Dolan Co.
Form 10-Q
November 03, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended: September 30, 2010

OR

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

For the Transition Period From __________ to __________.

Commission File Number: 001-33603

The Dolan Company
(Exact name of registrant as specified in its charter)

Delaware	**43-2004527**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

222 South Ninth Street, Suite 2300,
Minneapolis, Minnesota 55402
(Address, including zip code, of registrant s principal executive offices)

(612) 317-9420
(Registrant s telephone number, including area code)

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

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

On November 1, 2010, there were 30,510,541 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The Dolan Company
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,572	$ 2,894
Accounts receivable, including unbilled services (net of allowances for doubtful accounts of $1,551 and $1,113 as of September 30, 2010 and December 31, 2009, respectively)	69,616	57,205
Unbilled pass-through costs	8,219	13,087
Prepaid expenses and other current assets	4,304	2,948
Total current assets	91,711	76,134
Investments	14,983	15,479
Property and equipment, net	15,914	15,457
Finite-life intangible assets, net	184,587	193,687
Indefinite-lived intangible assets	221,129	222,580
Other assets	1,901	4,953
Total assets	$ 530,225	$ 528,290
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	$ 19,470	$ 22,005
Accounts payable	12,966	16,030
Accrued pass-through liabilities	23,155	25,929
Accrued compensation	10,565	4,384
Accrued liabilities	4,202	5,371
Due to sellers of acquired businesses	5,000	4,685
Deferred revenue	21,381	18,797
Total current liabilities	96,739	97,201
Long-term debt, less current portion	119,986	137,960
Deferred income taxes	4,469	8,160
Other liabilities	11,221	9,506
Total liabilities	232,415	252,827
Redeemable noncontrolling interest	25,463	26,600
Commitments and contingencies (Note 14)		

Stockholders equity				
Common stock, $0.001 par value; authorized: 70,000,000 shares; outstanding: 30,511,179 and 30,326,437 shares as of September 30, 2010 and December 31, 2009, respectively		30		30
Preferred stock, $0.001 par value; authorized: 5,000,000 shares; designated: 5,000 shares of Series A Junior Participating Preferred Stock; no shares outstanding				
Other comprehensive loss (net of tax)		(1,732)		
Additional paid-in capital		285,597		287,210
Accumulated deficit		(11,548)		(38,377)
Total stockholders equity		272,347		248,863
Total liabilities and stockholders equity	$	530,225	$	528,290

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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The Dolan Company
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues				
Professional Services	$ 56,337	$ 39,996	$ 168,817	$ 126,322
Business Information	22,122	22,348	65,829	66,998
Total revenues	78,459	62,344	234,646	193,320
Operating expenses				
Direct operating: Professional Services	22,790	15,553	68,841	46,693
Direct operating: Business Information	7,229	6,952	21,769	21,827
Selling, general and administrative	26,758	22,910	77,585	66,073
Amortization	3,981	3,924	11,947	13,219
Depreciation	2,413	2,264	7,872	6,738
Total operating expenses	63,171	51,603	188,014	154,550
Equity in earnings of affiliates	1,142	731	3,654	3,461
Operating income	16,430	11,472	50,286	42,231
Non-operating income (expense)				
Interest expense, net of interest income	(1,589)	(1,607)	(4,939)	(5,305)
Non-cash interest income related to interest rate swaps	228	205	893	735
Other income	197	23	197	1,469
Total non-operating expense	(1,164)	(1,379)	(3,849)	(3,101)
Income before income taxes	15,266	10,093	46,437	39,130
Income tax expense	(5,545)	(3,529)	(17,208)	(13,207)
Net income	9,721	6,564	29,229	25,923
Less: Net income attributable to redeemable noncontrolling interest	681	694	2,400	3,200
Net income attributable to The Dolan Company	$ 9,040	$ 5,870	$ 26,829	$ 22,723
Earnings per share basic and diluted:				
Net income attributable to The Dolan Company	$ 0.30	$ 0.20	$ 0.89	$ 0.76
(Increase) decrease in redeemable noncontrolling interest in NDeX	(0.01)	(0.02)	0.03	(0.26)

Net income attributable to The Dolan Company common stockholders	$ 0.29	$ 0.18	$ 0.92	$ 0.50
Weighted average shares outstanding:				
Basic	30,174,798	29,843,444	30,139,681	29,821,661
Diluted	30,316,660	29,932,275	30,296,544	29,908,462

