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Schuff International

P.E. 12/31/03

SCHUFF INTERNATIONAL, INC.
2003 ANNUAL REPORT

Dear Fellow Stockholders:

2003 and early 2004 was a difficult period for the commercial construction industry, the commercial steel fabrication business, and joist manufacturing. All of Schuff International's businesses were adversely affected by broader economic conditions and higher steel costs due to increased foreign demand for scrap steel. These factors, as well as extreme pricing pressure from local and regional competitors, resulted in longer selling cycles and reduced demand for our products and services. In addition, in an attempt to maximize capacity utilization and cover fixed operating costs, we completed projects at historically low gross margins.

The net result was Schuff International's posting a record consolidated loss before cumulative effect of a change in accounting principle of $6.0 million, or $(0.85) per share, for 2003.

Our revenues and gross margins were down substantially over 2002. Conditions in Commercial-Southeast and Commercial- Pacific segments were especially difficult, primarily because of a significant regional economic downturn and intense competition for the projects that became available to bid in the Southeast, and primarily because of the preponderance of bid work versus negotiated work in 2003 versus 2002 as well as increased competition from Los Angeles-based contractors. These outside fabricators created downward pressure on prices in the San Diego market during 2003.

That said, we're cautiously optimistic that the worst is behind us. Schuff International posted a net profit of $0.05 per share on increased revenues in the first quarter of 2004, a significant improvement over the same period in 2003. We're seeing increased activity in the Southwest and Pacific segments, although continued weakness in the Southeast could erase some of these gains. In addition, the price of steel — though still historically high — has stabilized, largely as a result of weaker demand for scrap steel in China.

Finally, we're disappointed by the failure in July of our tender offer for all of the outstanding shares of common stock of Schuff International. In light of the excessive costs associated with continuing as a public company, the thin trading market, and the other factors we described in the materials sent to all shareholders, we believed that going private was a viable option for the company and its shareholders and that the price offered to the shareholders was fair. Although the tender was not successful, we remain committed to exploring other options to reduce the costs associated with being a public company. We will communicate these efforts to you via press releases and public filings with the Securities and Exchange Commission.

We thank you for your continued support.

Scott A. Schuff
President and Chief Executive Officer
September 2004

Schuff International

BOARD OF DIRECTORS

David A. Schuff
Chairman of the
Board of Directors

Scott A. Schuff
President,
Chief Executive Officer
And Director

Michael R. Hill,
Vice President,
Chief Financial Officer
And Director

Edward M. Carson
Director

Honorable Dennis DeConcini
Director

H. Wilson Sundt
Director

CORPORATE HEADQUARTERS

1841 W. Buchanan Street
Phoenix, Arizona 85007

INQUIRIES:

Shareholders, security analysts, investors and others may contact the company at the above address or as indicated below:
In the United States:
Phone: 602-252-7787
E-mail:
pam.hudson@schuff.com

FORM 10-K AVAILABLE

The Annual Report on Form 10-K filed with the Securities and Exchange Commission is available without charge upon request.

STOCK TRANSFER AGENT

Computershare Trust
Company, Inc.
350 Indiana Street
Suite 800
Golden, Colorado 80401
303-262-0600
303-262-0603 Fax

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Suite 1200
2901 North Central Avenue
Phoenix, Arizona
85012-2799

CORPORATE COUNSEL

Snell & Wilmer LLP
One Arizona Center
Phoenix, Arizona 85004

ANNUAL MEETING

The 2004 Annual Meeting of Shareholders will be held:

October 12, 2004
10:00 a.m., local time
at the office of
Schuff International, Inc.
1841 W. Buchanan Street
Phoenix, Arizona 85007

STOCK TRADING INFORMATION

Schuff International, Inc. common stock is traded on the American Stock Exchange. The ticker symbol is SHF.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

Commission file number 000-22715

Schuff International, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE *(State or other jurisdiction of incorporation or organization)*	**86-1033353** *(I.R.S. Employer Identification No.)*
1841 West Buchanan Street **Phoenix, Arizona** *(Address of principal executive offices)*	**85007** *(Zip Code)*

Registrant's telephone number, including area code:
(602) 252-7787

Securities registered pursuant to Section 12(b) of the Act:
None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 Par Value Per Share

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 ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☑

At March 17, 2004, the aggregate market value of voting stock held by non-affiliates of the Registrant was $3,522,783 based on the closing market price of the Common Stock on such date, as reported by the American Stock Exchange.

The number of shares of the Registrant's Common Stock outstanding at March 17, 2004 was 7,063,122.

TABLE OF CONTENTS

This Annual Report on Form 10-K contains forward-looking statements reflecting management's beliefs about certain aspects of our future. These statements are based on current information that we have assessed but which by its nature is dynamic and subject to rapid and even abrupt changes. Forward-looking statements include statements regarding future operating results, liquidity, capital expenditures, numbers of personnel, strategic relationships with third parties, and strategy. The forward-looking statements are generally accompanied by words such as "plan," "estimate," "expect," "believe," "should," "would," "could," "anticipate" or other words that convey uncertainty of future events or outcomes. Our actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with our business. These risks are described throughout this Annual Report on Form 10-K, which you should read carefully. Please review the section under the heading "Factors That May Affect Future Results and Financial Condition" for an extended discussion of the risks confronting our business. The forward-looking statements in this Annual Report on Form 10-K should be considered in the context of these risk factors.

PART I

Item 1 *Business*

General

Schuff International, Inc. is a fully integrated fabricator and erector of structural steel and heavy steel plate. We fabricate and erect structural steel for commercial and industrial construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. We also manufacture short- and long-span joists, trusses and girders as well as specialize in the fabrication and erection of large-diameter water pipe, water storage tanks, pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products.

We seek to differentiate our operations by offering complete, turnkey steel construction services featuring design-build consultation, engineering, detailing, shop fabrication and field erection. By offering an integrated package of steel construction services from a single source, we believe we are able to respond more efficiently to the design and construction challenges associated with large, complex, "fast track" construction projects.

We currently operate primarily in the southwestern and southeastern United States with a concentration in Arizona, Nevada, Texas, Florida, Georgia, southern California and Colorado.

We offer our integrated steel construction services primarily to general contractors and engineering firms — including, among others, Hunt Construction, Fluor Daniel, Inc., Bechtel Group Inc. and Perini Corporation — that focus on a wide variety of projects, including hotels and casinos, office complexes, hospitals, manufacturing plants, shopping malls and centers, sports stadiums, power plants, restaurants, convention facilities, entertainment complexes, airports, schools, churches and warehouses.

In 2001, we adopted a holding company form of organizational structure through a reorganization that provides us with a framework that generally allows for greater administrative and operational flexibility. As a result of the reorganization, Schuff Steel Company became a wholly-owned subsidiary of Schuff International, Inc., with all of Schuff Steel Company's outstanding common stock converted, on a share for share basis, into common stock of Schuff International, Inc.

We operate our business in the following subsidiaries:

- Schuff Steel Company ("Schuff Steel") was formed in 1976 and has facilities in Arizona.
- Addison Steel, Inc. ("Addison") was acquired in June 1998 and has facilities in Georgia and Florida.
- Quincy Joist Company (Quincy) was acquired in June 1998 and has facilities in Florida and Arizona.
- Six Industries, Inc. ("Six") was acquired in August 1998 and has a facility in Texas.

- Bannister Steel, Inc. ("Bannister") was acquired in October 1998 and has a facility in California.
- On-Time Steel Management, Inc. ("OTSM-Southwest") was formed in August 2001 and focuses its business in Arizona.
- On-Time Steel Management-Northwest, L.L.C. ("OTSM-Northwest") was formed in July 2002 and focuses its business in Washington.
- On-Time Steel Management-Colorado, L.L.C. ("OTSM-Colorado") was formed in July 2002 and focuses its business in Colorado.
- On-Time Steel Management Holding, Inc. was formed in July 2002 and is the holding company for OTSM-Southwest, OTSM-Northwest and OTSM-Colorado.

In July 2003, we determined that it was in our best interest to close the OTSM-Northwest subsidiary due to the weak construction market in the Seattle area. We are currently in the process of completing existing projects awarded to OTSM-Northwest and expect all activity to be completed by mid-2004.

Business Operations

The primary services we provide are sales and estimating, early-stage design-build consultation, engineering and detailing, project management, safety and quality assurance, shop fabrication, and field erection. Following is a description of these primary services:

Sales and Estimating. Sales managers lead our domestic sales and marketing efforts. Each sales manager is responsible primarily for our estimating, sales, and marketing efforts in defined geographic areas. In addition, we employ full-time project estimators and chief estimators. Our sales representatives maintain relationships with general contractors, architects, engineers, and other potential sources of business to determine potential new projects under consideration. We generate future project reports to track the weekly progress of new opportunities. Our sales efforts are further supported by most of our executive officers and engineering personnel, who have substantial experience in the design, fabrication, and erection of structural steel and heavy steel plate.

We compete for new project opportunities through our relationships and interaction with our active and prospective customer base, which provides us with valuable current market information and sales opportunities. In addition, we are contacted by governmental agencies in connection with public construction projects, and by large private-sector project owners and general contractors and engineering firms in connection with new building projects such as plants, warehouse and distribution centers, and other industrial and commercial facilities.

Upon selection of projects to bid or price, our estimating division reviews and prepares projected costs of shop, field, detail drawing preparation and crane hours, steel and other raw materials, and other costs. On bid projects, a formal bid is prepared detailing the specific services and materials we plan to provide, payment terms and project completion timelines. Upon acceptance, our bid proposal is finalized in a definitive contract.

Design-Build Consultation. During the design phase of a project, our registered structural engineers review preliminary and completed steel designs and make recommendations regarding types of connections, spans, possible panelization of areas, savings on fabrication techniques, and methods of erection. An integral part of this design phase is preparing a guaranteed maximum price as well as budget pricing as required.

Engineering and Detailing. We maintain significant in-house structural engineering and detailing capabilities that enable us to implement and coordinate with our shop and field personnel changes to building and structural designs sought by project owners or general contractors, and to help influence critical determinations as to the most cost-effective systems, designs, connections, and erection procedures for a particular project. Our detailers prepare detail shop drawings of the dimensions, positions, locations, and connections, and the fabrication and erection sequences, of each piece of steel utilized in a project, and continually update these drawings to accommodate design and other changes. We have automated detailing systems that interact electronically with our numerically controlled fabrication equipment and produce updated detail drawings electronically, which can be delivered to our domestic and foreign field locations. Our detailing division initially prepares advance materials bills by size and length of each steel piece within pre-defined areas or sequences of erection for each project. Detailers coordinate directly with customers and our fabrication and erection teams to determine and plan the order of fabrication and erection of a project and associated personnel and equipment requirements.

Project Management. All contracts awarded to us are assigned a project number, which is used to track each steel component and man-hour associated with the project through the entire construction process. All project drawings, specifications and completion schedules on a project are reviewed by our senior management team, and all projects are assigned to one or more project managers, who assume primary responsibility for all aspects of the project. Often a project manager assigned to a given project will have significant experience in similar projects. A project manager generally will be responsible for one to five projects in various stages of completion at any given time, depending on the scope, complexity, and geographic location of such projects. Each project is divided into critical sequences of steel groups that follow the anticipated fabrication or erection path. Each sequence follows a timeline, the status of which is continually monitored. Project managers coordinate and manage design changes or other changes in scheduled completion deadlines in an effort to minimize overall project delays. We provide production bonuses to our project managers based on, among other factors, the achievement of lower costs on a project than the estimated costs used to formulate the initial bid or prices of subsequent change orders, and the ability to minimize costs or cost overruns on particularly complex projects or projects that exceed initial cost estimates.

We believe that a key factor in our success has been our ability to provide, through our in-house personnel, valuable input and assistance to general contractors, engineering firms, and other customers with respect to overall project design of fabrication and erection sequences and other critical project decisions. This often results in overall project cost savings and efficiencies and helps to solidify key customer relationships. In addition to our centralized project management, we also use a high percentage of skilled erection employees local to projects and utilize advanced scheduling systems to enhance our ability to provide project management services to customers complementary to our core engineering, detail drawing, shop fabrication, and field erection services.

