-balance sheet risk, such as bank letters of credit, bank guarantees and payment guarantees. No liabilities related to these arrangements are reflected in our consolidated balance sheet, and we do not expect any material adverse effects on our financial condition, results of operations or cash flows to result from these off-balance sheet arrangements.

At December 31, 2011 and 2010, we had \$42.8 million and \$23.0 million, respectively, of trade finance instruments outstanding.

At December 31, 2011 and 2010, we had issued payment guarantees with a maximum aggregate potential obligation for future payments (undiscounted) of \$30.7 million and \$16.7 million, respectively, to third parties to secure payment performance by certain Edgen Group subsidiaries. The outstanding aggregate value of guaranteed commitments at December 31, 2011 and 2010, were \$27.4 million and \$14.9 million, respectively.

At December 31, 2011 and 2010, we had bank guarantees of \$0.7 million and \$1.0 million, respectively, which have been cash collateralized and included in prepaid expenses and other assets on the consolidated balance sheets.

At December 31, 2011 and 2010, we had no other off-balance sheet arrangements.

Commitments and Contractual Obligations

Our contractual obligations and commitments principally include obligations associated with our outstanding indebtedness and future minimum operating lease obligations as set forth in the following tables at December 31, 2011. The information presented in the table below reflects management's estimates of the contractual maturities of our obligations and also includes pro forma adjustments that give effect to the Reorganization and the anticipated use of proceeds of this offering. These maturities may differ from the actual maturities of these obligations.

(IN MILLIONS)	PAYMENTS DUE BY THE PERIOD ENDING DECEMBER 31,				
	2012	2013 AND 2014	2015 AND 2016	2017 AND THEREAFTER	TOTAL
Contractual Obligations					
EMC senior secured notes ⁽¹⁾	\$ 57.0	\$ 113.9	\$ 493.5	\$	\$ 664.4
EM revolving credit facility ⁽²⁾	0.9	21.7			22.6
Capital lease ⁽³⁾	2.1	4.3	4.3	29.4	40.1
Operating lease obligations	4.0	4.8	1.3	0.6	10.7
Derivative instruments					
Foreign currency exchange contracts ⁽⁴⁾	56.0				56.0
Purchase commitments ⁽⁵⁾	276.5				276.5
Total	\$ 396.5	\$ 144.7	\$ 499.1	\$ 30.0	\$ 1,070.3
Pro forma adjustments related to this offering:					
BL term loan					
EM revolving credit facility					
BL revolving credit facility					
Seller note					
Total contractual obligations with pro forma adjustments	\$	\$	\$	\$	\$

(1) Includes \$465.0 million of aggregate principal amount of the EMC senior secured notes. This also includes current interest payment obligations on the notes of \$57.0 million per annum. The notes were issued at a price of 99.059% of their face value, resulting in approximately \$460.6 million of gross proceeds. The discount of approximately \$4.4 million will be amortized and included in interest expense until the notes mature.

(2) Includes \$20.5 million of cash borrowings outstanding under the EM revolving credit facility and the related estimated interest payment obligations calculated using an interest rate of 4.36%, our weighted average interest rate paid for cash borrowings during the year ended December 31, 2011.

(3) Includes interest obligations of 9.84%, the implicit interest rate under our Newbridge, Scotland facility capital lease. In December 2010, the annual rental payments were increased by \$0.3 million based on the U.K. consumer index and are subject to further adjustment every two years until the lease term expires.

(4) Represents the notional value of foreign currency contracts to purchase and sell foreign currencies at specified forward rates in connection with our foreign currency hedging policy.

(5) Includes purchase commitments for stock inventory and inventory for existing orders from our customers. We enter into purchase commitments on an as-needed basis, typically daily, but these commitments generally do not extend beyond one year.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles. In order to apply these principles, management must make judgments and assumptions and develop estimates based on the best available information. We base our estimates on historical experience, when applicable, and apply assumptions that we believe are reasonable under the circumstances. Our actual results may differ from these estimates under different circumstances or conditions. We believe the following critical accounting policies describe significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue recognition

Revenue is recognized on product sales when the earnings process is complete, meaning the risks and rewards of ownership have transferred to the customer (as defined by the shipping terms), and collectability is reasonably assured. Revenue is recorded, net of discounts, customer incentives, value-added tax, and similar taxes as

applicable in foreign jurisdictions. Rebates and discounts to customers are determined based on the achievement of certain agreed upon terms and conditions by the customer during each period. We use pre-defined internationally accepted shipping terms that clearly communicate the roles of the buyer and the seller relative to the tasks, costs and risks associated with the transportation and delivery of goods. For project orders that require delivery in multiple phases, we recognize revenue for each shipment of product when title transfers in accordance with agreed shipping terms. Shipping and handling costs related to product sales are also included in sales.

Collectability of accounts receivable

Accounts receivable is shown net of allowance for doubtful accounts on our consolidated balance sheet. We maintain an allowance for doubtful accounts to reflect our estimate of uncollectible accounts receivable based on historical experience and specific customer collection issues that we have identified. The credit risk associated with our accounts receivable is concentrated within several sectors of the oil and natural gas industry and is dispersed over a large number of customers worldwide.

We consider all available information when assessing the adequacy of the allowance for doubtful accounts. Estimation of such losses requires adjusting historical loss experience for current economic conditions and judgments about the probable effects of economic conditions on certain customers. We perform ongoing credit evaluations of customers and set and adjust credit limits based upon reviews of customers' current credit information and payment history. The rate of future credit losses may not be similar to past experience. Adjustments made with respect to the allowance for doubtful accounts often relate to new information not previously known to us. Uncertainties with respect to the allowance for doubtful accounts are inherent in the preparation of financial statements and there can be no assurance that we have adequately reserved for all of our uncollectible receivables.

Inventories

We value our inventories at the lower of cost or market (net realizable value). We account for our inventories using the weighted average cost method of accounting. Cost includes all costs incurred in bringing the product to its present location and condition. Net realizable value is based on the lower of the estimated replacement cost or estimated normal selling price less further costs expected to be incurred to completion and disposal. Inventory is reduced for obsolete, slow moving or defective items where appropriate. We regularly review our inventory on hand and update our allowances based on historical and current sales trends. Changes in product demand and our customer base may affect the value of inventory on hand and may require higher inventory allowances. Uncertainties with respect to the inventory valuation are inherent in the preparation of financial statements. For example, during the year ended December 31, 2009, our predecessor incurred inventory write-downs of \$22.5 million related to selling prices falling below the average cost of inventory in some of the markets served by our predecessor, including the U.S. and the Middle East. During the year ended September 30, 2009, B&L incurred inventory writedowns of \$39.3 million also related to selling prices falling below inventory average cost. Although we did not have any significant write-downs during the years ended December 31, 2011 and 2010, there can be no assurances such write-downs will not occur in the future.

Goodwill and other indefinite lived-intangible assets

At December 31, 2011, our goodwill balance was \$23.0 million and we had an \$11.4 million indefinite lived intangible asset associated with the Edgen Murray tradename.

Goodwill represents the excess of the purchase price of an acquired business over the portion of the purchase price assigned to the assets acquired and liabilities assumed in the transaction. Goodwill and our indefinite lived intangible asset are not amortized, but are subject to annual impairment testing at the beginning of each year, and more frequently if circumstances indicate that it is probable that their fair values are below their carrying amounts.

Our impairment testing consists first of a qualitative assessment where we determine whether the existence of certain events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, we determine it is more likely than not that the carrying amount of a reporting unit is less than its fair value, then performing the two-step impairment test is unnecessary. If we conclude otherwise, then we perform the first step of the two-step impairment test which requires the determination of the fair value of each reporting unit. Fair value of our reporting units is determined using discounted cash flows and guideline company multiples. Significant estimates used in calculating fair value include estimates of future cash flows, future short-term and long-term

growth rates, weighted average cost of capital and guideline company multiples for each of the reporting units. If these estimates or their related assumptions change in the future, we may be required to record impairment charges.

Fair value of tradenames is derived using a relief from royalty valuation method which assumes that the owner of intellectual property is relieved from paying a royalty for the use of that asset. The royalty rate attributable to the intellectual property represents the cost savings that are available through ownership of the asset by the avoidance of paying royalties to license the use of the intellectual property from another owner. Accordingly, earnings forecasts of income reflect an estimate of a fair royalty that a licensee would pay, on a percentage of revenue basis, to obtain a license to utilize the intellectual property. Estimates and assumptions used in deriving the fair value of tradenames include future earnings projections, discount rates and market royalty rates identified on similar recent transactions.

In 2010, we revised our operating forecasts to project a slower future earnings recovery than originally planned due to the continued slow global economic recovery as well as uncertainty surrounding energy demand and commodity pricing. In conjunction with preparing the revised forecasts, we performed an interim goodwill impairment analysis using a methodology which combines a discounted cash flow valuation and comparable company market value approach to determine the fair value of our reporting units.

Our Americas and UAE reporting units failed Step 1 of the goodwill impairment analysis because the book value of these reporting units exceeded their estimated fair value. Step 2 of the goodwill impairment analysis included a determination of the implied fair value of the Americas and UAE reporting units goodwill by assigning the fair value of the reporting units determined in Step 1 to all of the assets and liabilities of the Americas and UAE reporting units (including any recognized and unrecognized intangible assets) as if the Americas and UAE reporting units had been acquired in a business combination. We then compared the implied fair value of goodwill to the carrying amount of goodwill to determine if goodwill was impaired. Based on this analysis, we recorded a goodwill impairment charge of \$62.8 million to reduce the goodwill balance at the Americas and UAE reporting units to zero. In connection with performing the interim goodwill impairment analysis described above, tradenames were also tested and it was determined that fair value exceeded their carrying value. As a result, no impairment of our tradenames was identified during 2010. There were no impairment charges of goodwill or indefinite lived intangible assets during the year ended December 31, 2011 and the fair value of our reporting units was substantially in excess of their respective carrying values at December 31, 2011.

We will continue to monitor all events and circumstances that would potentially affect the fair value of our U.K. and Singapore reporting units and our tradenames. Events or circumstances which could indicate a potential impairment include, but are not limited to: negative changes in macroeconomic conditions; deterioration in the energy industry; negative or declining cash flows; or a sustained decrease in our company valuation.

Measuring recoverability and determining useful lives of long-lived assets

Long-lived assets, including property, plant, and equipment and certain intangible assets are assessed for impairment when events or changes in circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. The asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset, plus net proceeds expected from the disposition of the asset (if any), are less than such asset's carrying amount. Impairment losses are measured as the amount by which the carrying amounts of the assets exceed their fair values.