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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The Dolan Company
Unaudited Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Loss	Total
	Shares	Amount				
Balance (deficit) at December 31, 2008	29,955,018	$ 30	$ 291,310	$ (69,190)	$	$ 222,150
Net income attributable to The Dolan Company				30,813		30,813
(Increase) decrease in redeemable noncontrolling interest in NDeX			(9,262)			(9,262)
Net income attributable to The Dolan Company common stockholders						21,551
Issuance of common stock in connection with a purchase of noncontrolling interest in NDeX	248,000		2,600			2,600
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	113,886		2,556			2,556
Issuance of common stock pursuant to the exercise of stock options	9,533		16			16
Other			(10)			(10)
Balance (deficit) at December 31, 2009	30,326,437	$ 30	$ 287,210	$ (38,377)	$	$ 248,863
Net income attributable to The Dolan Company				26,829		26,829
(Increase) decrease in redeemable noncontrolling interest in NDeX			843			843
Net income attributable to The Dolan Company						27,672

common stockholders						
Unrealized loss on interest rate swap, net of tax					(1,732)	(1,732)
Total comprehensive income						25,940
Share-based compensation expense, including issuance of restricted stock (shares are net of forfeitures)	173,314		2,330			2,330
Issuance of common stock pursuant to the exercise of stock options	11,428		20			20
(Increase) in redeemable noncontrolling interest in DiscoverReady			(4,806)			(4,806)
Balance (deficit) at September 30, 2010	30,511,179	$ 30	$ 285,597	$ (11,548)	$ (1,732)	$ 272,347

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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The Dolan Company
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities		
Net income	$ 29,229	$ 25,923
Distributions received from The Detroit Legal News Publishing, LLC	4,900	4,200
Distributions paid to holders of noncontrolling interest	(1,374)	(3,145)
Gain on sale of investment	(197)	
Non-cash operating activities:		
Amortization	11,947	13,219
Depreciation	7,872	6,738
Equity in earnings of affiliates	(3,654)	(3,461)
Deferred income taxes	(463)	166
Stock-based compensation expense	2,330	1,861
Change in value of interest rate swap	(893)	(731)
Amortization of debt issuance costs	244	182
Non-cash fair value adjustment on earnout recorded in connection with acquisition	882	
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable and unbilled pass-through costs	(6,958)	(22,290)
Prepaid expenses and other current assets	(1,271)	239
Other assets	360	(507)
Accounts payable and accrued liabilities	(816)	7,110
Deferred revenue and other liabilities	1,884	2,600
Net cash provided by operating activities	44,022	32,104
Cash flows from investing activities		
Acquisitions and investments	(2,587)	(2,441)
Capital expenditures	(6,011)	(2,584)
Escrow payment received on sale of investment	197	
Other		100
Net cash used in investing activities	(8,401)	(4,925)
Cash flows from financing activities		
Net payments on senior revolving note	(8,000)	
Payments on senior long-term debt	(9,775)	(7,250)
Payments on unsecured notes payable	(10,986)	(1,750)
Proceeds from stock option exercises	20	7
Other	(202)	(2)
Net cash used in financing activities	(28,943)	(8,995)

Net increase in cash and cash equivalents	6,678	18,184
Cash and cash equivalents at beginning of the period	2,894	2,456
Cash and cash equivalents at end of the period	$ 9,572	$ 20,640

See Notes to Unaudited Condensed Consolidated Interim Financial Statements

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Notes to Unaudited Condensed Consolidated Interim Financial Statements

Note 1. Basis of Presentation

Basis of Presentation: The condensed consolidated balance sheet as of December 31, 2009, which has been derived from audited financial statements, and the unaudited condensed consolidated interim financial statements of The Dolan Company (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to the quarterly report on Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to these rules and regulations. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes for the year ended December 31, 2009, included in the Company s annual report on Form 10-K filed on March 8, 2010, with the Securities and Exchange Commission (SEC). Effective May 26, 2010, the Company changed its name from Dolan Media Company to The Dolan Company.

In the opinion of management, these unaudited condensed consolidated interim financial statements reflect all adjustments necessary for a fair presentation of the Company s interim financial results. All such adjustments are of a normal and recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full calendar year.

The accompanying unaudited condensed consolidated interim financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority ownership interests in American Processing Company, LLC d/b/a NDeX (NDeX) and DiscoverReady LLC (DiscoverReady). The Company accounts for the percentage interests in NDeX and DiscoverReady that it does not own as noncontrolling interest.