Safety and Quality Assurance. We have adopted important safety policies that are administered and enforced by our top management. We consider workplace accident prevention to be of primary importance in all phases of our operations and provide continual training on safety procedures and techniques to all of our shop and field personnel.

We use advanced welding and fabrication technologies, and all of our products are fabricated in accordance with applicable industry and specific customer standards and specifications. We have achieved a level three certification by the American Institute of Steel Construction (AISC) with respect to our fabrication operations, the highest level of certification available from AISC. In addition, our welding employees are certified in accordance with the American Society of Mechanical Engineers (ASME) Section IX, Non-Destructive Examination Inspector Certification to Society Non-Destructive Testing TC-IA Standards. We have developed project-specific and company-wide quality assurance and quality control programs, and utilize sophisticated x-ray and ultra-sonic systems to inspect weld seams. Substantially all joist manufacturing projects require companies to be members of the Steel Joist Institute (SJI). We are one of only 19 companies in North America that belong to the SJI.

Shop Fabrication. Our fabrication services consist of the procurement from steel producers of raw steel shapes in different sizes and lengths. These shapes vary in cross-section from I-beams to angle, channel, tube, pipe, and plate. Upon delivery of these steel shapes, and prior to fabrication, we prepare load lists that identify the sequence and date that each individual piece of steel is required on a project, a procedure that reduces the handling of and the need to store materials in the field. Upon completion of detail shop drawings, our fabrication shop cuts the raw steel pieces to length, drills and punches holes through the use of numerically controlled beam lines, and completes coping and beveling with its numerically controlled machinery and automated burning equipment. We then fabricate fittings and complete welding and inspection of each finished structural piece. We utilize advanced technologies to inspect weld seams, which significantly reduces costs, fabrication hours, and the likelihood of structural defects. After the completion of processing to customer specifications, finished pieces are loaded for shipment to the construction site, often pursuant to just-in-time delivery schedules.

We also manufacture steel joists and girders in lengths ranging from five to 300 feet with a highly efficient and computerized process. The steel joist system is one of the most economical roof systems for most buildings, including office buildings, schools, churches, shopping centers and warehouses.

Field Erection. The erection process typically consists of pre-assembly of steel component parts at the project site, the lifting of components by crane to the appropriate location at the site and the final assembly of major components to form the steel backbone of the project. Our Schuff Steel subsidiary employs local union erection personnel while our Addison, Bannister and Six subsidiaries offer erection capabilities through subcontractors. Either our field erection crews or our subcontractor's field erection crews erect fabricated steel components in accordance with erection drawings prepared and updated by our detailers. Experienced field supervisors manage the erection process for each project.

Contracting Methods and Performance Bonding

Our projects are awarded through a competitive bid process or are obtained through negotiation, in either case generally using one of three types of contract pricing approaches: fixed price, cost-plus pricing or unit cost pricing. Under the fixed price approach, we agree to a price fixed in the contract, subject to adjustment only for change orders approved by the customer, which permits us to retain any cost savings but obligates us to absorb cost overruns. Historically, the majority of our contracts have been fixed-price arrangements. Under the cost-plus arrangement, we receive a specified fee in excess of our direct labor and material cost, up to a maximum amount, an arrangement that protects us against cost overruns and sometimes benefits us directly from cost savings. Under unit cost pricing, we receive a specified fee based on pounds or tons of fabricated steel shipped. Such fee includes all material, labor, overhead and profit mark-ups to prepare the steel to the customer's requirements. Steel fabricated and shipped in excess of quantities quoted is billed to the customer at the original unit cost price per pound or ton.

While customers may consider a number of factors — including availability, capability, reputation, and safety record — we believe price and the ability to meet customer-imposed project schedules are the principal factors on which we obtain contracts. Generally, our contracts and projects vary in length from one to 12 months, depending on the size and complexity of the project, project owner demands, and other factors.

Our contract arrangements with customers sometimes require us to provide payment and performance bonds to partially secure our obligations under our contracts. Bonding requirements typically arise in connection with public works projects and sometimes with respect to certain private contracts. Our payment and performance bonds are obtained through surety companies and typically cover the entire project price. We believe that our bonding capacity provides a competitive advantage in some cases due to our ability to obtain large bonds and to negotiate more favorable pricing of bonds.

Overview of Industry

Companies engaged in the steel fabrication and erection industry prepare detailed shop drawings, fabricate and erect structural steel and steel plate weldments, and perform related engineering services for the construction of various facilities. The primary customers for these services include private developers, general contractors, engineering firms and governmental agencies involved in a variety of large-scale construction projects. Historically, these customers have relied on multiple subcontractors to perform various services to complete a single project, primarily because few companies in this industry offer fully integrated design-build, engineering, detailing, fabrication and erection services. Schuff Steel, one of our subsidiaries, is one of the few fully integrated companies in the industry, although our Addison, Bannister and Six subsidiaries offer erection capabilities through subcontractors.

Our Quincy subsidiary manufactures short- and long-span joists and girders. Customers include steel fabricators and contractors throughout the U.S. as well as subsidiaries of Schuff International.

Our On-Time Steel Management subsidiaries bid and contract for work, but subcontract all of their detailing, fabrication and erection labor. We believe that the On-Time model is ideal for smaller, more traditional steel construction projects that do not require complex design-build work.

We believe that there is an increasing trend in the construction industry toward complex, fast-track, design-build projects. This trend is largely driven by the desire of project owners to more quickly secure the benefits of revenue-producing projects, such as casinos, office high-rises and stadiums. These projects require that all phases of construction be accomplished in accordance with compressed time schedules that involve Schuff International at early stages of the project. Further, because many construction activities depend on the progress of steel fabrication and erection, timely completion of these phases is critical. These projects also are characterized by numerous design changes requiring that all construction participants coordinate their efforts in order to respond quickly and efficiently in implementing these changes. These trends have created a demand for fully integrated fabrication and erection contractors that can (i) avoid the coordination difficulties inherent in the use of multiple subcontractors; and (ii) implement rapid and multiple design changes in a coordinated and timely manner, preventing project delays and reducing costs to the general contractor or owner. We believe that we have gained a reputation in the industry as a reliable, fully integrated provider of design-build, engineering, detailing, fabrication and erection services with the ability to complete large, complex projects on a timely, cost-efficient basis.

At the same time, we believe we are well positioned to complete smaller, less-complex projects throughout the U.S. Sunbelt. The vast majority of projects that come up for bid are smaller commercial projects between $200,000 and $5.0 million. We believe that our technological leadership in the industry, among other factors, has enabled us to realize efficiencies that make us more competitive in this higher-margin, faster-turnaround segment of the industry. We believe that our On-Time Steel Management subsidiaries, with their "procure-and-subcontract" model, are especially well positioned to compete in this segment of the industry.

We also believe that the steel fabrication and erection industry is highly fragmented and many of our competitors are small businesses operating in local or regional markets. Given the trend toward the use of fully integrated contractors and the large number of smaller companies engaged in this industry, we believe the industry may experience consolidation.

In addition, we believe that the slowdown in commercial and industrial construction that began in the second half of 2001 and continued throughout 2002 and 2003 has already begun to weaken several of our smaller, less financially secure competitors in key markets. We believe that a number of these competitors are in "survival" mode, which resulted in our facing extreme pricing pressure in both our fabrication and joist businesses. We expect this pricing pressure to continue in 2004 and result in lower gross margins for the industry as a whole.

Operating Strategy

Our objective is to achieve and maintain a leading position in the geographic regions and project segments that we serve by providing timely, high-quality services to our customers. We are pursuing this objective with a strategy comprised of the following components:

Pursue Large, Value-Added Design-Build Projects. Our unique ability to offer design-build services, a full range of steel construction services and project management capabilities makes us a preferred subcontractor for complex, design-build fabrication projects in the geographic regions we serve. This capability often enables us to compete against a few, select firms in a less traditional, more negotiated selection process on these projects, thereby offering the potential for higher margins while providing overall cost savings and project flexibility and efficiencies to our customers.

Expand and Diversify Revenue Base. We are seeking to expand and diversify our revenue base by leveraging our long-term relationships with national and multi-national construction and engineering firms, national and regional accounts and other customers. We also intend to continue to grow our operations by targeting smaller projects that carry higher margins and less risk of large margin fluctuations. We believe that continuing to diversify our revenue base by completing smaller projects, such as low-rise office buildings, healthcare facilities and other commercial and industrial structures, could reduce the impact of periodic adverse market or economic conditions as well as potential margin slippage that may accompany larger projects.

Emphasize Innovative Services. We focus our design-build, engineering, detailing, fabrication, joist manufacturing and erection expertise on distinct product segments requiring unique or innovative techniques, where we typically experience less competition and more advantageous negotiated contract opportunities. We have extensive experience in providing services requiring complex fabrication and erection techniques and other unusual project needs, such as specialized transportation, steel treatment or specialty coating applications. These service capabilities have enabled us to address such design-sensitive projects as stadiums, and uniquely designed hotels and casinos.

Diversify Customer and Product Base. Although we seek to garner a leading share of the geographic and product markets in which we compete, we also seek to diversify our construction projects across a wide range of commercial, industrial, and specialty projects. The following chart sets forth the percentage of revenues attributable to our various principal geographic and project markets for 2003 and 2002:

	Commercial		Industrial		Other	
	2003	2002	2003	2002	2003	2002
Arizona	25.1%	9.0%	0.4%	4.2%	0.0%	1.4%
Colorado	2.1%	3.4%	0.0%	0.0%	2.8%	0.1%
California	27.0%	26.7%	0.0%	0.5%	2.1%	5.7%
Florida/Georgia	13.0%	21.5%	3.2%	0.0%	4.2%	0.0%
Nevada	7.3%	10.6%	0.0%	2.4%	0.0%	0.1%
Texas	1.7%	2.3%	4.3%	7.9%	0.0%	0.0%
Other states	4.4%	4.1%	2.1%	0.0%	0.1%	0.1%
International	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	80.8%	77.6%	10.0%	15.0%	9.2%	7.4%

For additional information regarding the breakdown of our revenues and operating results, see Note 14 to the Consolidated Financial Statements appearing elsewhere in this report.

Primary Markets and Products

Our current principal geographic markets include the southwestern United States-primarily Arizona, Nevada, Texas and southern California — and the southeastern United States — primarily Florida and Georgia. We have also provided our services in other regions of the western and northwestern United States, such as Utah, New Mexico, Colorado and Washington.

Southwestern and Western U.S. Markets. We are the leading steel fabrication and erection firm in Arizona and have been a prominent participant in many of Arizona's largest and most visible public and private projects. We have completed projects in Arizona in a variety of industries, including the semiconductor and computer chip industry and the copper and other mining industries. We also have maintained a strong presence in the southern California market and intend to achieve a greater share of this geographic market. Our typical projects in southern California include the fabrication and erection of new and expanded hospital facilities, large shopping malls, and commercial and industrial manufacturing, distribution and warehouse facilities, including those for several national and multinational customers.

We also have developed a market share in the oil, gas, and petrochemical industries by providing structural steel; strainers, filters, separators and other types of measuring equipment; and pressure vessels. We also have expanded our market share into Colorado with the fabrication and erection of various commercial facilities with our On-Time Steel Management subsidiary.

Southeastern U.S. Markets. We have a steel fabrication, erection and joist manufacturing presence in Central Florida and Georgia. Many of our projects in these areas are in the commercial and industrial markets and typically range in size from $50,000 to $1.0 million for structural steel fabrication projects and from $5,000 to $500,000 for steel joist manufacturing projects. We also have completed several steel fabrication and erection and joist manufacturing projects, both in the southeastern United States and nationwide, for a variety of national and regional retail, grocery, restaurant and similar customers.

Representative Projects

Noteworthy or recently completed or awarded projects and key national and regional customers include the following:

- *TSA/Arizona Cardinals Multipurpose Facility.* We are currently fabricating and will erect a 480,000 square-foot roof, anchored by two Brunel super trusses, each spanning 700 feet and weighing more than 8,000 tons, for the Arizona Cardinals football stadium in Glendale, Arizona. The roof will also include two traction-driven, moveable panel sections covering 87,000 square feet, providing a 240-foot roof opening covered entirely with a fabric membrane. The balance of the roof system will consist of secondary trusses with long-span joists and roof deck. The stadium is expected to open in time for the 2006 National Football League season.