Estimates of future cash flows are judgments based on our experience and knowledge of our operations and the industries in which we operate. Our estimates of such undiscounted cash flows are based on a number of assumptions including anticipated demand for the products we supply, estimated useful life of the asset or asset group, and estimated salvage values. An impairment charge would be recorded for the excess of a long-lived asset's carrying value over its estimated fair value, which is based on a series of assumptions similar to those used to derive undiscounted cash flows. Those assumptions also include usage of probabilities for a range of possible outcomes, market values and replacement cost estimates.

We depreciate our long-lived assets based on management assumptions regarding the useful economic lives and residual values of our assets. These estimates can be affected by future changes in market conditions, the capital spending decisions of our customers, and inflation. At the time we place our assets in-service, we believe such

estimates are reasonable; however, circumstances may develop that would cause us to change these estimates, which would change our depreciation amounts prospectively. Examples of such circumstances include (1) changes in laws and regulations that limit the estimated economic life of an asset; (2) changes in technology that render an asset obsolete; or (3) changes in expected salvage values.

In connection with performing the interim goodwill impairment analysis in 2010 described above, we tested our long-lived assets for impairment and the fair value of the assets exceeded their carrying amounts. No impairment of long-lived assets was identified during the three years ended December 31, 2011.

Equity-based compensation

The accounting for equity-based compensation requires the measurement and recognition of compensation expense for all equity-based compensation awards made to employees and directors based on the grant date fair values of the awards. We have historically granted unit options and restricted units of EM II LP and B&L to certain of our executive officers, employees and directors.

The fair value of each restricted common limited partnership unit at the grant date is based on a valuation methodology which uses a combined discounted cash flow valuation and comparable company market value approach, which is divided by the total outstanding common limited partnership units to determine the fair value of a common limited partnership unit at the grant date.

The fair value of each unit option granted is estimated using the Black-Scholes option pricing model which requires management to make assumptions and to apply judgment in determining the fair value of our awards. The most significant assumptions and judgments include estimating the fair value of underlying stock (which is determined using a methodology similar to that used for valuation of restricted common units described above), expected volatility and expected term. In addition, the recognition of equity-based compensation expense is impacted by estimated forfeiture rates.

Our board of directors has historically set the exercise price of options to purchase our common stock at a price per share not less than the fair value of the partnership unit at the time of grant. To determine the fair value of our partnership units, our board of directors, with input from management, considers many factors, including but not limited to:

- n valuations we performed using the methodologies described below;
- n our historical, current and expected future operating performance;
- n our financial condition at the date of grant;
- n lack of marketability of our common partnership units and the potential future marketability of our common stock as a result of a liquidity event, such as an initial public offering;
- n business risks inherent in our business; and
- n global economic trends and capital market conditions.

Since our predecessor's partnership units have no trading history, we estimated the expected volatility based on the historical volatilities of several comparable public companies within our industry that management believes are comparable. The weighted-average expected life of options was calculated using the simplified method developed by the SEC staff, as no historical data was available. The risk-free interest rate is based on the zero coupon U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected term of the options. The expected dividend rate is zero based on the fact that we have not historically paid dividends and have no intention to pay cash dividends in the foreseeable future. The forfeiture rate is estimated based on our historical experience and adjusted periodically as necessary.

There were no grants of unit options or restricted units in the years ending December 31, 2011 or 2009. During 2010, we granted 1,825 unit options and 250 restricted units. The fair value of unit options granted in 2010 was calculated as \$69.26 per unit option using the Black-Scholes

Edgar Filing: Edgen Group Inc. - Form S-1/A

pricing model with an exercise price of \$1,000 per unit, a risk-free interest rate of 1.87%, an expected volatility of 50.0% and an expected term of 6.5 years. The fair value of restricted units granted in 2010 was calculated as \$312.26 per restricted unit by management who relied in part on a third-party contemporaneous valuation. Compensation expense associated with these grants was \$0.2

million, which will be recognized over a weighted average period of 5 years. During 2009 and continuing through the first half of 2010, our operating results were significantly impacted by the economic downturn and the uncertainty surrounding energy demand and commodity pricing. These factors are reflected in our operating forecasts and the comparable company market multiples used to value the restricted units issued in 2010.

In the absence of a public trading market for our common partnership units, management and our board of directors determined the estimated fair value at the grant date of our common partnership units. We performed the valuation of our common partnership units in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. In order to value the common partnership units underlying all option grants, we determined our business equity value by taking a weighted combination of the value indications using two valuation approaches: an income approach and a market approach.

Valuation models employed in determining our enterprise value require the input of highly subjective assumptions. In determining enterprise value under the income approach, a discount rate is applied to our estimated future net cash flows to derive a single present value representing the value of the enterprise. The discounted cash flow model used to calculate our enterprise value included, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow our business; and, an appropriate risk-adjusted discount rate. The market approach estimates the fair value of a company by applying market multiples of the corresponding financial metrics of publicly traded firms in similar lines of business to our historical and/or projected financial metrics. We selected comparable companies based on factors such as business similarity, financial risk, company size and geographic markets. In applying this method, valuation multiples were: (1) derived from historical operating data of the selected comparable entities; (2) evaluated and/or adjusted based on our strengths and weaknesses relative to the comparable entities; and (3) applied to our operating data to arrive at a value indication.

Upon a change in capital structure including a reorganization, recapitalization, unit split, unit dividend, combination of interest, merger or any other change in the structure of our predecessor, which in the judgment of its general partner necessitates action by adjusting the terms of the outstanding awards or units, its general partner in its full discretion, may make appropriate adjustment in the number and kind of units authorized and adjust the outstanding awards, including the number of units, the prices and any limitations applicable to the outstanding awards as it determines appropriate.

Upon a sale of our predecessor, its general partner may (1) accelerate vesting; (2) terminate unexercised awards with a twenty-day notice; (3) cancel any options that remain unexercised for a payment in cash of an amount equal to the excess of the fair market value of the units over the exercise price for such option; (4) require the award to be assumed by the successor entity or that the awards be exchanged for similar shares in the new successor entity; and (5) take any other actions determined to be reasonable to permit the holder to realize the fair market value of the award. There are currently no plans to accelerate the vesting of any of the outstanding unvested awards of either our predecessor or B&L if our initial public offering is completed.

In connection with the Reorganization, we expect that all outstanding restricted units of EM II LP and B&L and all outstanding options to acquire common partnership units of EM II LP and membership units of B&L will be exchanged contemporaneously with the completion of this offering such that each restricted unit or option to acquire common partnership units of EM II LP or membership units of B&L will be exchanged for restricted shares of our Class A common stock or options to acquire a number of shares of our Class A common stock having a value equivalent to the restricted units or to the EM II LP common partnership units or membership units of B&L, as applicable, underlying the options previously held by each holder. The resulting restricted shares of Class A common stock or options will include substantially identical terms and vesting schedules to those previously outstanding. We will account for these exchanges as a modification and will record additional compensation expense for the incremental fair value, if any, associated with the newly exchanged restricted units or options. However, we believe that the exchange of these restricted units or unit options will result in little or no incremental compensation expense, as we believe that the fair value of the EM II LP and B&L restricted units or unit options immediately prior to their modification will be substantially the same as the fair value of the restricted units or options of Edgen Group after the modification.

Income tax expense estimates and policies

As part of the income tax provision process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe the recovery is not likely, we establish a valuation allowance. Further, to the extent that we establish a valuation allowance or increase this allowance in a financial accounting period, we include a tax provision or reduce our tax benefit in our consolidated statement of operations.

We use our judgment to determine the provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. There are various factors that may cause our tax assumptions to change in the near term, and we may have to record a valuation allowance against our remaining or future deferred tax assets. We cannot predict whether future tax laws or regulations, including at the foreign, U.S. federal, state or local level, might be passed that could have a material effect on our results of operations. We assess the impact of significant changes to tax laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when new legislation and regulations are enacted.

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to market risks arising from adverse changes in interest rates and foreign exchange rates. Market risk is defined for these purposes as the potential change in the fair value of financial assets or liabilities resulting from an adverse movement in interest rates or foreign exchange rates. These risks are closely monitored and evaluated by management, including the Chief Financial Officer, the Treasurer and respective local accounting management for all of our locations. We enter into derivative financial instruments to manage certain exposures to these risks. Our policy requires that we do not enter into any derivative instruments for trading or other speculative purposes and for foreign exchange rate hedges, that only known, firm commitments are hedged.

Interest rate risk

We are exposed to market risk related to our fixed-rate and variable-rate debt. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates. Changes in interest rates may affect the market value of our fixed-rate debt, the EMC senior secured notes. Market risk related to our variable-rate debt is measured to the extent that a potential increase in market interest rates could have a negative impact on our consolidated financial position, results of operations and/or cash flows. A hypothetical 1% increase in the assumed effective interest rates that apply to the variable rate average borrowings on our credit facilities in the year ended December 31, 2011 would cause our interest expense for the year ended December 31, 2011 to increase by approximately \$0.1 million.

Foreign currency risk

In the ordinary course of our business, we enter into purchase and sales commitments that are denominated in currencies that differ from the functional currency used by our operating subsidiaries. Currency exchange rate fluctuations can create volatility in our consolidated financial position, results of operations and/or cash flows. Although we may enter into foreign exchange agreements with financial institutions in order to reduce our exposure to fluctuations in currency exchange rates, these transactions, if entered into, will not eliminate that risk entirely. To the extent that we are unable to match sales received in foreign currencies with expenses paid in the same currency, exchange rate fluctuations could have a negative impact on our consolidated financial position, results of operations and/or cash flows. For the year ended December 31, 2011, we had a net realized and unrealized foreign currency loss of \$1.1 million.

At December 31, 2011 we had a total notional amount of outstanding forward contracts of \$56.0 million related to our foreign currency risk, all of which we expect to settle within one year. The fair value of these forward contracts at December 31, 2011 was a net liability of \$0.5 million, all of which was recorded within our consolidated statement of operations for the year ended December 31, 2011. While we may experience variability in our earnings from period to period due to unrealized gains and losses associated with these forward contracts, we believe a ten percent fluctuation in foreign currency rates would not have a material impact on our financial statements as any realized gain or loss from these forward contracts would be largely offset by an inverse gain or loss on the settlement of the underlying sale or purchase transaction.

Additionally, because our consolidated financial results are reported in U.S. dollars, if we generate net sales or earnings within entities whose functional currency is not the U.S. dollar, the translation of such amounts into U.S. dollars can result in an increase or decrease in the amount of our net sales or earnings. With respect to our potential exposure to foreign currency fluctuations and devaluations, for the year ended December 31, 2011, 21% of our pro forma sales were originated from subsidiaries outside of the U.S. in currencies including, among others, the pound sterling, euro and U.S. dollar. As a result, each one percentage point change in the value of these foreign currencies relative to the U.S. dollar would have impacted our sales by approximately \$3.5 million. Any currency controls implemented by local monetary authorities in countries where we currently or may in the future operate could adversely affect our business, financial condition and results of operations.