All significant intercompany accounts and transactions have been eliminated in consolidation.

When the Company refers to Barrett-NDEx in these notes, it means the entities that constitute the mortgage default processing operations serving the Texas, California and Georgia markets which NDeX acquired on September 2, 2008. The term Albertelli sellers refers to James E. Albertelli, P.A., The Albertelli Firm, P.C., Albertelli Title, Inc. and James E. Albertelli, as a group. The term Trott sellers refers to David A. Trott, Ellen Coon, Trustee of the Ellen Coon Living Trust u/a/d 9/9/98, Marcy J. Ford, Trustee of the Marcy Ford Revocable Trust u/a/d 7/12/04, William D. Meagher, Trustee of the William D. Meagher Trust u/a/d 8/24/07, and Jeanne M. Kivi, Trustee of the Jeanne M. Kivi Trust u/a/d 8/24/07, as a group.

Note 2. Basic and Diluted Income Per Share

Basic per share amounts are computed, generally, by dividing net income attributable to The Dolan Company by the weighted-average number of common shares outstanding. The Company has employed the two-class method to calculate earnings per share, as it relates to the redeemable noncontrolling interest in NDeX, based on net income attributable to its common stockholders. At September 30, 2010 and December 31, 2009, there were no shares of preferred stock issued and outstanding. Diluted per share amounts assume the conversion, exercise, or issuance of all potential common stock instruments (see Note 13 for information on stock options) unless their effect is anti-dilutive, thereby reducing the loss per share or increasing the income per share.

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The following table computes basic and diluted net income attributable to The Dolan Company per share (*in thousands, except per share amounts*):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income attributable to The Dolan Company	$ 9,040	$ 5,870	$ 26,829	$ 22,723
(Increase) decrease in redeemable noncontrolling interest in NDeX, net of tax	(251)	(372)	843	(7,665)
Net income attributable to The Dolan Company common stockholders	$ 8,789	$ 5,498	$ 27,672	$ 15,058
Basic:				
Weighted average common shares outstanding	30,504	30,080	30,419	30,023
Weighted average common shares of unvested restricted stock	(329)	(237)	(279)	(201)
Shares used in the computation of basic net income per share	30,175	29,843	30,140	29,822
Net income attributable to The Dolan Company common stockholders per share basic	$ 0.29	$ 0.18	$ 0.92	$ 0.50
Diluted:				
Shares used in the computation of basic net income per share	30,175	29,843	30,140	29,822
Stock options and restricted stock	142	89	157	86
Shares used in the computation of dilutive net income per share	30,317	29,932	30,297	29,908

xxxx xxxx xxxx xxxx xxxx

Net Sales (million USD)	Shipments (thousand tons)	Revenue / ton (USD/ton)

	4Q 2011	4Q 2010	Dif.	4Q 2011	4Q 2010	Dif.	4Q 2011	4Q 2010	Dif.
North America	236.0	170.7	38%	291.0	252.3	15%	811	677	20%
South & Central America	70.8	48.1	47%	75.2	64.8	16%	941	742	27%
Europe & other		9.8			20.1			490	
Total long products	**306.8**	**228.6**	**34%**	**366.3**	**337.1**	**9%**	**838**	**678**	**24%**

Operating cost increased 14%, reflecting a 9% increase in shipments and a 5% increase in operating cost per ton mainly from higher raw material costs, as well as higher labor costs.

EBITDA in the fourth quarter 2011 was USD369.6 million, or 16.8% of net sales, compared with USD237.0 million, or 12.3% of net sales, in the fourth quarter 2010.

Net financial results were a USD68.2 million loss in the fourth quarter 2011, compared with a USD19.3 million gain in the fourth quarter 2010.

During the fourth quarter 2011, Ternium s net interest results totaled a loss of USD28.0 million, compared to a loss of USD8.6 million in the fourth quarter 2010, mainly reflecting higher average interest rates.