- *The Venetian Resort-Hotel-Casino.* We completed fabrication and erection of over 11,000 tons of steel for this 1.8 million square foot Las Vegas casino and hotel expansion. The project included the addition of 12 stories above an existing parking garage and 608,000 square feet of meeting rooms, ballroom and convention space.

- *San Manuel Indian Bingo and Casino.* This project is being constructed for the San Manuel Band of Mission Indians in Highland, California. The project consists of a 1.0 million square foot gaming facility and parking structure. Our portion of this project includes more than 8,000 tons of structural steel and the associated floor and roof deck of the four-story building. The casino is scheduled to open by the end of 2004, with our portion of the project being completed in the second quarter of 2004.

- *Drescher Graduate Campus, Pepperdine University, Malibu, California.* This project is a 96,000-square-foot facility consisting of six one- and two-story bolted, rigid-frame structures linked by walkways, courtyards and gardens. The new campus houses the Beckman Management Center for the Graziadio School of Business and Management, the School of Public Policy, the Graduate School of Education and Psychology, the Collazo Library and Learning Center, a Student Services Center and the Graziadio Executive Center. The project required approximately 658 tons of structural steel. The new campus was completed in early 2002.

- *Helford Clinical and Research Hospital at The City of Hope.* This project involved the fabrication and erection of 6,000 tons of structural steel as well as miscellaneous steel and decking for the new 350,000-square-foot, six-story medical facility in Duarte, California, near Los Angeles. Our portion of the project was completed in the third quarter of 2002.

- *Hard Rock Hotel and Casino.* This project was constructed on the Seminole Indian Nation reservation land in Tampa and Hollywood, Florida and consists of a 250-room hotel with 90,000 square feet of gaming space. Fabrication was completed in the third quarter of 2002.

- *Paris Hotel & Casino.* We were awarded three contracts for the fabrication and erection of the structural steel for the Paris Hotel and Casino in Las Vegas. The project included a 1.2 million-square-foot low-rise area and a 34-story tower, which includes a hotel, casino, showroom, convention center and retail shopping areas as well as a 540-foot tall scale replica of the Eiffel Tower, which was built over and is integrated into the casino based on the original engineering drawings for the Eiffel Tower.

- *Riverside Badlands Tunnel.* During 2001, we completed a contract for the fabrication of 7½ miles of 12-foot diameter pipe for the Riverside Badlands Tunnel Project of the Metropolitan Water District of Southern California.

- *Salt River Siphon Replacement Project.* We served as the fabricator and erector for the Salt River Siphon Replacement project, a project requiring the fabrication of over 8,500 feet of 21-foot diameter pipe for the U.S. Bureau of Reclamation. The system transports water from the Salt River near Phoenix, Arizona to the major population centers of Arizona.

- *Walt Disney World Projects.* We provided the structural steel fabrication and erection services for several Walt Disney World projects in Orlando, Florida, including the United Kingdom and Canada Pavilion's at Epcot Center, the Splash Mountain amusement park ride, and the Planet Hollywood Restaurant and Bar, which involved the fabrication of a unique multi-leg spherical steel crown covering the main building.

- *Orange County, Florida Convention Center.* We provided the steel fabrication and erection services and manufactured and erected the steel joists and trusses for multiple phases of this one million square-foot modern convention center, a complex, multi-level facility constructed in the Orlando, Florida area. The project required 6,000 tons of structural steel.

- *Tropicana Storage Facility.* We provided the fabrication and erection of the structural steel housing facility for several one million gallon steel fruit juice storage tanks for Tropicana Products, Inc.'s juice storage center in Fort Pierce, Florida.

- *Universal Studios.* We were a steel fabricator and joist manufacturer for the Universal Studios complex in Orlando, Florida, a large working movie studio and tourist attraction.

- *National and Regional Customers.* We are a preferred subcontractor for steel fabrication and erection services and joist products on a variety of projects for several national and regional customers, including PETsMART, Inc. and Albertson's, Inc.

Overview of Operations

We obtain contracts through competitive bidding or negotiation, which generally are either fixed price, cost-plus or unit cost arrangements. During 2003, most of our revenues were derived from projects performed pursuant to fixed price contracts, which generated historically low gross margins as a result of the difficult competitive environment. In bidding or negotiating contracts, we must estimate our costs, including projected increases in labor, material, and service costs. Projects typically last from one to 12 months.

We recognize revenues using the percentage of completion accounting method. Under this method, revenues are recognized based upon either the ratio of costs incurred to date to the estimated total cost to complete the project or the ratio of labor hours incurred to date to the total estimated labor hours. Revenue recognition generally begins when work has commenced. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, we have made an estimate of the amount that will be paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which revisions become known. Estimated losses on contracts are recognized in full when it is determined that a loss will be incurred on a contract.

Cost of revenues consists of the costs of materials, equipment, direct labor, fringe benefits, and indirect costs associated with detailing, project management, fabrication and erection, including rent, depreciation and supervisory labor. Other costs not associated with specific projects are included in general and administrative expenses.

Gross profit margins can be positively and negatively affected by large, more complex projects, the percentage of negotiated contracts relative to competitively bid contracts, the number and scope of contract modifications, and improvements in operating efficiencies. The competitive environment, construction delays, inefficient or under utilization of our resources, availability and cost of materials and labor, the timing and performance of work by other contractors, weather conditions and construction site conditions, can adversely affect gross profit margins.

Backlog increases as contract commitments, letters of intent, notices to proceed and purchase orders are obtained, decreases as revenues are recognized, and increases or decreases to reflect modifications in the work to be performed under the contract. The timing of contract commitments, letters of intent, notices to proceed and purchase orders, the size of projects and other factors beyond our control can cause significant fluctuation in backlog outstanding at any given date.

We consider backlog an important indicator of our operating condition because our engineering, detailing, fabrication, and erection services are characterized by long lead times for projects and orders. We define our backlog of contract commitments, letters of intent, notices to proceed and purchase orders as the potential future revenues to be recognized upon performance of contracts and potential contracts. At December 31, 2003, our backlog was $113.3 million ($42.3 million under contracts or purchase orders and $71.0 million under letters of intent), of which approximately $33.2 million was attributable to TSA/Arizona Cardinals Multipurpose Facility. Backlog at December 31, 2002 was $112.6 million ($52.4 million under contracts or purchase orders and $60.2 million under letters of intent). We expect most of our backlog as of December 31, 2003 to be recognized as revenues in 2004, with the exception of approximately $7.0 million to $8.0 million associated with TSA/Arizona Cardinals Multipurpose Facility.

Governmental Regulation

Our operations are governed by and subject to government regulations in the United States and in foreign countries in which we operate, including laws and regulations relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations thereunder in the United States. With respect to our international operations, we are subject to a number of laws and regulations, including those relating to taxation of our earnings and earnings of our personnel and our use of local personnel and suppliers. Our operations are subject to the risk of changes in federal, state, local, and foreign laws and policies which may impose restrictions on our operations, including trade restrictions, expropriation or nationalization decrees, confiscatory tax systems, primary or secondary boycotts or embargoes directed at specific countries, import restrictions or other trade barriers, and mandatory sourcing rules, any of which could, if adopted or implemented, materially and adversely affect us. We believe that we are in material compliance with the laws and regulations under which we and our operations are currently governed and have no reason to believe that future compliance with such laws and regulations will have a material adverse effect on our operations. We cannot determine, however, to what extent our future operations and earnings may be affected by new legislation, new regulations, or changes in or new interpretations of existing regulations.

We are subject to licensure and hold licenses in each of the states in the United States in which we operate and in certain local jurisdictions within such states. We believe that we are in material compliance with all contractor licensing requirements in the various states in which we operate. The loss or revocation of any license or the limitation on any of our primary services thereunder in any state in which we conduct substantial operations could prevent us from conducting further operations in such jurisdiction and would have a material adverse effect on our operations.

Environmental Regulation

Our operations and properties are affected by numerous federal, state, and local environmental protection laws and regulations, such as those governing discharges into air and water, and the handling and disposal of solid and hazardous waste. The requirements of these laws and regulations have become increasingly stringent, complex, and costly to comply with. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. We are not aware of any non-compliance with environmental laws that could have a material adverse effect on our business or operations. There can be no assurance, however, that such laws, regulations, or their interpretation will not change in the future in a manner that could materially and adversely affect our operations.

Certain environmental laws, such as the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), provide for strict and joint and several liability for investigation and/or remediation of spills and other releases of hazardous substances. Such laws may apply to conditions at properties presently owned or operated by us or our predecessors, as well as to conditions at properties at which waste or other contamination attributable to an entity or its predecessors come to be located. Our facilities have been operated for many years, and substances that are or might be considered hazardous were used at such locations. We do not anticipate incurring material capital expenditures for environmental controls or for investigation or remediation of environmental conditions during the current or succeeding fiscal year. Nevertheless, we can give no assurance that we, or entities for which we may be responsible, will not incur liability in connection with the investigation and remediation of facilities we currently own or operate or other locations in a manner that could materially and adversely affect our operations.

Employees

As of December 31, 2003, we employed approximately 1,000 people. The number of persons we employ on an hourly basis fluctuates directly in relation to the amount of business we perform. Certain of the fabrication and erection personnel we employ are represented by the United Steelworkers of America, the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union, the International Union of Operating Engineers, and the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers Union. We are a party to several separate collective bargaining agreements with these unions in certain of our current operating regions, which expire (if not renewed) at various times in the future. Approximately 35% of our employees are covered under various collective bargaining agreements. Most of our collective bargaining agreements are subject to automatic annual or other renewal unless either party elects to terminate the agreement on the scheduled expiration date. Approximately 1% of our employees are covered under a collective bargaining agreement that expires within the next year. We consider our relationship with our employees to be good and, other than sporadic and unauthorized work stoppages of an immaterial nature, none of which have been related to our own labor relations, we have not experienced a work stoppage or other labor disturbance.

We utilize third-party fabrication and erection subcontractors on many of our projects and also subcontract detailing services from time to time when we lack available in-house capacity for such services. Our inability to engage fabrication, erection and detailing subcontractors on terms favorable to us could limit our ability to complete projects in a timely manner or compete for new projects and could have a material adverse effect on our operations.

Suppliers

We currently purchase a majority of our steel and steel components from several domestic and foreign steel producers and suppliers. However, steel is available from numerous foreign and domestic steel producers, and we are not dependent on any one supplier. We believe that our relationships with our suppliers are good and have no long-term commitments with any of our suppliers.

Competition

The principal geographic and product markets we serve are highly competitive. We compete with other contractors on a local, regional, or national basis. We have different competitors for each of our services and product segments and within each geographic market we serve. We believe that we can compete effectively for new projects both nationally and internationally and that we are among the largest competitors in our industry. Among the principal competitive factors within the industry are price, timeliness of completion of projects, quality, reputation, and the desire of customers to utilize specific contractors with whom they have favorable relationships and prior experience. Certain of our competitors have financial and operating resources greater than ours.

Available Information

Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 are available free of charge through our website (www.schuff.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission.

Item 2 *Properties*

Our manufacturing facilities and executive and administrative offices are located at the following sites:

Location	Size (Sq. ft.)	Owned/Leased	Products/Services
Phoenix, Arizona	400,000	Leased(1)	Fabrication shop; operations, erection, engineering and detailing offices
Gilbert, Arizona	145,000	Leased(2)	Fabrication shop
Phoenix, Arizona	22,000	Leased(3)	Executive, finance, administration, estimating and sales offices
Lockhart, Florida	144,000	Owned	Fabrication shop; sales, executive and operations offices; maintenance yard; steel truss plant
Albany, Georgia	102,000	Owned	Fabrication shop; executive, operations and estimating offices
Atlanta, Georgia	3,600	Leased	Sales office
Quincy, Florida	140,000	Owned	Steel joist and long span truss manufacturing plant
Buckeye, Arizona	100,000	Owned	Steel joist and long span truss manufacturing plant
Houston, Texas	43,000	Owned	Fabrication shop; sales, estimating, operation and administrative offices
National City, California	26,000	Owned	Fabrication shop; operations, sales, estimating and administrative offices
Englewood, Colorado	2,934	Leased	Operations, sales, estimating and administrative offices

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(1) We lease this facility from a partnership, the general partners of which are David A. Schuff, Nancy A. Schuff and Scott A. Schuff and the limited partners of which are family trusts of Mr. Scott A. Schuff and certain of his siblings (the "Schuff Partnership"). This lease expires on February 28, 2017. During 2002, we amended the lease. The annual rent was reduced to $463,000 from $639,000. Effective July 1, 2003, the Schuff Partnership increased the rent to the original amount. The rent continues to be subject to an increase every five years based on the Consumer Price Index. All other terms and conditions of the lease remain unchanged.