Credit risk

We believe our credit risk on our credit facilities and derivative financial instruments is limited because the counterparties are generally banks with high credit ratings assigned by international credit-rating agencies.

BUSINESS

Prior to the completion of this offering, Edgen Group will become the holding company for all of our operating subsidiaries, including the businesses of EM II LP and B&L, in a transaction we refer to as the Reorganization, and will serve as the issuer in this offering. The Reorganization and specifically the integration of B&L's business into our business will significantly increase our size and materially change our operations. As a result, except in circumstances where the context indicates otherwise, we have described our business below assuming that the Reorganization, including the integration of B&L's business into our existing business, has already occurred. See The Reorganization and Certain Relationships and Related Person Transactions Formation of Edgen Group and the Reorganization.

Our Company

We are a leading global distributor of specialty products to the energy sector, including steel pipe, valves, quenched and tempered and high yield heavy plate, and related components. We primarily serve customers that operate in the upstream (conventional and unconventional oil and natural gas exploration, drilling and production of oil and natural gas in both onshore and offshore environments), midstream (gathering, processing, fractionation, transportation and storage of oil and natural gas) and downstream (refining and petrochemical applications) end-markets for oil and natural gas. We also serve civil construction and mining applications which have a similar need for our technical expertise in specialized steel and specialty products. Based on our communications with our customers we believe our customers in all of these end-markets increasingly demand the products we supply in the build-out and maintenance of infrastructure that is required when the extraction, handling and treatment of energy resources becomes more complex and technically challenging. We source and distribute from our global network of more than 800 suppliers steel components that we believe are of premium quality and highly engineered. We have sales and distribution operations in 15 countries serving over 2,000 customers who rely on our supplier relationships, procurement ability, stocking and logistical support for the timely provision around the world of the products we supply. For the years ended December 31, 2011 and 2010, we achieved pro forma sales of \$1.7 billion and \$1.3 billion, pro forma net loss of \$2.8 million and \$62.8 million and pro forma earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$123.3 million and \$22.6 million, respectively. For the years ended December 31, 2011, 2010 and 2009, our predecessor's sales were \$911.6, \$627.7 million and \$773.3 million, respectively, and our predecessor's net loss was \$24.5 million, \$98.3 million and \$20.9 million, respectively. For a reconciliation of our net income to our non-GAAP measure of EBITDA, please see Summary Historical Consolidated and Unaudited Pro Forma Condensed Combined Financial Information.

Our Industry

We serve the global energy infrastructure market as well as other select markets. A substantial majority of our customers are active in the oil and gas sector and participate in the following end-markets:

- n *Upstream.* This end-market covers all activities directed toward the exploration and production of oil and natural gas. Core products supplied to our upstream customers include seamless and welded pipe of various grades and size ranges, quenched and tempered and high yield heavy plate, complex valve packages, and a wide range of fittings and components. Some examples of these product applications include casing and tubing, conductor pipe for offshore drilling, leg structures for high performance offshore platform, or jack-up, oil rigs and valves for offshore production platforms. Customers in this market include oil and natural gas exploration & production companies, drilling companies, integrated and national oil and natural gas companies and shipbuilders and rig fabricators.
- n *Midstream.* This end-market involves the gathering, processing, transmission, storage and distribution of oil, natural gas and refined petroleum; as well as other services related to the transmission of these products from their sources to demand centers. Core products supplied to our midstream customers include seamless and welded line pipe, fittings and flanges, and complex valve packages, all of which are used for the localized gathering systems and for larger transmission networks. The products we supply are also a critical component for compressor stations which are an integral part of all transmission systems and are used to generate sufficient pressures to enable and direct flow within a network. Customers in this market include oil and natural gas gathering, processing, storage and transmission companies, most of whom own and operate pipelines.

- ⁿ *Downstream.* This end-market typically involves activities relating to the refining of crude oil and the marketing and distribution of products derived therefrom, such as gasoline, jet fuel, fuel oil and asphalt, as well as the production of petrochemicals. Refining and processing activities generally require highly engineered specialized steel to withstand extreme temperatures and pressures and corrosive conditions. Core products supplied to our downstream customers include steel pipe and fittings and valves with high alloy content such as molybdenum, chrome and nickel. Customers in this market include major engineering, procurement and construction, general contractors, refineries and petrochemical companies.

We believe the overall strength of the global energy sector and the demand for energy, in particular for oil and natural gas, influences our customers' decision-making processes with respect to capital expenditures. In turn, we believe these capital expenditures are currently being driven by (1) significant levels of drilling activity relating to unconventional resources, such as oil and natural gas shales and oil sands, and deepwater developments; (2) new onshore and offshore drilling rig fabrication and construction; (3) oil and natural gas gathering and transmission network maintenance, expansion and construction; and (4) continued investment in downstream facilities, such as the maintenance of refineries.

We expect that the following factors will continue to support further capital expenditures by our customers and, in turn, drive demand for the specialized products and services that we supply and provide (although there can be no assurance that we will actually benefit from any of the following factors):

Increasing global demand for energy. It is anticipated that global energy consumption will continue to increase and that additional oil and natural gas production will be required to meet this demand. In its September 2011 *International Energy Outlook*, the Energy Information Administration, or EIA, estimates that world liquids consumption will increase by 31% from 85.7 million barrels per day in 2008 to 112.2 million barrels per day in 2035 and that natural gas consumption will increase by 52% from 110.7 trillion cubic feet to 168.7 trillion cubic feet over the same period. This growth is expected to be driven largely by the continued development and industrialization of China, India, Brazil and other non-OECD countries. While recent global economic volatility may impact anticipated growth in the near-term, the trend towards industrialization in certain non-OECD countries is expected to continue to drive their long-term economic growth. Growth in these countries is expected to contribute significantly to increasing global energy demand and, as a result, further investment in energy-related infrastructure, including the exploration, production, transmission, refining and processing of oil and natural gas.

In its 2011 *World Energy Outlook*, the International Energy Agency, or IEA, estimates in the New Policies Scenario, which is the central scenario of the three global macroeconomic and policy projections described by the IEA in this publication, that in order to meet the projected need for energy, a worldwide aggregate investment of \$38 trillion in the world's energy-supply infrastructure will be required from 2011 to 2035, an average of \$1.5 trillion per year during that period, with two thirds of that investment expected to be required in non-OECD countries. Of the \$38 trillion total investment, it is estimated that the oil and gas sector will require approximately \$20 trillion of the aggregate investment amount, the power sector will require approximately \$17 trillion of the aggregate investment

amount, and that coal and biofuels will account for the remaining required aggregate investment. As a supplier of specialized steel products to companies across the global energy supply chain, we believe we will benefit from these long-term demand trends, as we believe such trends will spur significant investment in worldwide energy infrastructure.

Continued requirement for additional oil and natural gas drilling activity. In order to meet existing and expected increases in global demand for energy and to offset the declining supply from existing resource developments, the oil and natural gas industry is making significant investments in the development of previously underexploited oil and natural gas resources such as onshore U.S. shales, Canadian oil sands, and Australian CBM, and in global deepwater offshore locations.

Advances in technology such as non-vertical drilling techniques and hydraulic fracturing applications have driven the economic development of onshore unconventional resources, in particular within North America. These advances have resulted in a significant increase in onshore drilling activity, with much of the activity relating to unconventional resources such as oil and natural gas shales. As a result of this activity, the number of active onshore rigs in the U.S. has increased from 639 rigs as of March 22, 2002, with 9% drilling horizontal wells, to 1,922 rigs as of March 23, 2012, with 61% drilling horizontal wells. In addition, 67% of these rigs as of March 23, 2012 are currently being directed towards oil whereas on March 22, 2002, this number was 19%. These trends illustrate the continued shift towards the development of large scale unconventional resources and the recently increased focus on oil and natural gas with a high liquids content, often referred to as wet gas .

We expect overall levels of North American onshore drilling activity to remain strong in the near term as a result of (1) increases in the number of rigs being directed towards oil and wet gas offsetting declines in drilling activity directed towards dry gas due to the relative strength of oil prices as compared to natural gas prices; (2) exploration and production companies drilling new oil and natural gas wells to satisfy lease maintenance obligations; (3) attractive economic returns for certain unconventional resources; and (4) foreign and private capital investments in unconventional resources, in particular from Asian and European oil and natural gas companies, supporting additional exploration-related capital expenditures. According to the March 2012 *Drilling and Production Outlook* published by Spears & Associates, Inc., total global onshore drilling and completion spending for 2011 was \$197 billion, with 63% spent in the onshore U.S. market. Onshore drilling and completion spending in the U.S. has increased from \$13.4 billion in 2000 to \$125.0 billion in 2011 and is expected to increase to \$170.2 billion in 2017.

Onshore oil and natural gas wells drilled using non-vertical drilling techniques and hydraulic fracturing applications typically result in greater measured depths and total footage drilled when compared to vertical wells. As a result of the proliferation of horizontal drilling and hydraulic fracturing activity, both total and per-well footage drilled have increased substantially over the past decade. Since 2001, the average annual footage drilled per well in the U.S. has increased from approximately 5,100 feet to approximately 6,900 feet in 2011. As total footage drilled and footage per well drilled increases, the need for the products we supply also increases. Furthermore, improvements in technology and expertise have significantly increased the efficiency of drilling horizontal wells, enabling a single rig to drill more wells each year, thereby increasing the per-rig and per-well consumption of drilling related products and oil country tubular goods.

Not only do the greater measured depths of unconventional oil and natural gas wells result in greater consumption of drilling related products, those products must be more flexible in order to be used in horizontal drilling, which requires higher torsional strength. Additionally, higher grade alloy products are required in order to withstand the high pressure and temperature conditions of a deeper well. As a result, we believe that continued and increased drilling activity associated with unconventional resources with the use of new extraction technologies will have a positive impact on demand for the products we supply.

We expect global offshore drilling activity to also increase as production from mature regions declines and as upstream oil and gas companies explore and exploit frontier and deepwater regions. According to Baker Hughes, Inc., the global offshore active rig count has increased approximately 23% from a recession-driven low of 261 rigs in August 2009 to 320 rigs in February 2012. According to IHS Petrodata, the global offshore rig supply in 2012 is projected to average 899 rigs. Of the total 2011 global offshore rig supply, 24% are semi-submersible rigs, which are used in medium to deepwater locations, and 56% are platform, or jack-up, oil rigs, which tend to be used in locations with water depths of less than 500 feet. In particular, the number of semi-submersible rigs and drillships contracted to drill in deepwater locations, defined as water depths greater than 3,000 feet, has increased from 99 rigs in March 2007 to 182 rigs in March 2012. Many upstream oil and gas companies are making significant

investments in international offshore oil and natural gas developments where there are large undeveloped resources, such as in Southeast Asia, Brazil, West Africa and the Middle East. For example, there has been a significant rise in drilling and development activity offshore Brazil as a result of the recent discoveries of major oil and natural gas resources in deepwater pre-salt areas. In many of these markets, development of these new oil and natural gas discoveries will require significant investment in production infrastructure. Spears & Associates, Inc. estimates that global offshore drilling and completion spending was \$63.8 billion in 2011, of which 16% will be spent in North America and 84% will be spent outside North America. Offshore drilling and completion spending outside North America has increased from \$20.9 billion in 2000 to \$53.7 billion in 2011 and is expected to increase to \$108.3 billion in 2017.