Net foreign exchange result was a loss of USD72.0 million in the fourth quarter 2011 compared to a gain of USD23.5 million in the fourth quarter 2010. The fourth quarter 2011 loss was primarily due to the impact of the Mexican Peso s 4.1% depreciation on Ternium s Mexican subsidiary s US dollar denominated debt. This result is non-cash when measured in US dollars and is offset by changes in Ternium s net equity position in the currency translation adjustments line, as the value of Ternium Mexico s US dollar denominated debt is not altered by the Mexican Peso s fluctuation when stated in US dollars in Ternium s consolidated financial statements. Ternium Mexico prepares its financial statements in Mexican Pesos and registers foreign exchange results on its net non-Mexican Peso positions when the Mexican Peso revaluates or devaluates relative to other currencies.

The change in fair value of derivative instruments included in net financial results in the fourth quarter 2011 was a USD23.9 million gain, compared with a USD2.3 million gain in the fourth quarter 2010. The gain in the fourth quarter 2011 was mainly related to certain derivative instruments entered into by Ternium s Argentine subsidiary Siderar to compensate the interest rate charges derived from its Argentine Peso denominated financial debt.

Income tax expense in the fourth quarter 2011 was USD70.2 million, or 34% of income before income tax and non-controlling interest, compared with an income tax expense of USD52.6 million in the same period in 2010, or 34% of income before income tax and non-controlling interest.

Net income attributable to non-controlling interest in the fourth quarter 2011 was USD31.7 million compared to USD25.3 million in the same period in 2010, mainly due to a higher result attributable to non-controlling interest in Ternium Mexico and Ferrasa.

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Analysis of Full Year 2011 Results

Net income attributable to the Company s equity holders in 2011 was USD513.5 million, compared to USD622.1 million in 2010. Including non-controlling interest, net income in 2011 was USD649.9 million, compared to USD779.5 million in 2010. Earnings per ADS were USD2.61 in 2011, compared to USD3.10 in 2010.

Net sales were USD9.2 billion in 2011, 24% higher than net sales in 2010. Shipments of flat and long products were 8.8 million tons in 2011, up 10% compared to shipments in 2010 reflecting higher demand for steel products and Ternium s increased participation in the Colombian steel market. Revenue per ton shipped was USD1,021 in 2011, a 14% increase compared to 2010, mainly as a result of higher prices.

The following table shows Ternium s total consolidated net sales, shipments and revenue per ton for 2011 and 2010:

	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2011	**2010**	**Dif.**	**2011**	**2010**	**Dif.**	**2011**	**2010**	**Dif.**
North America	4,989.1	4,105.6	22%	5,118.6	4,826.3	6%	975	851	15%
South & Central America	3,995.6	3,050.1	31%	3,670.0	3,135.7	17%	1,089	973	12%
Europe & other	25.2	53.9		34.9	92.6		721	582	
Total flat and long products	9,009.9	7,209.5	25%	8,823.6	8,054.6	10%	1,021	895	14%
Other products (1)	147.3	172.5	-15%						
Total net sales	**9,157.2**	**7,382.0**	**24%**						

(1) Primarily includes iron ore, pig iron and pre-engineered metal buildings.

Sales of flat and long products in the North America Region were USD5.0 billion in 2011, an increase of 22% versus 2010 mainly due to higher revenue per ton. Shipments in the region totaled 5.1 million tons in 2011, a 6% increase compared to 2010 reflecting increased demand for steel products and a wider product range. Revenue per ton shipped in the region increased 15% to USD975 in 2011 over 2010, mainly due to higher prices.

Flat and long product sales in the South & Central America Region were USD4.0 billion in 2011, an increase of 31% versus 2010, due to higher shipments and revenue per ton. Shipments in the region totaled 3.7 million tons in 2011, or 17% higher than 2010, mainly due to higher demand for steel products and Ternium s increased participation in the Colombian steel market. Revenue per ton shipped was USD1,089 in 2011, an increase of 12% compared to 2010, mainly due to higher prices.

Sales of other products totaled USD147.3 million in 2011, compared to USD172.5 million in 2010. Shipments of iron ore were lower in 2011 versus 2010 while pig iron shipments increased.

Cost of sales was USD7.1 billion in 2011, an increase of USD1.4 billion, or 25%, compared to 2010. This was due to a USD1.2 billion, or 29%, increase in raw material costs and consumables used, reflecting a 10% increase in sales volumes and higher raw material and purchased slab costs, and a USD179.5 million, or 13%, increase in other costs, including an USD80.1 million increase in labor and a USD48.5 million increase in services expenses (reflecting higher activity levels and labor costs) and a USD27.7 million increase in depreciation of property, plant and equipment.