(2) We lease this facility from the Schuff Partnership under a lease expiring on February 28, 2017. During 2002, we amended the lease. The annual rent was reduced to $242,000 from $357,000. Effective July 1, 2003, the Schuff Partnership increased the rent to the original amount. The rent continues to be subject to an increase every five years based on the Consumer Price Index. All other terms and conditions of the lease remain unchanged.

(3) We lease this facility from the Schuff Partnership under a lease expiring April 30, 2017. During 2002, we amended the lease. The annual rent was reduced to $104,000 from $142,000. Effective July 1, 2003, the Schuff Partnership increased the rent to the original amount. The rent continues to be subject to an increase every five years based on the Consumer Price Index. All other terms and conditions of the lease remain unchanged.

Under each of the foregoing leases, we are also obligated to pay all taxes, insurance and maintenance costs.

Item 3 ***Legal Proceedings***

Construction in general and the fabrication and erection of structural steel and heavy steel plate in particular involve a high degree of operational risk. Adverse weather conditions, operator and other error, and other unforeseen factors can cause personal injury or loss of life, severe damage to or destruction of property and equipment, and suspension of operations. Litigation arising from such occurrences may result in us being named as a party to lawsuits asserting substantial claims or to administrative or criminal actions that may involve substantial monetary penalties or the restriction of our operations in one or more jurisdictions. We are a defendant in lawsuits from time to time, including lawsuits arising in the normal course of business. While it is impossible at this time to determine with certainty the ultimate outcome of these lawsuits, our management believes that the ultimate outcome will not have a material adverse effect on our operations or liquidity.

We maintain workers compensation insurance that provides full coverage of statutory workers compensation benefits. Our workers compensation insurance has a $350,000 per claim deductible. We also maintain employer liability insurance in our principal geographic markets in amounts of $1.0 million per accident for bodily injury by accident and $1.0 million per employee (and as a policy limit) for bodily injury from disease and commercial general liability insurance in the amount of $1.0 million. In addition, we maintain umbrella coverage limits of $20.0 million. We also maintain insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction of our facilities and property. All policies are subject to various deductibles and coverage limitations. Although our management believes that our insurance is adequate for our present needs, there can be no assurance that we will be able to maintain adequate insurance at premium rates that our management considers commercially reasonable, nor can there be any assurance that such coverage will be adequate to cover all claims that may arise.

We periodically review the need to maintain a litigation reserve. We seek to mitigate the effects of loss or damage through the maintenance of risk management, insurance, and safety programs. There can be no assurance, however, that our efforts to mitigate losses will be successful or that any losses incurred will not increase our insurance or estimated reserves thereon.

On April 16, 2001, Copeland Steel Erectors, Inc. brought suit in the Circuit Court of Orange County Florida against our subsidiary, Addison Steel, Inc., its surety bond and the surety bond of the general contractor, Clark Construction, for payment of additional costs incurred on the Airside 2 Base Terminal project in Orlando, Florida. Clark Construction was the general contractor to the owner, the Greater Orlando Aviation Authority. Addison Steel, Inc. was the structural steel subcontractor to Clark Construction. Copeland Steel Erectors, Inc. was Addison's erection subcontractor. Copeland's claim is for approximately $1.1 million of additional work caused by design deficiencies in the contract documents. Addison Steel, in turn, has brought a cross and third-party claim against Clark Construction for the Copeland claim as well as its own claim for additional work of approximately $400,000 for damages caused due to design deficiencies in the structural steel work. Clark Construction has submitted the claims of Addison (and its subcontractor) to the owner, the Greater Orlando Aviation Authority, as part of its much larger lawsuit in the same court in excess of $22.0 million for damages caused by the owner due to, among other things, design deficiencies, acceleration directives, extra costs, outstanding change orders and unpaid contract balance and retention. The owner disputed liability and claimed that Clark Construction and its subcontractors delayed the project and were not entitled to any additional monies. We believed we were entitled to payment of Addison's claim and did not believe that we were liable under any potential counterclaim. In the fourth quarter of 2003, the matter was fully settled with Clark Construction making final payments to Addison Steel, Inc. and Copeland Steel Erectors, Inc. There was no material financial impact as a result of the settlement.

On February 13, 2002, our subsidiary, Schuff Steel Company, instituted a lien foreclosure lawsuit against general contractor Peck/Jones Construction Company, OC America and others, in Los Angeles County Court, State of California relating to structural steel work done on the Sherman Oaks Galleria Project in Sherman Oaks, California. Schuff Steel is currently owed the principal sum in excess of approximately \$1.4 million in unpaid contract balance, retention and/or unpaid change orders by the general contractor for a total claim in excess of \$2.4 million. Schuff Steel is also seeking interest, penalty interest, additional disruption costs, and attorneys' fees and costs against this general contractor. Until February 2003, no back-charges had been claimed against Schuff Steel, and Peck/Jones represented that it was simply in close-out negotiations with the owner. Peck/Jones now has purportedly closed-out the project with the owner, and has asserted for the first time back-charges in excess of \$1.0 million dollars against Schuff Steel Company. We believe that the back-charges are frivolous and will continue to vigorously pursue this matter to a satisfactory resolution. The trial is set to begin on July 12, 2004.

On October 24, 2002, a union organizer and several employees brought a lawsuit against our subsidiary, Bannister Steel, in San Diego County Superior Court, State of California, alleging certain violations of the California wage and hour laws. We denied any knowing violation of the California wage and hour laws and believed the lawsuit was improperly brought as part of its union organizing efforts by the Ironworkers Local 627, Shopworkers (the "Union"). An organizing election was held in the fourth quarter of 2002 with the Union prevailing. Bannister objected to the election because the Union impermissibly influenced the election by sponsoring and pursuing the wage and labor lawsuit against Bannister. The Local Region of the National Labor Relations Board ("NLRB") denied Bannister's objections to the election in late February 2003. Bannister appealed that decision to the NLRB in Washington D.C. to pursue a new election. In June 2003, the Union, several employees and Bannister Steel reached a comprehensive settlement agreement of all outstanding matters. The settlement resulted in the recognition of the Union until the end of 2003, with an extension of a collective bargaining agreement until June 2006 upon approval by the San Diego Superior Court of the settlement and dismissal of the wage and hour lawsuit. Under the terms of the settlement, Bannister agreed to pay a class of current and former employees the sum of \$120,000. We believe that this was a satisfactory resolution to the matter, given the time, expense and distraction of litigation. We have paid approximately \$118,000 of the settlement as of December 31, 2003.

On November 24, 2003, our subsidiary, Schuff Steel Company, initiated a lawsuit for approximately \$1.3 million against Sverdrup/Conco and its bonding companies, relating to structural steel work done on the Millbrae BART Station. Schuff and the general contractor, Sverdrup/Conco ("S/CO"), were severely impacted by the Owner (BART), and the outside inspection agencies, in completing the work on the project. S/CO has presented an approximate \$6.0 million submission to the owner which included an approximately \$1.0 million disruption claim by Schuff Steel. The owner has rejected the claim. S/CO has also refused to pay Schuff Steel its contract balance and pending change orders of approximately \$400,000. We will continue to vigorously pursue this matter to a satisfactory resolution.

On April 2, 2003, Evans Welding Services Inc. Inc. brought suit in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina against our subsidiary, Addison Steel, Inc., its surety bond, the general contractor J.A. Jones Construction Company and its surety bonds and Starport I, LLC, the owner of the new Westin Hotel in Charlotte, North Carolina. J.A. Jones was the general contractor to the owner, Starport. Addison Steel was the structural steel subcontractor to J.A. Jones and Evans Welding was Addison's erection subcontractor. Evans Welding's claim is for approximately \$300,000 of additional work on the project. Addison Steel has filed a cross claim and its own action, which has been consolidated with the Evans Welding lawsuit. Addison Steel seeks to enforce its lien and bond rights and is owed approximately \$2.4 million from J.A. Jones for unpaid contract work, retention, change orders and claims. On September 25, 2003, J.A. Jones filed for bankruptcy. However, Addison Steel is continuing to pursue its lien and bond rights against the owner and J.A. Jones' sureties. The sureties have asserted backcharges against Addison Steel for approximately \$1.0 million. We believe that the back-charges are largely unsupported and/or related to Evans Welding and will continue to vigorously pursue this matter to a satisfactory resolution.

Item 4 *Submission of Matters to a Vote of Security Holders*

We did not submit any matter to a vote of our security holders during the fourth quarter of 2003.

PART II

Item 5 *Market for the Registrant's Common Equity Securities, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Since July 15, 1999, our common stock has been traded on the American Stock Exchange under the symbol "SHF." Prior to that date, our common stock was traded on the Nasdaq National Market under the symbol "SHUF." The common stock commenced public trading on July 1, 1997 in connection with our initial public offering. The following table sets forth the high and low last sale prices of the common stock, as reported by the American Stock Exchange for the periods indicated:

	Market Price	
	High	Low
Fiscal Year 2002		
First Quarter	$3.30	$2.28
Second Quarter	$2.95	$2.45
Third Quarter	$2.75	$1.25
Fourth Quarter	$1.65	$1.10
Fiscal Year 2003		
First Quarter	$1.40	$1.20
Second Quarter	$1.90	$1.25
Third Quarter	$2.05	$1.35
Fourth Quarter	$2.03	$1.41
Fiscal Year 2004		
First Quarter (through March 17, 2004)	$2.15	$1.70

As of March 17, 2004, we believe there were approximately 1,100 beneficial owners of our common stock.

Except for certain distributions to our then current shareholders while we were subject to taxation under subchapter S of the Internal Revenue Code of 1986 and certain other distributions, including those made in connection with the closing of our initial public offering in July 1997 to our shareholders prior to the offering, we have not made distributions or declared dividends on our common stock and do not anticipate doing so in the foreseeable future. It is the current policy of our Board of Directors to retain our earnings, if any, to finance the operation and expansion of our business. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Factors That May Affect Future Stock Performance

The performance of our common stock is dependent upon several factors including those set forth below and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Control by Majority Shareholders; Ability to Issue Preferred Stock

Mr. David A. Schuff, our Chairman and co-founder, and Mr. Scott A. Schuff, our President, Chief Executive Officer, co-founder and a member of our Board of Directors, collectively control the voting of approximately 71% of our outstanding common stock. As a result, these individuals control the vote on all matters requiring approval of the stockholders, including causing or restricting our sale or merger. In addition, our Certificate of Incorporation authorizes us to issue shares of "blank check" preferred stock, the designation, number, voting powers, preferences, and rights of which may be fixed or altered from time to time by the Board of Directors. Accordingly, the Board of Directors has the authority, without stockholder approval, to issue preferred stock with rights that could adversely affect the voting power or other rights of the holders of the common stock.

Volatility of Stock Price

The stock market has experienced price and volume fluctuations that have affected the market for many companies and have often been unrelated to the operating performance of such companies. The market price of the common stock is also subject to significant fluctuations in response to variations in our quarterly operating results, analyst reports, announcements concerning our business, legislative or regulatory changes or the interpretation of existing statutes or regulations affecting our business, litigation, general trends in the industry and other events or factors. In July 1997, we completed an initial public offering of our common stock for $8 per share. Since that time, our common stock has traded as low as $1.10 per share and as high as $15.625 per share. The market price for our common stock remains volatile and there is no assurance that the market price will not experience significant changes in the future.