Exploration, drilling and production in deepwater requires the use of specialized drilling equipment and materials that can withstand the associated difficult operating environments and conditions. In addition, because deepwater projects tend to have longer-term development timetables and have lower production decline rates than other developments, they are impacted to a lesser extent by short-term commodity price movements. We believe this effect often results in more predictable demand cycles for the products we supply. We expect demand for the specialty products we supply to increase as oil and natural gas producers continue to invest in the development of offshore resources, particularly in deepwater locations.

Continued investment in oil and natural gas gathering and transmission capacity. As oil and natural gas production from mature regions declines, oil and gas companies are making significant investments in the exploration and development of new resources in alternative or frontier locations. These investments are resulting in increased drilling activity and production in areas that often lack sufficient pipeline, processing, fractionation, treatment or storage infrastructure, such as the Bakken and Eagle Ford shales in the U.S. and areas of Brazil and Australia. We expect that as production from new oil and natural gas developments increases, additional investments in gathering and transmission capacity will be required. A February 2011 report in the *Oil & Gas Journal* estimated that for all current projects scheduled to be completed after 2011, companies plan to lay in excess of 47,000 miles of pipe and spend approximately \$241 billion.

Additionally, many existing pipeline networks in North America and Europe are aging, which we believe will necessitate additional spending related to maintenance and repair of such networks. In North America, increased development of domestic sources of oil and natural gas, such as the U.S. shales, which in some cases are served by existing infrastructure with insufficient capacity to handle forecasted production, has led to the construction of numerous large-scale gathering and transmission projects. Such projects include the construction of new gathering and transmission networks as well as the expansion, linking and possible flow reversal of existing networks.

The technological advances that drove the expansion of unconventional and shale drilling activity in the U.S. have similarly enabled the economic development of unconventional resources located in Central and Eastern Europe. As the upstream exploration and development of these resources begins, we expect that midstream operators and owners will be required to install the requisite transmission infrastructure necessary to transport these resources to market. We believe that additional European transmission capacity is being built to alleviate existing supply constraints and reduce the region's dependence on Russian natural gas supply.

Growth in global natural gas production from unconventional resources and large offshore developments, together with increasing global energy demand, has enabled the economic development of transmission capacity and infrastructure related to liquefied natural gas, or LNG, particularly in Asia, Europe and North America. LNG infrastructure is expected to serve as an important link between markets of low-cost excess supply of natural gas and regions with excess demand for natural gas that are not or cannot be readily served by pipelines.

We believe that we will benefit from increased demand for many of our specialized components that are needed for the construction and maintenance of these transmission systems.

Continued and expected increases in downstream refining activity. The continued industrialization of emerging economies such as those of China and India, as well as the recovery of the global economy, is expected to result in increased demand for refined petroleum and petrochemical products. We expect that increased demand for refined petroleum products will result in: (1) increased investment in refining capacity through expansion and possible construction of new facilities; (2) upgrades to existing facilities to enable the processing of heavier sour crudes which requires high yield alloys in many parts of the refining process; and (3) increasing maintenance and repair of existing facilities to comply with increasingly stringent environmental and safety laws and regulations. As these refineries require the use of our specialized steel products that are designed to withstand extreme temperatures and pressures and corrosive conditions, we believe that anticipated future demand from this end-market will stimulate future demand for the specialized steel products that we supply.

Growing global investment in power generation capacity. It is expected that substantial new power generation capacity will be required as developing economies experience rapid population growth and industrialization. The EIA's September 2011 *International Energy Outlook* report estimates that global electricity generation will grow from 20.6 trillion kWh in 2011 to 35.2 trillion kWh by 2035, an increase of approximately 71%. Additionally, many developed economies continue to enact regulations that promote the retirement or refurbishment of older generation capacity. We believe the shift in favor of cleaner fuels in the power generation sector has led to an increase in the use of natural gas as a fuel source for power generation. According to EIA estimates, 206 gigawatts of new generating capacity will be added between 2011 and 2035 in the U.S. alone, with over half of the new capacity coming from oil and natural gas fired power plants. We believe that increased global demand for electricity, new power-related regulations and the focus on cleaner sources of energy, such as natural gas, wind, biodiesel and ethanol and nuclear power, will drive demand for the specialty products we supply, which are designed to withstand the high pressures and temperatures encountered in these types of power generation facilities. We also believe that the increased focus by policy makers and regulators on the development of renewable sources of energy will drive demand for the products we supply. We believe that we are well positioned to meet the needs for highly specialized steel products by the power generation industry.

Increased focus on environmental and safety and regulatory standards. Many of our key markets have been subject to increased regulation relating to environmental and safety issues. As a result, companies undertaking oil and natural gas extraction, processing and transmission infrastructure across the upstream, midstream and downstream markets are facing increasingly strict environmental and safety regulation as they manage and build infrastructure. Future environmental and safety compliance could require the use of more specialized products and higher rates of maintenance, repair and replacement to ensure the integrity of our customers' facilities. For example, a 2011 American Petroleum Institute report estimates that U.S. refinery operations spent \$9.1 billion in 2009 toward maintaining compliance with environmental laws and regulations. The Pipeline Inspection, Protection, Enforcement, and Safety Act has established a regulatory framework that mandates comprehensive testing and replacement programs for transmission lines across the U.S. We believe that such laws and regulations will drive increased maintenance, testing and repair spending by our customers and increased demand for the specialty products we supply.

Increased demand and activity in other markets in which we operate. We serve various other end-markets, most notably mining and civil construction. To the mining end-market, we provide abrasion-resistant, induction-hardened, high yield, duplex, nickel alloy, and Hastelloy pipe as well as the accompanying components. These materials are engineered to withstand the extreme wear from the abrasive and corrosive conditions of a mining environment. Increased mining activity has been driven largely by increased global demand for commodities such as coal, iron ore, aluminum, nickel, copper and phosphate, particularly from emerging markets. To the civil construction market, we

provide large diameter heavy wall pipe, sheet and structural steel with full traceability to the original manufacturer. This product is designed specifically for heavy industrial applications such as marine piling, dams and levee systems, bridges, rail systems and deep foundations. To this market, growth has been driven by increased infrastructure investment in emerging economies and infrastructure repair and replacement in more mature economies. We believe we are well positioned to effectively serve these end-markets.

Global demand for steel and energy infrastructure products. According to the American Iron and Steel Institute, the energy market in the U.S. constitutes less than 10% of the total consumption of finished steel products domestically. We believe this figure is consistent with consumption on a global basis. Global demand for finished steel products is dominated by a few key end-markets, most notably construction, automotive and industrial/manufacturing. The primary finished steel products consumed across these markets include flat rolled (sheets and strip) and long products (bars, girders and reinforcing elements). Demand for these products tends to be highly correlated to macroeconomic trends, especially in developing countries such as China, India and Brazil.

Suppliers of steel products to the energy infrastructure market sell their goods into the supply chain via several methods, which include mill direct, through trading companies and through distributors. We believe that in recent years, distributors have established an increasingly important role in the delivery of steel products to energy end users. Distributors are able to aggregate customer orders, creating the demand necessary to support a production run of a specialty product, extend global reach, provide consistent purchasing volume and reduce working capital requirements. We believe these benefits allow mills to focus on their core competency of steel manufacturing.

The primary steel products that support the development of energy infrastructure include pipe & tube, plates, shapes and bars. The difficult nature of many energy applications often necessitates the use of specialized products with specific chemistries and tolerances developed to withstand significant heat and pressure. Our experience is that relatively few mills have the capability to produce these specialty products. Such products are also typically created in short production runs. Often times, these factors result in very limited availability of the specialty products needed for energy infrastructure applications. Demand for specialty steel products for the energy end-market has historically been less affected by macroeconomic trends and more affected by trends specific to the energy infrastructure market such as the price of oil and natural gas. Major steel producers and producers of finished steel products typically offer a full range of steel products, from basic carbon to specialty products, and serve numerous end-markets, including energy.

Suppliers to the North American oil country tubular goods market produce goods in numerous diameters, weights and finishes in both carbon and alloy grades. Alloy grade products have specially designed metallurgical properties that significantly increase the strength, corrosion resistance and other performance qualities of the steel. The proliferation of technically demanding drilling techniques is driving increased consumption of these high grade oil country tubular goods.

Oil country tubular goods demand is largely driven by drilling activity and inventory levels maintained by manufacturers, distributors and end users. Demand for oil country tubular goods is positively impacted by the increased drilling of deeper, horizontal and offshore wells. Deeper and horizontal wells tend to require more, higher quality and larger diameter pipe, while offshore drillers typically utilize premium oil country tubular goods as the cost of failure of an offshore oil and natural gas well is significantly greater than that of an onshore well.

Our Competitive Strengths

We consider the following to be our principal competitive strengths:

Broad scale with global distribution capabilities. As one of the largest global purchasers of specialty steel products for the energy infrastructure market, we use our scale to aggregate demand for the benefit of both our customers and our suppliers. We are able to secure from time to time volume pricing and production priority from our suppliers, often for specialty products for which no individual customer has enough demand to justify a timely production run, and thereby meet the specific product and delivery needs of our customers. In addition, we locate our global distribution facilities in close proximity to the major upstream, midstream and downstream energy end-markets we serve, including in the U.S., U.K., Singapore and Dubai. The benefits of our global presence include the ability to serve as a single global source of supply for our customers and participation in infrastructure investment activities in

multiple regions around the world, thereby increasing our growth opportunities and reducing our relative exposure to any one geographic market.

Diversified and stable customer base. We have a diversified customer base of over 2,000 active customers in more than 50 countries with operations in the upstream, midstream and downstream energy end-markets, as well as in power generation, civil construction, and mining. Our top ten customers, with each of whom we have had a relationship for more than nine years, accounted for 35% of our pro forma sales for the year ended December 31, 2011, yet no single customer represented more than 9% of our pro forma sales over the same period. We believe this diversification affords us a measure of protection in the event of a downturn in any specific region or market, or from the loss of individual customers. In addition, although MRO sales vary from year to year, we tend to receive a base level of MRO sales from our large, longstanding customers, which provides additional stability to our sales during periods of limited infrastructure expansion. Consistent with common industry practice, we typically operate on a purchase order basis rather than a long-term contract basis. As a result, our customers operating on a purchase order basis may terminate their relationships with us at any time with little or no prior notice.