Selling, General & Administrative (SG&A) expenses in 2011 were USD786.2 million, or 9% of net sales, compared with USD665.3 million, or 9% of net sales, in 2010. The USD120.9 million increase in SG&A was mainly due to a USD21.5 million increase in freight expenses and a USD23.2 million increase in taxes related to increased activity levels and a USD12.9 million increase in labor costs. In addition, SG&A increased USD52.0 million year-over-year as a result of the consolidation of Ferrasa from August 25, 2010.

Operating income in 2011 was USD1.3 billion, or 14% of net sales, compared to operating income of USD1.1 billion, or 14% of net sales, in 2010. The USD211.3 million year-over-year increase reflects improvements mainly in the flat and long steel product segments.

	Flat steel products		Long steel products		Other		Total	
USD million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Net Sales	7,792.0	6,376.4	1,217.9	833.1	147.3	172.5	9,157.2	7,382.0
Cost of sales	(6,138.7)	(4,932.6)	(864.5)	(634.0)	(91.0)	(98.7)	(7,094.3)	(5,665.3)
SG&A expenses	(673.4)	(585.7)	(96.8)	(62.4)	(16.0)	(17.1)	(786.2)	(665.3)
Other operating (expenses) income, net	(14.9)	2.9	3.2	(0.5)	0.1	0.1	(11.6)	2.5
Operating income	**965.1**	**861.0**	**259.8**	**136.3**	**40.4**	**56.7**	**1,265.2**	**1,053.9**

Flat steel products segment

The flat steel products segment operating income was USD965.1 million in 2011, an increase of USD104.1 million compared to 2010, reflecting higher sales partially offset by higher operating cost. Sales of flat products in 2011 increased 22% compared to 2010, reflecting an 8% increase in shipments, mainly due to higher demand for steel products and Ternium s increased participation in the Colombian steel market, and a 13% increase in revenue per ton shipped, mainly due to higher steel prices in Ternium s main steel markets.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2011	**2010**	**Dif.**	**2011**	**2010**	**Dif.**	**2011**	**2010**	**Dif.**
North America	4,108.8	3,464.9	19%	4,014.7	3,852.1	4%	1,023	899	14%
South & Central America	3,658.1	2,886.2	27%	3,285.7	2,877.0	14%	1,113	1,003	11%
Europe & other	25.2	25.3		34.9	42.6		721	594	
Total flat products	**7,792.0**	**6,376.4**	**22%**	**7,335.3**	**6,771.7**	**8%**	**1,062**	**942**	**13%**

Operating cost increased 23%, reflecting an 8% increase in shipments and a 14% increase in operating cost per ton mainly from higher raw material and purchased slab costs, as well as higher labor costs, services expenses and depreciation of property, plant and equipment.

Long steel products segment

The long steel products segment operating income was USD259.8 million in 2011, an increase of USD123.5 million compared to 2010, reflecting higher sales and operating costs. Sales of long products in 2011 increased 46% compared to 2010, reflecting a 16% increase in shipments mainly due to the consolidation of Ferrasa from August 25, 2010 and a wider product range, and a 26% increase in revenue per ton shipped, mainly as a result of higher prices.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue / ton (USD/ton)		
	2011	**2010**	**Dif.**	**2011**	**2010**	**Dif.**	**2011**	**2010**	**Dif.**
North America	880.3	640.7	37%	1,104.0	974.2	13%	797	658	21%
South & Central America	337.5	163.9	106%	384.3	258.7	49%	878	634	39%
Europe & other	0.0	28.6		0.0	50.0		1,507	571	
Total long products	**1,217.9**	**833.1**	**46%**	**1,488.3**	**1,282.9**	**16%**	**818**	**649**	**26%**

Operating cost increased 38%, reflecting a 16% increase in shipments and a 19% increase in operating cost per ton mainly from higher raw material costs, as well as higher labor costs, services expenses and depreciation of property, plant and equipment.

EBITDA in 2011 was USD1.7 billion, or 18.2% of net sales, compared to USD1.4 billion, or 19.5% of net sales, in 2010.

Net financial results were a USD300.6 million loss in 2011, compared with a USD130.5 million gain in 2010.

In 2011, Ternium s net interest results totaled a USD72.0 million loss, higher than the USD45.6 million loss in 2010, mainly reflecting higher net indebtedness and average interest rates.