Shares Eligible for Future Sale

There were 7,063,122 shares of common stock outstanding as of March 17, 2004. Of these shares, 2,040,922 shares of common stock are freely tradable. The 5,022,200 remaining shares of common stock are beneficially held by Messrs. David A. Schuff and Scott A. Schuff and are "restricted securities" as that term is defined under Rule 144 promulgated under the Securities Act of 1933 (the "Securities Act"). In general, under Rule 144 as currently in effect, subject to the satisfaction of certain other conditions, if one year has elapsed since the later of the date of acquisition of restricted shares from either an issuer or an affiliate of an issuer, the acquirer or subsequent holder is entitled to sell in the open market, within any three-month period, a number of shares that does not exceed the greater of one percent of the outstanding shares of the same class or the average weekly trading volume during the four calendar weeks preceding the filing of the required notice of sale. All of the outstanding "restricted securities" have been held for the one-year holding period required under Rule 144. No predictions can be made with respect to the effect, if any, that sales of common stock in the market or the availability of shares of common stock for sale under Rule 144 will have on the market price of common stock prevailing from time to time. Sales of substantial amounts of common stock in the open market could adversely affect the prevailing market price of the common stock and may make it more difficult for us to sell our equity securities in the future on terms we deem appropriate.

Item 6 *Selected Financial Data*

The following sets forth our selected historical consolidated financial data for each of the years in the five-year period ended December 31, 2003. The selected annual historical consolidated statement of income (loss) and balance sheet data is derived from our Consolidated Financial Statements audited by independent auditors. For additional information, see our Consolidated Financial Statements and Notes thereto included elsewhere in this report. The following table should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is qualified by reference thereto and to our Consolidated Financial Statements and Notes thereto.

	Year Ended December 31				
	1999	2000	2001	2002	2003
	(In thousands, except per share data)				
Statement of Income Data					
Revenues	$236,832	$278,095	$234,061	$230,985	$174,245
Cost of revenues	191,578	221,557	189,745	198,524	151,897
Gross profit	45,254	56,538	44,316	32,461	22,348
General and administrative expenses	24,102	30,734	28,368	23,627	23,635
Goodwill amortization	2,156	2,165	2,165	—	—
Operating income (loss)	18,996	23,639	13,783	8,834	(1,287)
Interest expense	(11,752)	(11,711)	(10,875)	(10,542)	(10,111)
Other income	1,307	1,105	1,604	1,609	1,831
Income (loss) before income tax (provision) benefit, minority interest and cumulative effect of a change in accounting principle	8,551	13,033	4,512	(99)	(9,567)
Income tax (provision) benefit	(3,401)	(5,506)	(2,037)	287	3,505
Income (loss) before minority interest and cumulative effect of a change in accounting principle	5,150	7,527	2,475	188	(6,062)
Minority interest in loss of subsidiaries	—	—	—	32	72
Income (loss) before cumulative effect of a change in accounting principle	5,150	7,527	2,475	220	(5,990)
Cumulative effect of a change in accounting principle	—	—	—	(29,591)	—
Net income (loss)	$ 5,150	$ 7,527	$ 2,475	$(29,371)	$ (5,990)
Basic income (loss) per share:					
Income (loss) per share before cumulative effect of a change in accounting principle	$ 0.73	$ 1.06	$ 0.34	$ 0.03	$ (0.85)
Cumulative effect per share of a change in accounting principle	—	—	—	(4.11)	—
Income (loss) per share	$ 0.73	$ 1.06	$ 0.34	$ (4.08)	$ (0.85)
Diluted income (loss) per share:					
Income (loss) per share before cumulative effect of a change in accounting principle	$ 0.73	$ 1.06	$ 0.33	$ 0.03	$ (0.85)
Cumulative effect per share of a change in accounting principle	—	—	—	(4.11)	—
Income (loss) per share	$ 0.73	$ 1.06	$ 0.33	$ (4.08)	$ (0.85)
Weighted average shares used in computation:					
— basic	7,046	7,129	7,227	7,199	7,009
— diluted	7,063	7,129	7,394	7,199	7,009
Operating Data					
Backlog(1)	$165,426	$130,537	$161,304	$112,559	$113,281

	As of December 31				
	1999	2000	2001	2002	2003
			(In thousands)		
Balance Sheet Data					
Cash and cash equivalents	$ 6,784	$ 11,073	$ 4,586	$ 10,755	$ 7,645
Restricted funds on deposit(2)	2,710	—	—	3,468	7,513
Costs and recognized earnings in excess of billings on uncompleted contracts(3)	16,100	9,575	15,293	16,139	10,723
Billings in excess of costs and recognized earnings on uncompleted contracts(3)	8,864	12,713	8,802	13,521	8,464
Property and equipment, net	25,322	29,908	30,111	27,132	24,394
Total assets	171,363	179,043	171,101	148,345	130,282
Long term debt, excluding current portion	101,390	100,159	95,500	91,170	87,040
Stockholders' equity	$ 34,550	$ 42,400	$ 45,122	$ 15,354	$ 9,485

(1) Backlog is the amount of potential future revenues to be recognized upon performance of contracts, letters of intent, notices to proceed and purchase orders awarded to us. Backlog increases as new contract commitments, letters of intent, notices to proceed and purchase orders are received, decreases as revenues are recognized, and increases or decreases to reflect modifications in the work to be performed under a contract or potential contract. Of our $113.3 million backlog as of December 31, 2003, approximately $33.2 million was attributable to the TSA/Arizona Cardinals Multipurpose Facility.

(2) Restricted funds on deposit represent funds on deposit in interest bearing escrow accounts. In 1999, they were maintained in lieu of retention for specific contracts. Retentions on contract receivables are amounts due which are withheld until the completed project has been accepted by the customer in accordance with the contract. In 2003 and 2002, they were maintained as security for $9.9 million and $3.1 million, respectively, of the letters of credit outstanding for the benefit of our performance bond surety and workers' compensation insurance carrier.

(3) We recognize revenues and costs from construction projects using the percentage of completion accounting method. Under this method, revenues are recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of labor hours incurred to date to the total estimated labor hours, commencing when work begins. Construction contracts with customers generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under the contracts. Costs and recognized earnings in excess of billings on uncompleted contracts primarily represent revenues earned under the percentage of completion method which have not been billed. Billings in excess of costs and recognized earnings on uncompleted contracts represent amounts billed on contracts in excess of the revenues allowed to be recognized under the percentage of completion method on those contracts.

Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis provides information regarding our financial and operating position as of December 31, 2002 and 2003, and our results of operations for the years ended December 31, 2001, 2002 and 2003. This discussion should be read in conjunction with the preceding "Selected Financial Data" and our Consolidated Financial Statements and related Notes thereto appearing elsewhere in this report.

Schuff International, Inc. is a family of steel fabrication and erection companies providing a fully integrated range of steel construction services, including design engineering, detailing, joist manufacturing, fabrication and erection, and project management expertise. The company has multi-state operations primarily focused in the U.S. Sunbelt. For more information, please visit the company's Web site, *www.schuff.com.*

Overview of Operations

Our results of operations are affected primarily by (i) the level of commercial and industrial construction in our principal markets; (ii) our ability to win project contracts; (iii) the amount and complexity of project changes requested by customers or general contractors; (iv) our success in utilizing our resources at or near full capacity; and (v) our ability to complete contracts on a timely and cost-effective basis. The level of commercial and industrial construction activity is related to several factors, including local, regional and national economic conditions, interest rates, availability of financing, and the supply of existing facilities relative to demand.

During 2003 and through the first quarter of 2004, the commercial construction industry, the commercial steel fabrication business, and joist manufacturing continued to experience difficult conditions as a result of the macroeconomic climate and higher steel costs due to increased foreign demand for scrap steel. These factors, as well as extreme pricing pressure from local and regional competitors, resulted in longer selling cycles and reduced demand for our products and services. In addition, in an attempt to maximize capacity utilization and cover fixed operating costs, we completed projects at historically low gross margins.

These conditions directly affected our operating strategy in all key areas. Specifically:

- Our ability to pursue large, value-added design-build projects — typically the largest dollar volume and most complex projects we undertake — was hampered by a lack of demand for these services caused by macroeconomic softness and interest-rate uncertainty during 2003.

- Our goal of expanding and diversifying our revenue base with smaller projects was — in many cases — thwarted by fierce pricing pressure from local and regional competitors who appear to be bidding projects at or below their costs in order to survive. Furthermore, numerous owners and general contractors engaged in "margin shopping" to secure the lowest possible bids, further lengthening sales cycles and delaying the commencement of projects. For example, in certain markets, outside fabricators submitted bids at or below their cost in an attempt to gain market share in new regions and expand out of weaker neighboring areas.

- Weak demand in the overall commercial construction market hampered our ability to perform innovative, value-added services.

- Geopolitical instability in the Middle East and elsewhere hampered our efforts to diversify our construction projects in new market segments, specifically oil, gas and petrochemicals.

The net result was a record consolidated loss before cumulative effect of a change in accounting principle of $6.0 million, or $(0.85) per share, for the year ended December 31, 2003.

Results of Operations

	Years Ended December 31		
	2001	2002	2003
Revenues	100.0%	100.0%	100.0%
Cost of revenues	81.1	85.9	87.2
Gross profit	18.9	14.1	12.8
General and administrative expenses	12.1	10.2	13.6
Goodwill amortization	0.9	—	—
Operating income (loss)	5.9	3.9	(0.7)
Interest expense	(4.6)	(4.6)	(5.8)
Other income	0.7	0.7	1.1
Income (loss) before income tax (provision) benefit, minority interest and cumulative effect of a change in accounting principle	2.0	—	(5.4)
Income tax (provision) benefit	(0.9)	0.1	2.0
Income (loss) before minority interest and cumulative effect of a change in accounting principle	1.1	0.1	(3.4)
Minority interest in loss of subsidiaries	—	—	—
Income (loss) before cumulative effect of a change in accounting principle	1.1	0.1	(3.4)
Cumulative effect of a change in accounting principle	—	(12.8)	—
Net income (loss)	1.1%	(12.7)%	(3.4)%

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Revenues decreased by 24.6% to $174.2 million in 2003 from $231.0 million in 2002. The decrease in revenues was primarily a result of the continued recessionary climate in the commercial construction industry, fierce pricing pressure from local and regional competitors, and interest-rate uncertainty, which caused projects to be delayed. The average revenues for our 10 largest revenue generating projects were $4.5 million in 2003 versus $6.8 million in 2002. This decrease was primarily due to the three largest projects in 2003 generating revenues from $4.8 million to $6.0 million compared with the three largest projects in 2002 generating revenues from $10.2 million to $15.5 million. The continued recessionary climate and interest-rate uncertainty caused a lack of demand for high-dollar projects in 2003.

- Revenues for the Commercial-Pacific segment decreased by 31.8% to $25.2 million in 2003 from $37.0 million in 2002 primarily because of the preponderance of bid work versus negotiated work in 2003 versus 2002 as well as increased competition from Los Angeles-based contractors. These outside fabricators created downward pressure on prices in the San Diego market during 2003.

- Revenues for the Commercial-Southwest segment decreased by 16.8% to $85.1 million in 2003 from $102.3 million in 2002 primarily because of weak demand for high dollar-volume design-build projects as well as intense competition from small local fabricators for smaller, less-complex projects.

- Revenues for the Commercial-Southeast segment decreased by 37.0% to $32.4 million in 2003 from $51.3 million in 2002 primarily because of a significant regional economic downturn and intense competition for the projects that became available to bid.

- Revenues for the Manufacturing-Other segment decreased by 21.9% to $31.6 million in 2003 from $40.4 million in 2002 primarily because of the impact of geopolitical instability on the oil, gas and petrochemical industries as well as intense competition and pricing pressure from market-leading joist manufacturers.

Gross profit. Gross profit decreased 31.2% to \$22.3 million in 2003 from \$32.5 million in 2002 due primarily to margin erosion resulting from intense competition for available projects, coupled with cost overruns on some projects. As a percentage of revenues, gross profit decreased to 12.8% in 2003 from 14.1% in 2002, primarily due to intense competition, which reduced gross margins from historical levels.