Strategic and longstanding supplier relationships. We have longstanding relationships with leading suppliers across all of the lines of products we supply. While we are able to source almost all of the products we supply from multiple suppliers, our scale allows us to be one of the largest, if not the largest, customer to each of our key suppliers. As a large customer, we provide our suppliers with a stable and significant source of demand. In addition, our market knowledge and insight into our customers' capital expenditure plans enable us to aggregate multiple orders of a specialty product into volumes appropriate for a production run. We believe that these differentiating factors enhance our ability to obtain product allocations, timely delivery and competitive pricing on our orders from our suppliers. We believe that obtaining these same benefits from suppliers would be difficult for others, including our customers.

Focus on premium products. The portfolio of products we supply is composed primarily of specialty steel products and components that we believe are of premium quality and highly engineered. These types of products often are available from only a select number of suppliers, have limited production schedules and require technical expertise to sell. Our emphasis on the procurement and distribution of products that in many cases are not widely available is the foundation of our ability to deliver value to our customers.

Sophisticated material sourcing and logistical expertise. Many of our customers rely on us to source products for them, as they lack the supplier relationships, resources, volume and/or logistical capabilities to complete procurement and delivery independently or on a cost-effective basis. We believe our professionals have the expertise necessary to manage the coordinated delivery of purchased product to multiple, often remote operating sites according to specific schedules. They also have the knowledge, experience, training and technical expertise in their products to provide valuable advisory support to our customers regarding selection of the most appropriate product to meet their specific needs.

Capitalization and cash flow to maintain necessary inventory levels. Our size affords us the ability to maintain inventory levels necessary to meet the unexpected MRO needs of our customers in the geographies in which they operate. Based upon our past experience in the market, we believe such MRO requests are often less price sensitive than longer lead-time Project and Drilling program orders. Our scale and wherewithal to support large projects also enable us to participate in Project order proposals otherwise inaccessible to smaller competitors. In addition, our access to capital enables us to carry the appropriate inventory levels to meet our customers' needs.

Asset-light business model. We maintain an asset-light business model to maximize our operational flexibility. Our model results in high operating leverage, as evidenced by our \$3.1 million in pro forma sales per employee for the year ended December 31, 2011. Our OCTG Segment operates one facility while leveraging the storage and transportation capabilities of over 50 third party service providers to serve customers in the U.S. We believe these third party service providers allow us to better serve our customers by providing storage and transportation services in locations near our customers drilling sites at lower costs than if we owned and managed the locations ourselves, thereby providing material to our customers on a rapid, secure and consistent basis. Historically, the storage costs associated with these third parties have been immaterial to our financial statements, and while transportation costs

are a significant driver of our overall costs in the OCTG Segment, we believe the transportation costs associated with these third parties are consistent with market rates and are lower than the costs we would have to pay to ship products from our Pampa, Texas location, as these third party service providers are usually in closer proximity to our customers than we may be. Our E&I Segment serves over 1,800 global customers through over 25 distribution facilities strategically located throughout the world. We seek to enter new geographic areas of energy infrastructure development in conjunction with service to existing clients and working with third party service providers. In doing so, we are able to introduce the specialty products we supply and technical expertise into new regions of high demand without the lead time or capital investment that might otherwise be needed.

Experienced and incentivized management team. Our senior managers have significant industry experience, averaging over 25 years, across upstream, midstream and downstream energy sectors in the diverse geographies we serve and in the manufacture of the products we supply. We intend to base the compensation of our senior managers, in part, on financial performance measures, which we believe will further align their interests with those of our stockholders. Following completion of this offering and as a result of the Reorganization, our management and employees would own approximately % of our Class A common stock in the aggregate, including restricted shares of our Class A common stock and assuming the exercise in full of the Exchange Rights for shares of our Class A common stock and the pro rata distribution of those shares to the partners and members of EM II LP and B&L.

Our Business Strategies

Our goal is to be the leading distributor of specialty steel products to the global energy sector. We intend to achieve this goal through the following strategies, although there can be no guarantee that any of the following strategies will be effective:

Expand business with existing customers. We strive to introduce our customers to the entire portfolio of products we supply on a global basis. Our sales force is trained to capture additional share of our customers' overall spending on specialty steel products. Opportunities to expand business with our customers include:

- n *Capitalizing on new product and cross-selling opportunities across all of a customer's operations in different end-markets and geographies.* As an example, we have had recent success growing our sales related to valves. Specifically, we were recently awarded a significant contract to supply valves for the construction of a new offshore drilling platform. The contractor operates a fleet of offshore drilling rigs, which should provide us future opportunities for additional valve and other product sales to this customer.
- n *Further penetrating existing customers' Projects, Drilling programs and MRO supply requirements.* As an example, we were recently successful growing our sales by capitalizing on our existing relationship and history with a current customer. Specifically, this customer (a multi-national integrated oil and natural gas company) expanded its business into the Caspian Sea with an offshore oil field development project. The remote location and urgent material supply requirements combined to create complex project logistics. We were able to utilize our mill allocations and global stocking facilities to negotiate a solution to meet the customer's ongoing MRO requirements.
- n *Leveraging our platform to address our customers' global needs.* As an example, many of our customers have expanded into Brazil to take advantage of the exploration and production opportunities resulting from the recent discovery of oil and natural gas resources off the coast of Brazil. We believe that we have had a history of successfully expanding our global presence, as shown by our opening new offices in active regions throughout the world. We were able to leverage this experience to mobilize a team and open an office in Brazil to provide our customers service in that region which has in turn resulted in sales growth.

Grow business in select new and existing markets. We intend to exploit opportunities for profit and margin expansion within our existing core markets, as well as in new geographies and end-markets. We expect to capitalize on the increasing demand for energy in these markets by leveraging our suite of capabilities and reputation as a market leader to drive new customer acquisitions. We plan to achieve this goal in part by selectively enhancing our presence in locations where significant investments in energy infrastructure are being made. Notably, we believe the suite of specialty products we supply positions us well to take advantage of the development of previously underexploited unconventional onshore and deepwater oil and natural gas resources. We also plan to expand our presence in new

end-markets outside the oil and natural gas end-market that are characterized by difficult operating environments and have similar demand for our technical expertise and specialty products.

We also plan to selectively expand our global footprint through our asset-light model in order to maximize our ability to meet evolving customer needs. We believe our platform is highly flexible, as we are able to rapidly address areas of new demand through the addition of satellite offices, representative offices, and third party stocking facilities. These means of expansion enable us to deliver our full suite of capabilities. We use our asset-light profile to quickly adjust our geographic priorities according to changes in secular demand trends in our target markets.

Continue to pursue strategic acquisitions and investments. We intend to continue to grow our business through selective acquisitions, joint ventures and other strategic investments. We believe that our history of acquisitions and integrations demonstrates our ability to identify and capitalize on acquisition opportunities that enhance the portfolio of products we supply or our global presence, or both, which has been an important factor in the creation of the existing Edgen Group. Between 2005 and 2009, we executed five acquisitions for a total consideration of approximately \$360.0 million. These acquisitions, coupled with the consolidation of the B&L business which will occur in connection with the Reorganization, have facilitated the growth of Edgen Group from sales of \$322.3 million for the year ended 2005 to pro forma sales of \$1.7 billion for the year ended December 31, 2011. We apply a strict set of evaluation criteria to ensure that our investments are consistent with our strategic priorities. In particular, we look for investments that we anticipate will expand the portfolio of products we supply, customer base, supplier relationships, and in certain instances, our end-market exposure.

Our Operating Segments

After the Reorganization and this offering, we will supply specialty products and provide value-added services through two operating segments:

Energy and Infrastructure Products, or E&I. The E&I Segment serves customers in the Americas, Europe/Middle East/Africa, or EMEA, and Asia Pacific, or APAC, regions, distributing pipe, plate, valves, and related components to upstream, midstream, downstream, and select power generation, civil construction, and mining customers across more than 35 global locations. This operating segment provides Project and MRO order fulfillment capabilities from stocking locations throughout the world. For the year ended December 31, 2011, our E&I Segment represented 54% of our pro forma sales and 48% of our pro forma EBITDA. Our E&I Segment is branded under the Edgen Murray name.

Oil Country Tubular Goods, or OCTG. The OCTG Segment is a leading provider of oil country tubular goods to the upstream conventional and unconventional onshore drilling market in the U.S. We deliver these products through nine customer sales and service locations, including our Pampa, Texas operating center, and over 50 third-party owned distribution facilities. For the year ended December 31, 2011, our OCTG Segment represented 46% of our pro forma sales and 52% of our pro forma EBITDA. Our OCTG Segment is branded under the Bourland & Leverich name.

Global Sales and Marketing

We have developed our market approach to serve the needs of our customers. These customers operate across the energy sector and other heavy industrial applications and require the products we supply in the build-out of infrastructure for their activities. We organize our sales approach around the following market segments: upstream; midstream; downstream oil and natural gas; and power, mining, civil construction and nuclear. We believe that by segmenting our sales structure, we can focus our team's expertise around our customers' specific requirements and thus meet their unique challenges. We use this strategy to facilitate our growth through continued geographic market penetration. We also seek to capitalize on both cross-selling opportunities and the potential for expanded product offerings within these markets.

Our business model and scale enables us to participate in new capital projects, which are typically large-scale and result in higher revenues. We use our product availability and volume pricing from our suppliers to meet our customers' delivery needs on a timely basis. As a single global source of supply for our customers, we are also able to capitalize on MRO opportunities, which are typically recurring in nature and tend to have higher margins. We

believe that our ability to meet our customers' requirements for premium products and complete material packages on a global scale through a combination of inventory and direct procurement from suppliers is unique and provides us a competitive advantage.

Our E&I sales teams operate in a matrix structure across geographies and end-markets. Within our global platform we have end-market specific sales teams that collaborate across borders to serve our customers, particularly on large capital projects to support energy infrastructure demand. For example, construction of a new offshore platform may be engineered and designed in the U.S., procured in Europe, and fabricated and delivered to Asia. By having upstream-specific material supply chains and sales teams to support those efforts in all parts of the world, we can provide complete product offerings, technical expertise and logistical support to customers through all stages of project development from the early engineering and design phase through the delivery of products and follow up support, as well as MRO supply to customers at all stages of project development. We support our oil country tubular goods customers with account executives that seek to develop relationships in procurement and operating centers. Service personnel provide supply chain and logistics to field locations where the drilling activity exists. By timely meeting the supply chain and logistics needs of our customers, we seek to build on our customer relationships and give ourselves greater opportunities to fulfill our customers' future OTCG requirements.