Net foreign exchange result was a loss of USD236.4 million in 2011 compared to a gain of USD123.7 million in 2010. The loss in 2011 was primarily due to the impact of the Mexican Peso s 13.1% depreciation on Ternium s Mexican subsidiary s US dollar denominated debt. This result is non-cash when measured in US dollars and is offset by changes in Ternium s net equity position in the currency translation adjustments line, as the value of Ternium Mexico s US dollar denominated debt is not altered by the Mexican Peso s fluctuation when stated in US dollars in Ternium s consolidated financial statements. Ternium Mexico prepares its financial statements in Mexican Pesos and registers foreign exchange results on its net non-Mexican Pesos positions when the Mexican Peso revaluates or devaluates relative to other currencies.

Interest income on the Sidor financial asset was USD11.4 million in 2011, compared to USD61.0 million in 2010. These results are attributable to the Sidor financial asset in connection with the transfer of Sidor shares on May 7, 2009. The decrease reflects the reduction in the notional amount of the Sidor financial asset over time.

Income tax expense in 2011 was USD316.0 million, or 33% of income before income tax and non-controlling interest, compared with an income tax expense of USD406.7 million in 2010, or 34% of income before income tax and non-controlling interest.

Net income attributable to non-controlling interest in 2011 was USD136.4 million, compared to USD157.4 million in 2010, mainly due to a lower result attributable to non-controlling interest in Siderar and Ternium Mexico.

Cash Flow and Liquidity

Net cash provided by operating activities in the year 2011 was USD647.1 million. Working capital increased USD397.8 million in the year 2011 as a result of a USD413.3 million increase in inventory and an aggregate USD129.0 million increase in trade and other receivables, partially offset by an aggregate USD113.5 million increase in accounts payable and other liabilities and a USD31.0 million increase in tax liabilities. Inventories increased in the year 2011, reflecting higher costs of finished goods, goods in process and raw materials and a slightly higher volume.

Capital expenditures in the year 2011 were USD601.3 million. Ternium s ongoing projects included, among others, in Mexico the construction of a greenfield facility for the manufacture of cold rolled and galvanized steel products, the expansion and enhancement of the service and distribution center network, the enhancement of defuse emission control equipment at a steel shop and the development of mining activities, and, in Argentina, repairs and enhancements at the coking area, new equipment and enhancements in the steel shop, the expansion and enhancements of the hot strip mill, and the expansion of a galvanizing line and a service center. In addition, Ternium carried out the revamping and expansion of a galvanizing mill in Guatemala and the installation of defuse emission control equipment at Ferrasa s steel shop in Colombia.

In 2011, Ternium had free cash flow of USD45.8 million[6]. Ternium s net proceeds from borrowings in the year 2011 were USD34.0 million, related to net proceeds from short-term debt partially offset by the scheduled repayments of Ternium Mexico s outstanding debt. Proceeds from the Sidor financial asset were USD133.1 million. Repurchases of Ternium s own shares totaled USD150.0 million, related to the repurchase from Usiminas of 41,666,666 shares at a price per share of USD3.60 (equivalent to USD36 per ADS). In addition, net dividends paid to shareholders were USD147.2 million and net dividends paid to minority shareholders were USD140.6 million. As of December 31, 2011, Ternium s net cash position was USD0.5[7] billion. On January 16, 2012, Ternium Investments and Siderar paid BRL3.1 billion (approximately USD1.6 billion) and BRL1.1 billion (approximately USD0.6 billion), respectively, upon closing of certain share purchase agreements to acquire 114.7 million ordinary shares of Usiminas. The payments were financed with cash on hand and, in the case of Ternium Investments, a USD700 million syndicated term loan.

6 Free cash flow in the year 2011 equals net cash provided by operating activities of USD647.1 million less capital expenditures of USD601.3 million.

7 Net cash position at December 31, 2011 equals cash and equivalents plus other investments of USD2.5 billion less borrowings of USD2.0 billion.

Net cash provided by operating activities in the fourth quarter 2011 was USD444.9 million. Working capital decreased USD174.5 million in the fourth quarter 2011 as a result of a USD107.7 million decrease in inventory, an aggregate USD107.1 million decrease in trade and other receivables, partially offset by an aggregate USD44.2 million decrease in accounts payable and other liabilities. Inventories decreased in the fourth quarter 2011 mainly reflecting lower volume. Capital expenditures in the fourth quarter 2011 were USD156.4 million. Ternium had free cash flow of USD288.6 million[8] in the period.