- Gross profit for the Commercial-Pacific segment decreased by 83.9% to \$945,000 in 2003 from \$5.9 million in 2002 primarily because of cost overruns associated with a work slowdown and margin erosion as a result of increased competition from fabricators outside the region.
- Gross profit for the Commercial-Southwest segment increased by 27.1% to \$11.7 million in 2003 from \$9.2 million in 2002 primarily because of the strong performance by the company's On-Time Steel Management units in Arizona and Colorado in subcontracting smaller, less-complex projects to local fabricators.
- Gross profit for the Commercial-Southeast segment decreased by 67.4% to \$3.2 million in 2003 from \$9.8 million in 2002 primarily because of a severe economic downturn in the region and the willingness of local competitors to bid and complete projects at or below their cost.
- Gross profit for the Manufacturing-Other segment decreased by 14.4% to \$6.5 million in 2003 from \$7.6 million in 2002, primarily because of the impact of geopolitical instability on the oil, gas and petrochemical industries. The lower volume of revenues in the Manufacturing — Other segment did not fully impact gross profit due to improved operating efficiencies achieved in 2003.

General and administrative. General and administrative expenses were \$23.6 million in both 2003 and 2002. We have made an effort to keep administrative staff levels low and centralize activities wherever possible in an attempt to offset the decreases in revenue and gross profit. General and administrative expenses as a percentage of revenues increased to 13.6% in 2003 from 10.2% in 2002. The increase was primarily a result of the decrease in revenues. General and administrative expenses include those for contract bids, estimating, sales and marketing, facilities, and support services.

Interest expense. Interest expense was \$10.1 million in 2003 compared to \$10.5 million in 2002. The decrease in interest expense was primarily attributable to the reduction of long-term debt during 2002 and 2003. Interest expense is primarily attributable to our remaining \$87.0 million in principal amount of 10½% Senior Notes, \$100.0 million of which were issued in June 1998.

Other income. Other income increased 12.6% to \$1.8 million in 2003 from \$1.6 million in 2002 primarily because of the extinguishment of debt at a more favorable discount. The gain recognized on the extinguishment of debt was \$1.1 million in 2003 compared to \$748,000 in 2002.

Income tax benefit. Income tax benefit for 2003 was \$3.5 million which represents an effective tax benefit rate of approximately 36.6%. Income tax benefit for 2002 was \$287,000 which represents an effective tax benefit rate of approximately 289.9%. We had a large tax benefit in 2002 due to the recognition of approximately \$314,000 of research and development credits and \$160,000 of refunds received in 2002 related to prior years.

Cumulative Effect of a Change in Accounting Principle. We adopted Statement of Financial Accounting Standards ("SFAS") No. 142 on January 1, 2002. This standard eliminates goodwill amortization upon adoption and requires an assessment for goodwill impairment upon adoption and at least annually thereafter. As a result of adoption of this standard, we did not amortize goodwill during the years ended December 31, 2003 and 2002 and incurred a noncash transitional impairment charge of \$29.6 million in 2002.

Net loss. As a result of the factors discussed above, we had a net loss of \$6.0 million in 2003 compared to a net loss of \$29.4 million in 2002.

Backlog. Backlog increased slightly to \$113.3 million at December 31, 2003 compared to \$112.6 million at December 31, 2002. Backlog continues to be lower than historical levels due to the difficult conditions being experienced by our industry. Of the backlog at December 31, 2003, approximately \$33.2 million was attributable to the TSA/Arizona Cardinals Multipurpose Facility project.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Revenues decreased by 1.3% to $231.0 million in 2002 from $234.1 million in 2001. The decrease in revenues was primarily a result of the aforementioned downturn in the commercial construction industry. The average revenues for our 10 largest revenue generating projects were $6.8 million in 2002 versus $5.7 million in 2001. This increase was primarily due to the three largest projects in 2002 generating revenues from $10.2 million to $15.5 million compared with the three largest projects in 2001 generating revenues from $6.3 million to $11.6 million.

- Revenues for the Commercial — Pacific segment increased by 17.0% to $37.0 million in 2002 from $31.6 million in 2001 primarily because of an increase in projects awarded through successful bidding plus the receipt of several large negotiated projects that were completed in 2002.
- Revenues for the Commercial — Southwest segment increased by 2.6% to $102.3 million in 2002 from $99.7 million in 2001 primarily because of our On-Time Steel Management subsidiary's success in being awarded numerous small projects.
- Revenues for the Commercial — Southeast segment decreased by 6.7% to $51.3 million in 2002 from $55.0 million in 2001 primarily because of the start of a significant regional economic downturn and intense competition for the projects that became available to bid.
- Revenues for the Manufacturing — Other segment decreased by 15.4% to $40.4 million in 2002 from $47.7 million in 2001 primarily because of the intense competition and pricing pressure from market-leading joist manufacturers.

Gross profit. Gross profit decreased 26.8% to $32.5 million in 2002 from $44.3 million in 2001 due primarily to cost overruns on some projects coupled with the decreases in gross profit percentage. As a percentage of revenues, gross profit decreased to 14.1% in 2002 from 18.9% in 2001, primarily due to the receipt of a number of lower margin projects in late 2001 and into 2002. We accepted these projects to sustain our volume and keep our shops at capacity.

- Gross profit for the Commercial — Pacific segment increased by 6.0% to $5.9 million in 2002 from $5.5 million in 2001 primarily because of receiving a high percentage of negotiated projects during 2002. Negotiated projects typically have higher margins than bid projects due to less competition in the bidding process.
- Gross profit for the Commercial — Southwest segment decreased by 12.8% to $9.2 million in 2002 from $10.6 million in 2001 primarily because of cost overruns on some projects and the start of intense competition from small local fabricators for smaller, less-complex projects.
- Gross profit for the Commercial — Southeast segment decreased by 19.2% to $9.8 million in 2002 from $12.1 million in 2001 primarily because of increased pressure from competitive bidding on fewer projects that were awarded in 2002.
- Gross profit for the Manufacturing — Other segment decreased by 52.8% to $7.6 million in 2002 from $16.1 million in 2001 primarily because of the intense competition and pricing pressure from market-leading joist manufacturers.

During the year ended December 31, 2003, costs associated with certain departments at our Commercial — Southeast segment were included in cost of revenues. In order to conform with the 2003 presentation, $1.2 million and $1.8 million, respectively, of these costs were reclassified from general and administrative expense to cost of revenues for the years ended December 31, 2002 and 2001. The costs of these departments of our other segments continue to be included in cost of revenues for all periods presented.

General and administrative. General and administrative expenses decreased by 16.7% to $23.6 million in 2002 from $28.4 million in 2001. The decrease in general and administrative expense was primarily due to a $2.5 million stock option buyout incurred in 2001 but not in 2002 and our continued efforts to reduce costs. General and administrative expenses as a percentage of revenues decreased to 10.2% in 2002 from 12.1% in

2001. The decrease was primarily a result of our continued effort to reduce costs to help offset the decrease in revenues and gross profit. General and administrative expenses include those for contract bids, estimating, sales and marketing, facilities, and support services.

Interest expense. Interest expense was $10.5 million in 2002 compared to $10.9 million in 2001. The decrease in interest expense was primarily attributable to the reduction of long term debt during 2001 and 2002. Interest expense is primarily attributable to our remaining $91.0 million in principal amount of 10½% Senior Notes, $100.0 million of which were issued in June 1998.

Other income. Other income was $1.6 million in both 2002 and 2001.

Income tax benefit and expense. Income tax benefit for 2002 was $287,000 which represents an effective tax benefit rate of approximately 289.9%. Income tax expense for 2001 was $2.0 million, which represents an effective tax rate of 45.1%. We had a large tax benefit in 2002 due to the recognition of approximately $314,000 of research and development credits and $160,000 of refunds received in 2002 related to prior years. In 2001, the effective tax rate is higher than the federal statutory rates primarily because of state income taxes and the amortization of goodwill, which was not deductible for tax purposes.

Cumulative Effect of a Change in Accounting Principle. We adopted SFAS No. 142 on January 1, 2002. This standard eliminates goodwill amortization upon adoption and requires an assessment for goodwill impairment upon adoption and at least annually thereafter. As a result of adoption of this standard, we did not amortize goodwill during the year ended December 31, 2002 and incurred a noncash transitional impairment charge of $29.6 million.

Net loss and income. As a result of the factors discussed above, we had a net loss of $29.4 million in 2002 compared to net income of $2.5 million in 2001.

Backlog. Backlog decreased by 30.2% to $112.6 million at December 31, 2002 compared to $161.3 million at December 31, 2001. The $48.7 million decrease in backlog compared to December 31, 2001 was primarily the result of the overall continued slowdown in the commercial construction sector, especially in the market for mega-projects. Of the backlog at December 31, 2002, approximately $46.6 million was attributable to the Arizona Cardinals Multipurpose Facility.

Liquidity and Capital Resources

Cash From Operating Activities

Cash flow from operating activities is the principal source of cash used to fund our operating expenses, interest payments on debt, and capital expenditures. Our short-term cash needs are primarily for working capital to support operations including receivables, inventories, and other costs incurred in performing our contracts. We attempt to structure the payment arrangements under our contracts to match costs incurred under the project. To the extent we are able to bill in advance of costs incurred, we generate working capital through billings in excess of costs and recognized earnings on uncompleted contracts. To the extent we are not able to bill in advance of costs, we rely on our credit facilities to meet our working capital needs. We believe that our existing borrowing availability together with cash from operations will be adequate to meet all funding requirements for our operating expenses, interest payments on debt and capital expenditures for the foreseeable future.

We are required to make semi-annual interest payments on our 10½% Senior Notes on June 1st and December 1st of each year. Based upon the December 31, 2003 Senior Note balance of $87.0 million, we anticipate that our semi-annual interest payments will be $4.6 million each.

Net cash provided by operations in 2003 was $950,000 versus $10.7 million in 2002 and $3.2 million in 2001. Cash flow from operations was down in 2003 due to the large net loss incurred offset by the reduction in working capital from the previous year. Working capital was reduced because of an assertive effort to collect outstanding retention receivables on completed jobs from the prior year and continued efforts to lower inventories and reduce overhead costs. These efforts enabled us to maintain a positive operating cash flow in spite of the large net loss.

Cash Used in Investing Activities

Net cash used in investing activities totaled $1.2 million in 2003 versus $564,000 in 2002 and $4.3 million in 2001. The increase in cash used in investing activities in 2003 from 2002 is primarily related to increased capital expenditures. The cash used in investing activities in 2001 was substantially higher due to the installation of a new beam-line at our Commercial — Pacific segment. Our capital expenditures are primarily for new and replacement fabrication equipment at each of our segments.

We estimate that our capital expenditures for 2004 will be approximately $1.5 million. We believe that our available funds, cash generated by operating activities and funds available under our bank credit facilities will be sufficient to fund these capital expenditures and our working capital needs. However, we may expand our operations through future acquisitions and may require additional equity or debt financing.

Cash Used in Financing Activities

Net cash used by financing activities was $2.9 million in 2003 versus $3.9 million in 2002 and $5.4 million in 2001. Repurchases of our Senior Notes at a discount on the open market were $2.7 million in 2003 versus $3.6 million in 2002 and $4.2 million in 2001. In 2003, we also paid approximately $218,000 in debt issue costs related to our new line of credit. In 2002, we also repurchased 435,800 shares of common stock on the open market for approximately $656,000. We did not repurchase any shares of common stock in 2003 or 2001. In 2001, we also borrowed and repaid $1.7 million on our line of credit and repaid $1.4 million of notes from our 1997 acquisition of B&K Steel and our 1998 acquisition of Addison Steel.

We had the following contractual obligations outstanding as of December 31, 2003:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Long-Term Debt	$ 87,040	$ —	$ —	$87,040	$ —
Operating Leases	15,507	1,327	2,512	2,343	9,325
Total Contractual Cash Obligations	$102,547	$1,327	$2,512	$89,383	$9,325

We had the following commercial commitments outstanding as of December 31, 2003:

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Standby Letters of Credit	$9,891	$9,891	$ —	$ —	$ —
Total Commercial Commitments	$9,891	$9,891	$ —	$ —	$ —

Following is a summary of our debt portfolio as of December 31, 2003:

	Amount Outstanding at December 31, 2003	Interest Terms	Interest Rate at December 31, 2003	Average Maturity
	(In thousands)			
Floating Rate Debt				
Credit Facility	$ —	Prime + 1.5%	5.5%	2.6 years
Fixed Rate Debt				
Senior Notes	$87,040		10.5%	4.4 years
Total Debt				
Total Debt and Average Terms	$87,040		10.5%	4.4 years

Performance bonds issued on our behalf as of December 31, 2003 totaled $8.4 million. The performance bonds were required by various general contractors to guarantee our performance on projects.