Properties

We maintain sales and stocking facilities in major oil and gas energy centers, near refining and petrochemical installations, shipyards and rig fabricators, and in proximity to areas with heavy onshore and unconventional drilling activity. We believe that having sales teams on-call and relevant product in close proximity to our customers allows us to successfully support the drilling programs and MRO requirements of customers who often need materials quickly without significant forward planning. For example, our OCTG Segment services customers that are developing every major U.S. unconventional oil and natural gas development through a network of over 50 third party owned distribution facilities in support of our customers' active drilling programs. We use this network to provide on-demand, quickly-shipped, and just in time inventory required by the nature of those activities.

We have a presence in major global markets, operating for more than 30 years in North America and Europe, since 1984 in the Middle East, and since 1992 in the Asia-Pacific region. Our primary facilities in these regions include stocking operations, sales teams, supplier relations, and full service support teams. From those regional hubs, we have developed satellite sales offices, representative offices, joint ventures and a network of stocking facilities that allow us to deliver our complete offerings to customers in almost all regions of the world.

BUSINESS	REGION	PRIMARY HUB	SATELLITES
		Houston, Texas	
	Americas	Baton Rouge/Port Allen, Louisiana	18 sales and stocking facilities Network of third party stocking locations
		Edmonton, Alberta	
		Rio de Janeiro, Brazil	
			London, United Kingdom
			Darlington, United Kingdom
E&I	EMEA	Edinburgh, United Kingdom	Paris, France
		Dubai, United Arab Emirates	Baku, Azerbaijan
			Rotterdam, The Netherlands
			Jakarta, Indonesia
	APAC	Singapore	Perth, Australia
			Shanghai, China
			Mumbai, India

Edgar Filing: Edgen Group Inc. - Form S-1/A

OCTG

U.S.

Pampa, Texas

8 U.S. sales offices

Network of third party stocking locations

101

Our primary hub facilities for our E&I Segment include a 70-acre pipe yard and distribution center in Port Allen, Louisiana; an 18-acre yard and warehouse and a sales and administrative office in Houston, Texas; a warehouse and sales office in Edmonton, Alberta; a sales office in Rio de Janeiro, Brazil; a 4.6 acre yard and 210,000 square foot warehouse and a sales and administrative office in Edinburgh, Scotland; a 167,000 square foot warehouse and sales office in Singapore; and a 3.1 acre yard and 40,000 square foot warehouse in Dubai, United Arab Emirates. Our only significant owned facility is the pipe yard in Port Allen, Louisiana, which is subject to a lien securing the EMC senior secured notes. Our OCTG Segment owns and operates an office and warehouse facility in Pampa, Texas and leases eight sales offices in the U.S. We believe that our facilities are adequate for our current and anticipated needs.

In addition to our owned and leased facilities, we service customers in both business segments through more than 50 third party-owned distribution facilities operations that allow us to maintain inventory without the expense of long term lease commitments. This approach is a key tenet of our asset-light business model, with less capital invested in facilities and the related operating and maintenance costs. This model also gives us the flexibility to have personnel and inventory in the specific locations that continue to warrant such an investment.

Our global network of facilities and personnel keeps us in close proximity to our suppliers throughout Europe, Asia and the U.S.; to our end user and engineering customers in major energy centers in the U.S., Europe, Middle East and Singapore; and to ship builders, drillers, fabricators, equipment manufacturers, and other customers throughout the world. We use our established presence in these markets to quickly capture market share wherever activity is occurring across all of our market segments, and also to efficiently establish presence in countries where there are increasing levels of energy infrastructure and other related capital expenditures. There can be no assurance, however, that we will be able to increase our market share in countries in which we have an established presence or in which we may seek to establish a presence in the future.

Most of our owned and leased facilities are International Organization for Standardization, or ISO, certified and utilize bar code technology to efficiently track, receive, pick and ship material. This ISO certification is often required in order to be included on our customers' approved vendor lists.

We have used our operational experience to develop expertise in international commercial terms, and shipping requirements. We staff our offices with a mix of local employees who are knowledgeable in the local business procedures and customs of the countries where we do business alongside our customers and employees who know the market segment and product specifications. We believe that the combination of this logistical expertise and local knowledge has further developed our ability to quickly and effectively meet our customers' needs.

Customers

We believe that we have a deep understanding of our customers' needs and strong and loyal relationships across the market segments that we serve. We believe that our customers value our ability to provide planning and budgeting insight, access to materials that can be difficult to procure, technical knowledge of those materials, multi-source and multi-product package coordination, and high service levels. Our customers include:

- n Multi-national and national oil and natural gas companies;
- n Integrated oil and natural gas companies;
- n Independent oil and natural gas companies;
- n Engineering, procurement and construction firms;
- n Onshore and offshore drilling contractors;
- n Oil and natural gas transmission and distribution companies;

- n Equipment fabricators;

- n Petrochemical companies;

- n Mining companies;

- n Hydrocarbon, nuclear and renewable power generation companies;

- n Public utilities;

- n Civil construction contractors; and

- n Municipal and transportation authorities.

With a diverse group of more than 2,000 active customers, our 10 largest customers represented approximately 35% of our pro forma sales for the year ended December 31, 2011, and no one customer accounted for more than 9% of our sales in any of the periods presented.

We have secured preferred supply agreements with a variety of customers across our end-markets. Although the structures of these agreements are unique to the needs of each particular customer, they generally serve to provide our customers with ready access to the products they need and at times allow us to maintain mill allocation positions with suppliers by delivering a reasonably predictable level of purchasing. In some cases, such agreements guarantee us a certain amount of business in a particular product area or region, and they allow us to compete for business from our customers as one of a select few materials providers. In our OCTG Segment, we have several customized supply arrangements, which we coordinate closely with our customers' drilling programs and related needs. In addition, we monitor our customers' project-specific needs so that we can maximize efficiency for their material supply requirements.

Suppliers

We believe we have mutually beneficial, longstanding relationships with an established network of suppliers that would be difficult for others to replicate. These relationships enable us to stock and supply a broad range of products. For the year ended December 31, 2011, approximately 65% of our pro forma purchases were from our top ten suppliers, the largest of which accounted for 26% of our material purchases. By focusing our purchasing power on certain suppliers' specialty product niches, we believe that we are able from time to time to achieve favored status with our suppliers in regard to lead times, pre-allocated mill time and space, discounts and payment terms. As we continue to strengthen our supplier relationships, we provide our customers with products that we believe are of greater importance to their business and have fewer substitutes. Although we concentrate our purchasing power on a select group of highly-valued suppliers, we have multiple sources for the products we supply and are not dependent on any single supplier.

We are a high-volume purchaser of specialty steel products, and we believe that we provide significant support as an intermediary between steel producers and our customers. There is a limited number of suppliers with the capabilities to produce these specialty steel products, and we believe that we have demonstrated to them over time that we are a high quality, reliable and high-volume purchaser of their products. In addition, our participation in our customers' early planning stages for large long-term projects together with our in-depth understanding of our customers' drilling programs, enable us to plan our purchases and provide our suppliers with critical intelligence and visibility to schedule production runs.

End users often require distributors to limit procurement to suppliers who have been qualified and appear on that end-user's approved manufacturers list, or AML. When the requirements include specialty material, the AML may not offer enough choices to procure the material within the customer's required timetable. We use our supplier network to introduce new manufacturers to our customers and facilitate the expansion of their AMLs to include other suppliers who could meet the customer's requirements, benefiting both the supplier and the customer. We have also developed numerous relationships with third party processing providers, such as pipe coating and pipe bending facilities, to provide value-added services to meet our customers' specific product requirements. We access multiple logistics providers such as trucking companies, barge companies, and rail companies to provide full delivery services.

Products

The catalog of products we supply consists of a broad range of steel plate, sections, pipe, components and valves. However, we generally focus on specialty carbon and alloy steel pipe, accompanying components, valves and quenched and tempered and high yield heavy plate.

Upstream. For offshore rig construction, we supply specialty offshore-grade plate, pipe and structural beams, columns, channels, angles, flats, rounds, squares and hollow sections. Many of these materials are manufactured through a quench and temper process that enables them to support extreme weight loads and withstand extreme temperatures. In many cases, the material is extremely thick and requires custom fabrication. This grade of steel is utilized for leg structures, including those supporting complex specialty platform, or jack-up, rigs used in shallow water drilling, as well as offshore transportation and production vessels.

In onshore oil and natural gas exploration and production, we are a leading U.S. distributor of oil country tubular goods including surface, intermediate and production casing and tubing, all of which are consumed during the drilling and completion of oil and natural gas wells.

Midstream. We supply a full range of steel products utilized for gathering lines, product pipelines, oil and natural gas transmission, compression and storage. The products we supply include heavy wall, large diameter seamless and welded pipe and accompanying high yield fittings and components, along with a broad range of valves and valve actuators.

Downstream and power. In the extreme pressure, temperature and/or corrosive conditions found in refining, petrochemical and power generation applications, we supply specialty pipe, valves and fittings across many grades including carbon, chrome, nickel, stainless, low temperature and duplex materials. Additionally, we are able to cross-sell certain materials utilized in a refining environment to upstream customers for offshore production platforms and vessels.

Civil construction and mining. We provide large diameter heavy wall pipe, sheet and structural steel with full traceability that meets a wide range of material specifications for heavy civil construction, such as large scale installations for marine piling and construction, levee systems, major civil building structures, deep foundations and water works. Mining applications require materials that can withstand extreme wear from abrasive and corrosive conditions. We supply abrasion-resistant, induction-hardened, high yield, duplex, nickel alloy and Hastelloy pipe and accompanying components for mineral mining and processing and other difficult applications. Service offerings in this segment often include coordination of high-performance coatings and linings, fabricated ends, wear bands, couplings and weld rings.

Nuclear. We are accredited as a Material Organization by the American Society of Mechanical Engineers and hold a Quality System Certificate to supply products to the nuclear industry. The scope of products that we supply to the nuclear industry includes most sizes and grades of ferrous and non-ferrous pipe, fittings, flanges, plates, shapes, bars and valves under strict quality assurance requirements. Leading with our ability to supply nuclear-grade materials, we are able to cross-sell non-safety related products to our customers within the nuclear construction environment.

We do not manufacture any of the products we supply. We are a distributor of our suppliers' manufactured products and often purchase these products in large quantities that are efficient for our suppliers to produce, and then subsequently resell these products in smaller quantities to meet our customers' requirements. We coordinate third party services such as coating, cutting, finishing and material testing. We also provide ongoing delivery status reports and complete data packages at the time of delivery, including material test reports and certifications and coordinate global logistics including freight, shipping, customs requirements and on-site material inspection. We use our diverse product portfolio and supply channels to provide our customers with many different combinations of steel products required for the market segments we serve.