Forward Looking Statements

Some of the statements contained in this press release are forward-looking statements . Forward-looking statements are based on management s current views and assumptions and involve known and unknown risks that could cause actual results, performance or events to differ materially from those expressed or implied by those statements. These risks include but are not limited to risks arising from uncertainties as to gross domestic product, related market demand, global production capacity, tariffs, cyclicality in the industries that purchase steel products and other factors beyond Ternium s control.

About Ternium

Ternium is a leading steel company in Latin America, manufacturing and processing a wide range of flat and long steel products for customers active in the construction, home appliances, capital goods, container, food, energy and automotive industries. With its principal operations in Mexico and Argentina, Ternium serves markets in the Americas through its integrated manufacturing system and extensive distribution network. The Company has an annual production capacity of approximately ten million tons of finished steel products. More information about Ternium is available at www.ternium.com.

8 Free cash flow in the fourth quarter 2011 equals net cash provided by operating activities of USD444.9 million less capital expenditures of USD156.4 million.

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Consolidated income statement

USD million	September 30, 4Q 2011	September 30, 4Q 2010	September 30, 2011	September 30, 2010
Net sales	2,197.6	1,927.5	9,157.2	7,382.0
Cost of sales	(1,739.6)	(1,604.5)	(7,094.3)	(5,665.3)
Gross profit	458.0	323.1	2,062.9	1,716.8
Selling, general and administrative expenses	(183.5)	(182.7)	(786.2)	(665.3)
Other operating (expenses) income, net	(1.0)	(6.7)	(11.6)	2.5
Operating income	273.6	133.7	1,265.2	1,053.9
Interest expense	(32.0)	(17.7)	(100.7)	(73.0)
Interest income	4.0	9.2	28.7	27.3
Interest income Sidor financial asset	2.1	4.3	11.4	61.0
Other financial (expenses) income, net	(42.4)	23.5	(240.0)	115.1
Equity in earnings of associated companies	1.2	2.5	1.3	1.7
Income before income tax expense	206.6	155.5	965.9	1,186.1
Income tax expense	(70.2)	(52.6)	(316.0)	(406.7)
Profit for the period	**136.4**	**102.8**	**649.9**	**779.5**
Attributable to:				
Equity holders of the Company	**104.7**	**77.5**	**513.5**	**622.1**
Non-controlling interest	31.7	25.3	136.4	157.4
	136.4	102.8	649.9	779.5

Consolidated balance sheet

USD million	September 30, December 31, 2011	September 30, December 31, 2010
Property, plant and equipment, net	4,032.7	4,262.9
Intangible assets, net	986.1	1,129.3
Investments in associated companies	9.3	8.2
Sidor financial asset		74.5
Other investments	14.1	35.6
Deferred tax assets	8.1	12.4
Receivables, net	124.2	56.5
Trade receivables, net	7.5	
Total non-current assets	5,182.0	5,579.4
Receivables	105.6	94.6
Derivative financial instruments	0.1	0.2
Inventories, net	2,137.0	1,953.4
Trade receivables, net	735.0	663.5
Sidor financial asset	136.3	183.4
Other investments	281.7	848.4
Cash and cash equivalents	2,158.6	1,779.4
Total current assets	5,554.2	5,522.9
Non-current assets classified as held for sale	10.4	10.0
Total assets	**10,746.6**	**11,112.3**
Capital and reserves attributable to the company s equity holders	5,756.4	5,880.7
Non-controlling interest	1,084.8	1,135.4
Total Equity	**6,841.2**	**7,016.1**
Provisions	15.3	16.1
Deferred income tax	749.0	877.7
Other liabilities	200.8	201.3
Trade payables	21.1	
Derivative financial instruments		18.8
Borrowings	948.5	1,426.6
Total non-current liabilities	1,934.8	2,540.6
Current tax liabilities	106.6	294.9
Other liabilities	114.8	123.6
Trade payables	677.7	588.1
Derivative financial instruments	29.9	36.0
Borrowings	1,041.5	513.1
Total current liabilities	1,970.6	1,555.6
Total liabilities	3,905.4	4,096.2
Total equity and liabilities	**10,746.6**	**11,112.3**