Long-term Debt

On June 4, 1998, we completed a private placement of $100.0 million in principal amount of our 10½% Senior Notes due 2008 ("Senior Notes"). Net proceeds of the Senior Notes were used to repay certain indebtedness and to pay the cash portions of the purchase price for our acquisitions of Addison, Quincy, Six and Bannister. The Senior Notes are redeemable at our option, in whole or in part, beginning in 2003 at a premium declining ratably to par by 2006. We may redeem up to 35.0% of the Senior Notes at a premium with the proceeds of an equity offering, provided that at least 65.0% of the aggregate amount of the Senior Notes originally outstanding remain outstanding. The Senior Notes contain covenants that, among other things, provide limitations on additional indebtedness, sale of assets, change of control and dividend payments. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated basis by our current and future, direct and indirect subsidiaries. During 2003 and 2002, we repurchased $4.0 million and $4.5 million, respectively, in principal amount of our Senior Notes at a discount on the open market. We recognized gains of $1.1 million and $748,000 during the years ended December 31, 2003 and 2002, respectively, on the repurchase of our Senior Notes. At December 31, 2003, the Company was in compliance with all covenants under our Senior Notes.

Operating Leases

We lease some of our fabrication and office facilities from a partnership in which our principal beneficial stockholders and their family members are the general and limited partners. We have three leases with the partnership for our principal fabrication and office facilities, the property and equipment acquired in the 1997 acquisition of B&K Steel, and additional office facilities adjacent to our principal office and shop facilities. Each lease has a 20-year term and is subject to increases every five years pursuant to the Consumer Price Index. Our annual rental payments for the three leases were $1.0 million in 2003. During 2002, we amended the leases. The annual rent was reduced to $800,000 from $1.1 million. Effective July 1, 2003, the partnership increased the annual rent to the original amount. See Item 2. "Properties."

Line of Credit

On August 13, 2003, we signed a new $15.0 million credit facility agreement with Wells Fargo Credit, Inc. (the "Bank"). The credit facility is primarily maintained to enable us to issue letters of credit to our performance bond surety and workers' compensation insurance carrier. At December 31, 2003, we had no outstanding borrowings under our credit facility.

The new credit facility is secured by a first priority, perfected security interest in all of our assets and our present and future subsidiaries. The interest rate is prime plus 1.50%. The credit facility contains covenants that, among other things, limit our ability to pay cash dividends or make other distributions, repurchase our

Senior Notes, incur additional indebtedness, change our business, and merge, consolidate or dispose of material portions of our assets. The security agreements pursuant to which our assets are pledged prohibit any further pledge of such assets without the written consent of the bank.

The new credit facility requires that we maintain a specified Debt Service Coverage Ratio (defined as the sum of net income, depreciation and amortization, interest expense and unfinanced capital expenditures divided by the sum of current maturities of long-term debt and interest expense), a minimum book net worth, a minimum monthly stop loss (defined as a net loss not exceeding $500,000 in any one month and $1.0 million in any two consecutive months) and maximum capital expenditures. At December 31, 2003, we were not in compliance with some of these credit facility covenants due to our 2003 financial performance. We received a waiver of such noncompliance from the Bank dated March 19, 2004. We are currently in the process of negotiating the financial covenants for fiscal year 2004. We believe that the covenants for fiscal year 2004 will be similar to and no more restrictive than the covenants for fiscal year 2003.

Although the Bank has waived noncompliance with the credit facility covenants, there is no guarantee that events of noncompliance, if any, will be waived in the future. If we lose and are unable to replace our credit facility, our ability to issue letters of credit to our performance bond surety and workers' compensation insurance carrier would be adversely affected, which is likely to have a material effect on our business.

At December 31, 2003, we had no outstanding borrowings under our line of credit, with approximately $5.1 million available for borrowings.

Standby Letters of Credit

We have $9.9 million of standby letters of credit issued under our $15.0 million credit facility, of which $6.0 million are for the benefit of our performance bond surety and $3.9 million are for the benefit of our workers' compensation insurance carrier.

Our performance bond surety requires that standby letters of credit be issued because of our past financial performance and the surety industry as a whole. Since the terrorist attacks that occurred on September 11, 2001, the number of available reinsurance companies that the sureties assigned their bonding risk to has dramatically decreased. Therefore, our performance bond surety has now been forced to retain a major portion of their risk that was previously assigned to reinsurance companies. Their retention of this risk has caused the surety to require us to issue the standby letters of credit as collateral for our performance bonds. Our collateral requirement will be reviewed periodically and is based upon our overall financial performance. If our financial performance and liquidity improves in the future, our surety may reduce or eliminate the collateral requirements.

Our workers' compensation insurance carrier requires standby letters of credit to be issued as collateral on all of our outstanding indemnity cases. The amount of collateral required is determined each year and is provided to the carrier for outstanding indemnity claims not greater than 54 months old. The prior years' levels of required collateral can be adjusted each year based upon the costs incurred and settlements reached on the outstanding indemnity cases.

These letters of credit are secured by cash held in an investment account, which is classified as restricted funds on deposit on the December 31, 2003 balance sheet. The Bank has required us to deposit cash into an investment account to support the issuance of our standby letters of credit issued under our $15.0 million credit facility. Under the credit facility agreement, the first $5.0 million of standby letters of credit issued require us to deposit cash totaling 100% of the value of those standby letters of credit. When the amount of standby letters of credit issued exceeds $5.0 million, we are required to deposit cash totaling 75% the total outstanding standby letters of credit.

On December 4, 2003, Moody's Investor Service announced its decision to downgrade our ratings to Caa2 (poor standing and subject to very high risk, ranking in the middle of the range) from B3 (speculative and subject to high credit risk, ranking in the low end of the range) for our senior implied and Senior Notes rating and Caa3 (poor standing and subject to very high risk, ranking in the low end of the range) from Caa1 (poor standing and subject to very high risk, ranking in the high end of the range) for our issuer rating. The downgrades were prompted by our sharply declining revenues, operating income and EBITDA, weakened debt protection measures, bank covenant violations and likely asset impairment values in the event of a distress situation. The downgrading of our credit ratings may result in higher borrowing costs on any future financings.

If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt or obtain additional financing. Our ability to make scheduled principal payments, to pay interest on or to refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the construction industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control, including the severity and duration of the economic downturn.

Stock Repurchases

In 2001, our Board of Directors approved the repurchase of up to 300,000 shares under a share repurchase program (the "Share Repurchase Program"). On October 7, 2002, our Board of Directors authorized the repurchase of an additional 300,000 shares under the Share Repurchase Program. Pursuant to the Share Repurchase Program, we repurchased 435,800 shares in the open market for an aggregate cost of $656,000 in 2002. No shares were repurchased during 2003. We repurchased the following shares during 2002:

Period	Total Number of Shares Repurchased	Average Price Paid for Share	Total Amount Paid	Maximum Number of Shares that May Yet Be Purchased Under the Plan
4th Quarter 2001	—	$ —	$ —	300,000
1st Quarter 2002	28,100	2.88	81,000	271,900
2nd Quarter 2002	27,200	2.87	78,000	244,700
3rd Quarter 2002	48,200	1.89	91,000	196,500
4th Quarter 2002	332,300	1.22	406,000	164,200
Total	435,800	$1.51	$656,000	164,200

Off-Balance Sheet Arrangements

The nature of our off-balance sheet arrangements at December 31, 2003 includes letters of credit of $9.9 million and performance bonds of $8.4 million. These items are more fully discussed earlier in this section and in the Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, inventories, intangible assets, income taxes and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We have adopted the following critical accounting policies used in the preparation of our consolidated financial statements.

Revenue Recognition

We perform our services primarily under fixed-price contracts and recognize revenues using the percentage of completion accounting method. Under this method, revenues are recognized based upon either the ratio of costs incurred to date to the estimated total cost to complete the project or the ratio of labor hours incurred to date to the total estimated labor hours. Revenue recognition generally begins when work has commenced. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, we have made an estimate of the amount that will be paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which revisions become known. Estimated losses on contracts are recognized in full when it is determined that a loss will be incurred on a contract.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts receivable based on estimated losses resulting from the inability of our customers to make required payments. In order to estimate the appropriate level of this allowance, we analyze historical payment patterns, aging of accounts receivable, actual write-off history, current economic trends and changes in our customer payment patterns. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

Inventories are stated at the lower of cost or market under the first-in, first-out method. We write down our inventory for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Goodwill Impairment

We assess the impairment of goodwill on an annual basis as required by SFAS No. 142, "Goodwill and Other Intangible Assets." When we determine that the carrying value of goodwill may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In accordance with SFAS No. 142, on January 1, 2002, we ceased to amortize goodwill. SFAS No. 142 requires an assessment of goodwill upon adoption and at least annually thereafter, using a two step methodology. Based upon the assessment at adoption, we recorded a transitional impairment loss of $29.6 million, or $4.11 per basic and diluted earnings per share, as a cumulative effect of an accounting change at the beginning of the first quarter of 2002. We completed our annual assessment of goodwill as of October 31, 2003. Our assessment determined that the fair value exceeded the carrying value of the assets.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual 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, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We have provided for a valuation allowance of $286,000 because we feel that our state net operating loss carryforwards may not be recovered from future taxable income. At December 31, 2003, our net deferred tax asset was $967,000.

Legal Contingencies

We are currently involved in certain legal proceedings. We do not believe these proceedings will have a material adverse effect on our consolidated financial position or results of operations. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates as necessary. Such revisions in our estimates of the potential liability could materially impact our financial position or results of operations.

New Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits". The provisions of this revised statement retain the existing disclosure requirements of the original guidance in SFAS No. 132 and contain additional requirements for both annual and interim reporting. This revision also amends the disclosure requirements under APB Opinion No. 28, "Interim Financial Reporting". The revised statement is effective for fiscal years ending and interim periods beginning after December 15, 2003. The adoption of this Statement had no impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement requires, among other things, the classification of certain financial instruments, previously classified within the equity section of the balance sheet, to be included in liabilities. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and June 15, 2003 for all other instruments. The adoption of this Statement had no impact on our financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This Statement amended and refined certain characteristics of derivative instruments and hedges. The adoption of this Statement had no impact on our financial position or results of operations.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities — An Interpretation of Accounting Research Bulletin ("ARB") No. 51." This interpretation was subsequently revised by FIN 46 (Revised 2003) in December 2003. This revised interpretation states that consolidation of variable interest entities will be required by the primary beneficiary if the entities do not effectively disperse risks among the parties involved. The requirements are effective for fiscal years ending after December 15, 2003 for special-purpose entities and for all other types of entities for periods ending after March 31, 2004. We have no variable interest entities and do not believe that FIN No. 46(R) will impact our future financial results.

Factors That May Affect Future Results and Financial Condition

Our future operating results and financial condition are dependent on a number of factors that we must successfully manage in order to achieve favorable future operating results and financial condition. The following potential risks and uncertainties, together with those mentioned elsewhere herein, including in Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities," could adversely affect our future operating results, financial condition, and the market price of our common stock.