Working Capital Practices

Inventory and accounts receivable comprise a large percentage of our pro forma total assets, and we allocate appropriate resources to manage these working capital assets. Maintaining an inventory of the products that our customers need is a key factor in capturing customer spending and maintaining high customer satisfaction. We use various factors to plan inventory purchases including customer feedback on their planned activities and our own sales history. We also consult with our suppliers on their capacity levels, planned mill production and pricing information in order to appropriately time our inventory purchases. Our practices centered on accounts receivable management include ongoing customer credit analysis and collection efforts and negotiation of payment terms on large project orders. Additionally, many of our customer incentive programs include timely payment as a requirement to earn the incentive. At December 31, 2011 inventory and accounts receivable collectively represented approximately 67%, of pro forma total assets. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Backlog

Our predecessor's sales backlog represents management's estimate of potential future revenues that we expect may result from contracts/orders currently awarded to us by our customers. Sales backlog is determined by the amount of undelivered third party customer orders and may be revised upward or downward, or cancelled by our customers in certain instances. We cannot assure you that the sales backlog amounts presented will ultimately be realized as revenue, or that we will earn a profit on any of our sales backlog of orders.

Our predecessor had sales backlog of approximately \$353 million and \$210 million at December 31, 2011 and 2010, respectively. Realization of revenue from sales backlog is dependent on, among other things, our ability to fulfill purchase orders and transfer title to customers, which in turn is dependent on a number of factors, including our ability to obtain product from suppliers, and the customers' desired delivery schedule. The rate at which we recognize that revenue varies based on the type of orders that make up the backlog and can vary materially from period to period. MRO-related orders typically ship more quickly than large Project orders which tend to have a longer-term delivery schedule. Drilling program sales in our OCTG Segment do not factor into our calculation of sales backlog as there is generally no interval between the securing of an order and the earning of revenue. We expect to fill the substantial majority of our current sales backlog within the next twelve months, although there can be no assurance that we will be able to do so.

Competition

We compete with other companies in our markets primarily on customer service, access to materials, price and ability to deliver products in a timely manner. Purchase decisions on the part of the customers for which we compete are also influenced by previous experience with a particular distributor and a distributor's ability to supply the full range of specialty pipes, pipe components, tubes, plate, valves, sections and related components.

Our competitors fall into three main categories:

- Large supply centers that typically carry sizable amounts of inventory and who are in some cases subsidiaries of large publicly held companies. These competitors, though well capitalized, tend to focus on stockholdings that do not compete with the range of specialty products that we offer.
- Smaller regional suppliers who focus on high turnover products from inventory and do not have the resources, supplier relationships, expertise or capacity to manage large projects or specialty materials.
- Brokers and traders who are usually owned by various steelmakers and focus purely on sourcing material and who are limited by their ability to secure materials from the full range of global producers beyond the ones they represent.

We believe that none of our competitors offers the depth and breadth of specialty steel products in stock that we offer in any particular market. Although we have competitors with respect to many of the specific products we offer in specific markets, we believe that no one competitor or small group of competitors is dominant in any of our markets. While we must be price-competitive in all of our markets, we believe that our customers select our products based on the product knowledge of our staff, our broad product offering of specialty products, our local presence and our history of quality customer service and long-standing relationships.

Employees

At December 31, 2011, our workforce consisted of 546 full-time employees, 194 of whom are sales personnel. We are not a party to any collective bargaining agreements, and we consider our relations with our employees to be satisfactory.

Information Technology

We have an advanced information technology platform to help us manage our business. As a distributor, our primary operational focus is order management and our systems are designed to streamline the logistics involved with obtaining products from our suppliers, tracking those products within our sizable inventory and delivering those products to our customers.

Our E&I Segment uses bar coded tags and wireless handheld scanners to track the inventory in our major distribution facilities and allows our salespeople to quickly ascertain what products are available and where those products are located. The system allows for efficient pick and ship execution and is accessible from all of our locations worldwide.

In the Americas, business functions including order management, procurement, inventory control, accounting and finance operate on a unified Oracle platform. In EMEA and APAC, we operate under a separate enterprise resource planning system for inventory and order management. Our OCTG Segment has a fit for purpose system as its product line is more narrowly focused. A single financial consolidation package is integrated with these systems for financial reporting and forecasting.

We believe our combined information technology systems are well-protected against service disruptions. All production servers utilize widely-available components, minimizing single points of failure. We provide our primary data center in Baton Rouge, Louisiana with redundant cooling, battery backup, generator power and carded access. Finally, we lease a full disaster recovery site in Dallas, Texas in the event the Baton Rouge systems are disrupted for an extended period of time.

Intellectual Property

We have registered the EDGEN MURRAY trademark in the U.S. and critical markets in Europe, Asia, Australia, Mexico, Canada, the Caribbean, Central and South America and the Middle East. We have also applied to register the trademark in several additional jurisdictions in the Middle East, Asia, Africa, the Caribbean, South America and Europe, as well as India and the Russian Federation. We claim common law rights in the EDGEN MURRAY trademark in those jurisdictions that recognize trademark rights based on use without registration. We also claim common law trademark rights to a number of other names important to our business, including Edgen, Bartow Steel, Resource Pipe Co., SISCO, Thomas Pipe, Pro Metals and Radnor Alloys, although we have not applied for federal or international registration for them. We have commenced registering the trademark EDGEN in the U.S. and all critical markets in Europe, Asia, Australia, the Middle East, Canada, Mexico and South America. We claim common law rights in, and our OCTG Segment currently uses, the BOURLAND & LEVERICH, BOURLAND & LEVERICH SUPPLY CO., B&L and B&L SUPPLY PROPERTIES trademarks in the United States.

We recognize the importance to our business of the various intellectual property rights, including trademarks that we use. While we acknowledge that the statutory rights arising from a successful trademark registration generally give greater certainty as to the ownership of the registered trademark as well as make enforcement of the owner's rights against third parties easier than if it had to rely on the enforcement of its unregistered rights in the trademark, we nevertheless believe that adequate protection of the goodwill in the trademarks used by our business is afforded through the various unregistered rights that are acquired simply by use over a period of time in a number of the jurisdictions in which we operate.

Environmental Matters

Our operations are subject to extensive and frequently changing federal, state, local and foreign laws and regulations relating to the protection of human health and the environment, including those limiting the discharge and release of pollutants into the environment and those regulating the transport, use, treatment, storage, disposal and remediation of, and exposure to, hazardous materials, substances and wastes. As with other companies engaged in like businesses, the nature of our operations exposes us to the risk of liabilities or claims with respect to environmental matters, including those relating to the disposal and release of hazardous substances. Failure to comply with environmental laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of fines and penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations or imposing additional compliance requirements on such operations. Certain environmental laws can impose strict, joint and several liability for costs required to clean up and restore sites without regard to fault on responsible parties, including past and present owners and operators of sites, related to cleaning up sites at which hazardous wastes or materials were disposed or released even, if the disposals or releases were in compliance with applicable law at the time of those actions. Management believes that our operations are in substantial compliance with the applicable environmental laws and regulation.

We have not made any material expenditures during the three years ended December 31, 2011 in order to comply with environmental laws or regulations. Based on our experience to date, we believe that the future cost of compliance with existing environmental laws and regulations will not have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity. However, we cannot predict what environmental or health and safety legislation or regulations will be enacted in the future or how existing or future laws or regulations will be enforced, administered or interpreted, nor can we predict the amount of future expenditures that may be required in order to comply with such environmental or health and safety laws or regulations or to respond to such environmental claims.

Environmental Regulation of the Oil and Natural Gas Industry

Our customers operate primarily in the upstream, midstream, and downstream end-markets for oil and natural gas, each of which is highly regulated due to a high level of perceived environmental risk. Liability under environmental laws and regulations could result in cancellation or reduction in future oil and natural gas related activity. Any such cancellation or reduction could reduce the demand for our operations.

Drilling activity, including hydraulic fracturing and horizontal drilling, associated with unconventional oil and natural gas resources as well as offshore drilling and exploration, and other new drilling and extraction technologies have received significant regulatory and political focus. Hydraulic fracturing is an essential technology for the drilling and development of unconventional oil and natural gas resources. The hydraulic fracturing process in the U.S. is typically subject to state and local regulation, and has been exempt from federal regulation since 2005 pursuant to the federal Safe Drinking Water Act (except when the fracturing fluids or propping agents contain diesel fuels). Public concerns have been raised regarding the potential impact of hydraulic fracturing on drinking water. Two companion bills, known collectively as the Fracturing Responsibility and Awareness of Chemicals Act, or FRAC Act, have been introduced before the U.S. Congress that would repeal the Safe Drinking Water Act exemption and otherwise restrict hydraulic fracturing. If enacted, the FRAC Act could result in additional regulatory burdens such as permitting, construction, financial assurance, monitoring, recordkeeping, and plugging and abandonment requirements. The proposed FRAC Act would also require the disclosure of chemical constituents used in the hydraulic fracturing process to state or federal regulatory authorities, who would then make such information publicly available. Several states have enacted similar chemical disclosure regulations. The availability of this information could make it easier for third parties to initiate legal proceedings based on allegations that specific chemicals used in the hydraulic fracturing process could adversely affect groundwater.

The EPA is conducting a comprehensive study of the potential environmental impacts of hydraulic fracturing activities, and a committee of the House of Representatives is also conducting an investigation of hydraulic fracturing practices. In August and November 2011, the United States Department of Energy Shale Gas Subcommittee, or DOE, issued two reports on measures that can be taken to reduce the potential environmental impacts of shale gas production. The results of any of the DOE and EPA studies or the House investigation could lead to restrictions on hydraulic fracturing. The EPA is currently working on new interpretive guidance for Safe Drinking Water Act permits that would be required with respect to the oil and natural gas wells that use fracturing fluids or propping agents containing diesel fuels. The EPA has proposed regulations under the federal Clean Air Act in July 2011 regarding certain criteria and hazardous air pollutant emissions from the hydraulic fracturing oil and natural gas wells and, in October 2011, announced its intention to propose regulations by 2014 under the federal Clean Water Act to regulate wastewater discharges from hydraulic fracturing and other oil and natural gas production. In addition, various state and local governments, as well as the United States Department of Interior and certain river basin commissions have taken steps to increase regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, disclosure obligations and temporary or permanent bans on hydraulic fracturing in certain local jurisdictions or in environmentally sensitive areas such as watersheds. Any future federal, state or local laws or regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete oil and natural gas wells in certain formations. Any decrease in drilling activity resulting from the increased regulatory restrictions and costs associated with hydraulic fracturing, or any permanent, temporary or regional prohibition of the uses of this technology, could adversely affect demand for the products we supply and our results of operations.