Consolidated cash flow statement

USD million	September 30, 4Q 2011	September 30, 4Q 2010	September 30, 2011	September 30, 2010
Profit for the period	136.4	102.8	649.9	779.5
Adjustments for:				
Depreciation and amortization	96.0	103.3	405.8	383.3
Equity in earnings of associated companies	(1.2)	(2.5)	(1.3)	(1.7)
Changes in provisions	1.9	1.3	29.9	5.5
Net foreign exchange results and others	24.0	(16.2)	184.8	(77.6)
Interest accruals less payments	24.9	8.3	43.0	(0.1)
Interest income Sidor financial asset	(2.1)	(4.3)	(11.4)	(61.0)
Income tax accruals less payments	(9.4)	(4.3)	(255.9)	226.8
Changes in working capital	174.5	37.0	(397.8)	(448.0)
Net cash provided by operating activities	**444.9**	**225.4**	**647.1**	**806.8**
Capital expenditures	(156.4)	(130.1)	(601.3)	(350.1)
Proceeds from the sale of property, plant & equipment	0.3	0.5	1.7	1.7
Acquisition of business				
Purchase consideration				(75.0)
Cash acquired				6.6
Dividends received from associated companies		0.3		0.3
Contributions in associated companies		(0.3)		(0.3)
Decrease (Increase) in Other Investments	395.2	(565.4)	588.2	(820.7)
Proceeds from Sidor financial asset			133.1	767.4
Net cash provided by (used in) investing activities	**239.1**	**(695.1)**	**121.7**	**(470.1)**
Dividends paid in cash to company s shareholders			(147.2)	(100.2)
Dividends paid in cash by subsidiary companies			(140.6)	(38.3)
Contributions from non-controlling shareholders in consolidated subsidiaries		4.9	39.2	4.9
Repurchase of treasury shares			(150.0)	
Proceeds from borrowings	54.0	17.0	666.2	35.4
Repayments of borrowings	(60.1)	(0.4)	(632.1)	(555.9)
Net cash (used in) provided by financing activities	**(6.1)**	**21.4**	**(364.6)**	**(654.1)**
Increase (Decrease) in cash and cash equivalents	**678.0**	**(448.2)**	**404.2**	**(317.4)**

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Shipments

Thousand tons	September 30, 4Q 2011	September 30, 4Q 2010	September 30, 3Q 2011	September 30, 2011	September 30, 2010
North America	982.1	979.6	1,038.4	4,014.7	3,852.1
South & Central America	797.2	773.7	887.7	3,285.7	2,877.0
Europe & other	8.3	16.1	6.6	34.9	42.6
Total flat products	1,787.6	1,769.3	1,932.7	7,335.3	6,771.7
North America	291.0	252.3	300.1	1,104.0	974.2
South & Central America	75.2	64.8	92.6	384.3	258.7
Europe & other		20.1		0.0	50.0
Total long products	366.3	337.1	392.7	1,488.3	1,282.9
Total flat and long products	**2,153.9**	**2,106.4**	**2,325.4**	**8,823.6**	**8,054.6**

Revenue / ton

USD/ton	4Q 2011	4Q 2010	3Q 2011	2011	2010
North America	969	878	1,044	1,023	899
South & Central America	1,129	1,032	1,138	1,113	1,003
Europe & other	646	619	646	721	594
Total flat products	1,039	943	1,086	1,062	942
North America	811	677	808	797	658
South & Central America	941	742	959	878	634
Europe & other		490		1,507	571
Total long products	838	678	844	818	649
Total flat and long products	**1,005**	**900**	**1,045**	**1,021**	**895**

Net Sales

USD million	4Q 2011	4Q 2010	3Q 2011	2011	2010
North America	951.7	859.8	1,084.1	4,108.8	3,464.9
South & Central America	899.8	798.3	1,010.1	3,658.1	2,886.2
Europe & other	5.4	9.9	4.3	25.2	25.3
Total flat products	1,856.8	1,668.1	2,098.5	7,792.0	6,376.4
North America	236.0	170.7	242.5	880.3	640.7
South & Central America	70.8	48.1	88.7	337.5	163.9
Europe & other		9.8		0.0	28.6
Total long products	306.8	228.6	331.3	1,217.9	833.1
Total flat and long products	2,163.6	1,896.7	2,429.8	9,009.9	7,209.5
Other products (1)	34.0	30.9	37.3	147.3	172.5
Total net sales	**2,197.6**	**1,927.5**	**2,467.1**	**9,157.2**	**7,382.0**

(1) Primarily includes iron ore, pig iron and pre-engineered metal buildings.

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