In addition to regulatory challenges facing hydraulic fracturing, the process of extracting hydrocarbons from shale formations requires access to water, chemicals and proppants. If any of these necessary components of the fracturing process is in short supply in a particular operating area or in general, the pace of drilling could be slowed, which could reduce demand for the products we supply.

Offshore drilling and exploration has also been subject to various environmental regulations. The April 2010 Deepwater Horizon accident in the Gulf of Mexico and its aftermath resulted in increased public scrutiny, including a moratorium on offshore drilling in the U.S. While the moratorium has been lifted, there has been a delay in resuming operations related to drilling offshore in areas impacted by the moratorium and we cannot assure you that operations related to offshore drilling in such areas will reach the same levels that existed prior to the moratorium or that a future moratorium may not arise. In addition, this event has resulted in new and proposed legislation and regulation in the U.S. of the offshore oil and natural gas industry, which may result in substantial increases in costs or delays in drilling or other operations in U.S. waters, oil and natural gas projects thus potentially becoming less economically viable, and reduced demand for the products we supply and services we provide could ensue. Other countries in which we operate may also consider moratoriums or increase regulation with respect to offshore drilling. If future moratoriums or increased regulations on offshore drilling or contracting services operations are implemented in the U.S. or other countries, our customers could be required to cease their offshore drilling activities or face higher operating costs in those areas. These events and any other regulatory and political challenges with respect to unconventional oil and natural gas resources and new drilling and extraction technologies could reduce demand for the products we supply and services we provide and materially and adversely affect our business and operating results.

Safety Matters

Companies operating within the upstream, midstream and downstream energy end-markets are facing increasingly stringent safety requirements as they manage and build infrastructure. As a result, our operations and those of our customers are subject to increasingly stringent federal, state, local and foreign laws and regulations governing worker safety and employee health, including pipeline safety and exposure to hazardous materials. Future environmental and safety compliance could require the use of more specialized products and higher rates of maintenance, repair and replacement to ensure the integrity of our customers' facilities. The Pipeline Inspection, Protection, Enforcement, and Safety Act has established a regulatory framework that mandates comprehensive testing and replacement programs for transmission lines across the U.S. Pipeline safety is subject to state regulation as well as oversight by the Pipeline and Hazardous Materials Safety Administration of the U.S. Department of Transportation, which, among other things, regulates natural gas and hazardous liquid pipelines. The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 bill that would further enhance federal regulation of pipeline safety passed Congress in December 2011. From time to time, administrative or judicial proceedings or investigations may be brought by private parties or government agencies, or stricter enforcement could arise, with respect to pipeline safety and employee health matters. Such proceedings or investigations, stricter enforcement or increased regulation of pipeline safety could result in fines or costs or a disruption of our operations or those of our customers, all of which could materially and adversely affect our business and results of operations.

Legal Proceedings

From time to time we are party to various claims and legal proceedings related to our business. However, we do not believe that any of these claims or legal proceedings are material to the Company. It is not possible to predict the nature of the claims, the size of the claims, whether the claims are covered by our insurance, or the outcome of these claims and legal proceedings.

Our History and Formation

The Buy-out Transaction. On February 1, 2005, a corporation formed by certain funds managed by JCP, which we collectively refer to as Fund III, and certain members of our management acquired the business of one of our predecessors, Edgen Corporation. We refer to this transaction as the Buy-out Transaction.

Formation of Edgen/Murray, L.P. and the Murray International Metals Acquisition. On December 16, 2005, one of our predecessors acquired Murray International Metals Limited, a U.K.-based global distributor of high yield steel

products primarily to the offshore oil and natural gas industry. To effect this acquisition, we formed a new parent holding company, Edgen/Murray L.P. This acquisition gave us an enhanced global presence and eventually led us to change our name to Edgen Murray.

Formation of Edgen Murray II, L.P., recapitalization and the acquisition of PetroSteel. On May 11, 2007, our predecessor, Edgen Murray II, L.P., a newly formed holding company, acquired our business in a transaction led by certain funds managed by JCP, which we collectively refer to as Fund IV. We refer to this transaction as the Recapitalization Transaction. Although the funds that comprise Fund IV are also managed by JCP, they are not the same as the funds that comprise Fund III and led the Buy-out Transaction. Our predecessor also acquired the business of PetroSteel International, LP and Petro Steel, LLC, or collectively, PetroSteel, on May 11, 2007, which enhanced our quenched and tempered and heavy steel plate product line.

Investment in Bourland & Leverich Holdings LLC. On August 19, 2010, B&L Predecessor was acquired by certain existing limited partners of EM II LP, including Fund IV, and the management of B&L. In connection with this transaction, EMC invested approximately \$10.0 million for a 14.5% ownership stake in B&L, the investment vehicle that carried out the B&L Acquisition.

Formation of Edgen Group and the Reorganization. Edgen Group was incorporated in December 2011 as a Delaware corporation. Prior to the completion of this offering, Edgen Group will become the holding company for our subsidiaries as a result of the Reorganization and, as the new parent holding company, will serve as the issuer in this offering. See [The Reorganization](#) and [Certain Relationships and Related Person Transactions](#).

THE REORGANIZATION

Edgen Group was formed in December 2011, for purposes of this offering and has not engaged in any business or other activities except in connection with its formation and the Reorganization. Edgen Group is currently a wholly-owned subsidiary of an affiliate of JCP.

The Reorganization will consist of the following transactions:

- (1) Immediately prior to the completion of this offering, EM II LP will contribute all of the equity interests of EMGH Limited to EMC, thereby making EMGH Limited a wholly-owned subsidiary of EMC. EM II LP will no longer be a guarantor under the EMC senior secured notes or the EM revolving credit facility, and EM Holdings LLC will become the new parent guarantor of the EMC senior secured notes.
- (2) Edgen Group will form EDG LLC as a new intermediate holding company.
- (3) EMC's ownership interest in B&L will be redeemed by B&L in exchange for membership units of B&L Supply.
- (4) Edgen Group will amend its certificate of incorporation to convert its one outstanding common share, which is held by an affiliate of JCP, into one share of Class A common stock that will be surrendered to Edgen Group.
- (5) EM II LP will contribute all of the shares of capital stock of EMC and all of EM II LP's liabilities to us for membership units of EDG LLC and Class B common stock of Edgen Group. As a result, EDG LLC will become the indirect owner of EMC and all of the other direct and indirect subsidiaries that had comprised the entire business of EM II LP.
- (6) B&L will contribute all of the membership units of B&L Supply (other than those held by EMC) and all of B&L's liabilities to us for membership units of EDG LLC and Class B common stock of Edgen Group. As a result, EDG LLC will become the sole owner of the subsidiary that had comprised the entire business of B&L (through its direct and indirect ownership of B&L Supply).
- (7) EM II LP may elect to have EM Holdings LLC purchase from EMC all or a portion of EMC's membership units in B&L Supply with either cash or a note payable to EMC.
- (8) Holders of restricted units of EM II LP and B&L will exchange such units for restricted shares of our Class A common stock.
- (9) Holders of options to purchase units of EM II LP or B&L will exchange such options for options to purchase our Class A common stock.

Following these transactions, and upon completion of this offering, EDG LLC will be controlled by Edgen Group, its managing member. Edgen Group, EM II LP and B&L will own approximately %, % and % of the membership units of EDG LLC, respectively.

Following these transactions and upon completion of this offering, approximately % of the Class A common stock of Edgen Group will be owned by purchasers in this offering. Edgen Group will be controlled by EM II LP and B&L through their ownership of % and % of the Class B common stock of Edgen Group, respectively. The Existing Investors will remain the owners of the unrestricted units of EM II LP and B&L, and EM II LP and B&L will be controlled by the same affiliates of JCP that controlled each of them before these transactions.

Subject to certain limitations, EM II LP and B&L will each have Exchange Rights to exchange from time to time membership units of EDG LLC and shares of Class B common stock of Edgen Group for shares of Class A common stock of Edgen Group on the basis of one membership unit of EDG LLC and one share of Class B common stock of Edgen Group collectively for one share of Class A common stock of Edgen Group (subject to customary conversion rate adjustments for splits, stock dividends, and reclassifications) or, if we so elect, cash equal to the trading price of a share of Class A common stock of Edgen Group, all in accordance with an exchange agreement among it, EDG LLC and Edgen Group. If the Exchange Rights were exercised in full upon the completion of this offering, and

settled solely for shares of Class A common stock of Edgen Group, approximately %, %, % and % of the Class A common stock of Edgen Group would be owned by purchasers in this offering, Existing Investors receiving restricted stock in the Reorganization, EM II LP and B&L, respectively. Certain Relationships and Related Person Transactions Exchange Agreement.

We will also enter into a tax receivable agreement with each of EM II LP and B&L that will provide for the payment by Edgen Group of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize as a result of increased depreciation and amortization deductions available to us as a result of the taxable exchange of EDG LLC membership units for Class A common stock or cash pursuant to the Exchange Rights, as a result of certain other transactions that result in increases in our share of the tax basis of EDG LLC's assets, and our making payments under the tax receivable agreement. See Certain Relationships and Related Person Transactions Tax Receivable Agreement.

The members of EDG LLC, including Edgen Group, EM II LP and B&L, will incur U.S. federal, state and local income taxes on their proportionate share of any taxable income of EDG LLC. Net profits and net losses of EDG LLC will generally be allocated to its members pro rata in accordance with the percentages of their membership unit ownership. We expect that the limited liability company agreement of EDG LLC will provide for cash distributions to the holders of membership units of EDG LLC to enable such holders to pay taxes with respect to their allocable shares of EDG LLC's taxable income. Generally, these tax distributions will be computed based on an estimate of the taxable income of EDG LLC allocable to such member multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income).

Following the Reorganization, EM Holdings LLC may elect to purchase from EMC all or a portion of EMC's remaining interest in B&L Supply. In connection with that purchase, we would be obligated under the applicable Tax Receivable Agreement to make a payment to the limited partners of EM II LP equal to 85% of the tax benefits we receive on account of such sale. The payments due under the Tax Receivable Agreement on account of such sale would be equal to 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize as a result of increased depreciation and amortization deductions available to us as a result of such sale as well as any tax benefits arising from making such payments under the Tax Receivable Agreement.

To the extent this sale occurs, EMC would seek to sell to EM Holdings LLC only that portion of EMC's interest in B&L Supply such that the taxable income received by EMC from such sale would be offset by EMC's existing net operating loss carryforwards. If such sale transaction occurs, we expect EMC to use all or a significant portion of its net operating loss carryforwards in that transaction. As a result, the net operating loss carryforwards will not be available to offset EMC's income in future periods.