Substantial Leverage and Ability to Service Debt

With our 10½% Senior Notes and existing line of credit facility, we are highly leveraged with substantial debt service in addition to operating expenses and planned capital expenditures. Our 10½% Senior Notes permit us to incur additional indebtedness, subject to certain limitations, including additional secured indebtedness under existing credit facilities. Our level of indebtedness will have several important effects on our future operations, including, without limitation, (i) a substantial portion of our cash flow from operations must be dedicated to the payment of interest and principal on our indebtedness, reducing the funds available for operations and for capital expenditures, including acquisitions, (ii) covenants contained in the Senior Notes or the credit facility or other credit facilities will require us to meet certain financial tests, and other restrictions will limit our ability to borrow additional funds or to dispose of assets, and may affect our flexibility in planning for, and reacting to, changes in our business, including possible acquisition activities, (iii) our leveraged position will substantially increase our vulnerability to adverse changes in general economic, industry and competitive conditions, (iv) our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited and (v) our leveraged position and the various covenants contained in the Senior Notes and the credit facility may place us at a relative competitive disadvantage as compared to certain of our competitors. Our ability to meet our debt service obligations and to reduce our total indebtedness will be dependent upon our future performance, which will be subject to general economic, industry and competitive conditions and to financial, business and other factors affecting our operations, many of which are beyond our control. There can be no assurance that our business will continue to generate cash flow at or above current levels. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things, to seek additional financing in the debt or equity markets, to refinance or restructure all or a portion of our indebtedness, including the Senior Notes, to sell selected assets, or to reduce or delay planned capital expenditures and growth or business strategies. There can be no assurance that any such measures would be sufficient to enable us to service our debt, or that any of these measures could be effected on satisfactory terms, if at all.

Dependence on Construction Industry

We earn virtually all of our revenues in the building construction industry, which is subject to local, regional and national economic cycles. Our revenues and cash flows depend to a significant degree on major construction projects in various industries, including the hotel and casino, retail shopping, health care, mining, computer chip manufacturing, public works and other industries, each of which industries may be adversely affected by general or specific economic conditions. If construction activity does not improve significantly in our principal markets, our business, financial condition and results of operations will continue to be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments."

Rising Steel Prices

Our gross profit can be significantly affected by the cost of steel shapes and plate. Steel scrap is the primary component utilized in the production of structural steel shapes in the United States and is an essential component in the production of steel plate. The price of steel scrap has increased dramatically over the last year and we expect it to continue to increase in the future. If steel prices continue to increase or increase more than we anticipate, our gross profit could be negatively impacted. Additionally, the increased cost of steel could cause owners and contractors of projects to seek out less-expensive alternatives to steel buildings, such as concrete. If the use of steel in the construction of buildings declines significantly, it would have a material adverse effect on our business, financial condition and results of our operations for any period.

Fluctuating Quarterly Results of Operations

We have experienced, and in the future are expected to continue to experience, substantial variations in our results of operations from quarter to quarter as a result of a number of factors, many of which are outside our control. In particular, our operating results may vary because of downturns in one or more segments of the building construction industry, changes in economic conditions, our failure to obtain, or delays in awards of, major projects, the cancellation of major projects, or our failure to timely replace projects that have been completed or are nearing completion. In addition, from time to time we have disputes with our customers concerning change orders to our contracts. To the extent such disputes are not resolved on a timely basis, our results of operations may be affected. Any of the foregoing factors could result in the periodic inefficient or underutilization of our resources and could cause our operating results to fluctuate significantly from period to period, including on a quarterly basis.

Revenue Recognition Estimates

We recognize revenues using the percentage of completion accounting method. Under this method, revenues are recognized based on either the ratio that costs incurred to date bear to the total estimated costs to complete the project or the ratio of labor hours incurred to date to the total estimated labor hours. Estimated losses on contracts are recognized in full when we determine that a loss will be incurred. We frequently review and revise revenues and total cost estimates as work progresses on a contract and as contracts are modified. Accordingly, revenue adjustments based upon the revised completion percentage are reflected in the period that estimates are revised. Although revenue estimates are based upon management assumptions supported by historical experience, these estimates could vary materially from actual results. To the extent percentage of completion adjustments reduce previously reported revenues, we would recognize a charge against operating results, which could have a material adverse effect on our results of operations for the applicable period.

Variations in Backlog; Dependence on Large Contracts

Our backlog can be significantly affected by the receipt, or loss, of individual contracts. For example, approximately $59.4 million, representing 52.4% of our backlog at December 31, 2003, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more large contracts are terminated or their scope reduced, our backlog could decrease substantially. Our future business and results of operations may be adversely affected if we are unable to replace significant contracts when lost or completed, or if we otherwise fail to maintain a sufficient level of backlog. In addition, if a project representing a significant portion of our backlog is delayed or otherwise postponed, our anticipated revenue from that project may not be realized until later than anticipated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business — Backlog."

Fixed Price Contracts

Most of our $113.3 million backlog at December 31, 2003 represented projects being performed on a fixed price basis. In bidding on projects, we estimate our costs, including projected increases in costs of labor, material and services. Despite these estimates, costs and gross profit realized on a fixed price contract may vary from estimated amounts because of unforeseen conditions or changes in job conditions, variations in labor and equipment productivity over the terms of contracts, higher than expected increases in labor or material costs and other factors. These variations could have a material adverse effect on our business, financial condition and results of our operations for any period.

Geographic Concentration

Our fabrication and erection operations currently are conducted primarily in Arizona, Nevada, Florida, Georgia, California and Texas. Because of this concentration, future construction activity and our business may be adversely affected in the event of a downturn in economic conditions existing in these states and in the southwestern and southeastern United States generally. Factors that may affect economic conditions include increases in interest rates or limitations in the availability of financing for construction projects, decreases in the amount of funds budgeted for governmental projects, decreases in capital expenditures devoted to the construction of plants, distribution centers, retail shopping centers, industrial facilities, hotels and casinos, convention centers and other facilities, the prevailing market prices of copper, gold and other metals that impact related mining activity, and downturns in occupancy rates, office space demand, tourism and convention related activity and population growth.

Competition

Many small and various large companies offer fabrication, erection and related services that compete with those we provide. Local and regional companies offer competition in one or more of our geographic markets or product segments. Out of state or international companies may provide competition in any market. We compete for every project we obtain. Although we believe customers consider, among other things, the availability and technical capabilities of equipment and personnel, efficiency, safety record and reputation, price competition usually is the primary factor in determining which qualified contractor is awarded a contract. Competition has resulted in pressure on pricing and operating margins, and the effects of competitive pressure in the industry may continue. In particular, we have encountered severe pricing pressure during the last 6 to 12 months, as smaller competitors have bid on projects at what appears to cost or below in order to remain in business. Some of our competitors have greater capital and other resources than ours and are more established in their respective markets. There can be no assurance that our competitors will not substantially increase their commitment of resources devoted to competing aggressively with us or that we will be able to compete profitably with our competitors.

Substantial Liquidity Requirements

Our operations require significant amounts of working capital to procure materials for contracts to be performed over relatively long periods, and for purchases and modifications of heavy-duty and specialized fabrication equipment. In addition, our contract arrangements with customers sometimes require us to provide payment and performance bonds and, in selected cases, letters of credit, to partially secure our obligations under our contracts, which may require us to incur significant expenditures prior to receipt of payments. Furthermore, our customers often will retain a portion of amounts otherwise payable to us during the course of a project as a guarantee of completion of that project. To the extent the we are unable to receive project payments in the early stages of a project, our cash flow would be reduced, which could have a material adverse effect on our business, financial condition and results of operations.

Capacity Constraints; Dependence on Subcontractors

We routinely rely on subcontractors to perform a significant portion of our fabrication, erection and project detailing to fulfill projects that we cannot fulfill in-house due to capacity constraints or that are in markets in which we have not established a strong local presence. With respect to these projects, our success depends on our ability to retain and successfully manage these subcontractors. Any difficulty in attracting and retaining qualified subcontractors on terms and conditions favorable to us could have an adverse effect on our ability to complete these projects in a timely and cost effective manner.

Dependence Upon Key Personnel

Our success depends on the continued services of our senior management and key employees as well as our ability to attract additional members to our management team with experience in the steel fabrication and erection industry. The unexpected loss of the services of any of our management or other key personnel, or our inability to attract new management when necessary, could have a material adverse effect upon our operations.

Union Contracts

We currently are a party to a number of collective bargaining agreements with various unions representing some of our fabrication and erection employees. These contracts expire or are subject to expiration at various times in the future. Our inability to renew such contracts could result in work stoppages and other labor disturbances, which could disrupt our business and adversely affect our results of operations.

Operating Risks; Litigation

Construction and heavy steel plate weldments involve a high degree of operational risk. Natural disasters, adverse weather conditions, design, fabrication and erection errors and work environment accidents can cause death or personal injury, property damage and suspension of operations. The occurrence of any of these events could result in loss of revenues, increased costs, and liability to third parties. We are subject to litigation claims in the ordinary course of business, including lawsuits asserting substantial claims. Currently, we do not maintain any reserves for our ongoing litigation. We periodically review the need to maintain a litigation reserve. We maintain risk management, insurance, and safety programs intended to prevent or mitigate losses. There can be no assurance that any of these programs will be adequate or that we will be able to maintain adequate insurance in the future at rates that we consider reasonable.

Potential Environmental Liability

Our operations and properties are affected by numerous federal, state and local environmental protection laws and regulations, such as those governing discharges to air and water and the handling and disposal of solid and hazardous wastes. Compliance with these laws and regulations has become increasingly stringent, complex and costly. There can be no assurance that such laws and regulations or their interpretation will not change in a manner that could materially and adversely affect our operations. Certain environmental laws, such as the CERCLA and its state law counterparts, provide for strict and joint and several liability for investigation and remediation of spills and other releases of toxic and hazardous substances. These laws may apply to conditions at properties currently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors come to be located. Although we have not incurred any material environmental related liability in the past and we believe that we are in material compliance with environmental laws, there can be no assurance that we, or entities for which we may be responsible, will not incur such liability in connection with the investigation and remediation of facilities we currently operate (or formerly owned or operated) or other locations in a manner that could materially and adversely affect our operations.

Governmental Regulation

Many aspects of our operations are subject to governmental regulations in the United States and in other countries in which we operate, including regulations relating to occupational health and workplace safety, principally the Occupational Safety and Health Act and regulations thereunder. In addition, we are subject to licensure and hold or have applied for licenses in each of the states in the United States in which we operate and in certain local jurisdictions within such states. Although we believe that we are in material compliance with applicable laws and permitting requirements, there can be no assurance that we will be able to maintain this status. Further, we cannot determine to what extent future operations and earnings may be affected by new legislation, new regulations or changes in or new interpretations of existing regulations.

Forward-Looking Statements

This Annual Report on Form 10-K, including Item 1. "Business," Item 3. "Legal Proceedings" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. Forward-looking statements included in this Form 10-K include our belief that we are well positioned to complete smaller projects throughout the U.S. Sunbelt; diversifying our revenue base with smaller projects will reduce the impact of periodic adverse market or economic conditions as well as potential margin slippage that may accompany larger projects; our bonding capacity provides a competitive advantage; our insurance is adequate for our present needs; our gross profit could be negatively impacted by rising steel prices; our belief that the credit facility covenants for fiscal year 2004 will be similar to and no more restrictive than the covenants for fiscal year 2003; and we have sufficient liquidity through our present resources and the existence of our bank credit facility to meet our near term operating needs. Additional written or oral forward-looking statements may be made by us from time to time in filings with the Securities and Exchange Commission, in our press releases, or otherwise. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. Such statements may include, but not be limited to, the anticipated outcome of contingent events, including consummation of acquisitions and the integration and benefits expected to be derived from the acquired companies, litigation, projections of revenues, income or loss, capital expenditures, plans for future operations, growth and acquisitions, financing needs or plans and the availability of financing, and plans relating to our services, as well as assumptions relating to the foregoing. Such forward-looking statements are within the meaning of that term as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements reflect our current views with respect to future events and financial performance and speak only as of the date the statements are made. Such forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this Annual Report on Form 10-K, including Item 1. "Business," Item 3. "Legal Proceedings" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences. In addition, new factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from forward-looking statements. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 7A *Quantitative and Qualitative Disclosures about Market Risk*

Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments

During 2002 and 2003, we did not participate in any derivative financial instruments, or other financial or derivative commodity instruments.

Primary Market Risk Exposure

We are potentially exposed to market risk associated with changes in interest rates primarily as a result of our 10½% fixed rate Senior Notes in the original principal amount of $100.0 million, which were issued on June 4, 1998. Specifically, we are exposed to changes in the fair value of the remaining $87.0 million in principal amount of the Senior Notes. At December 31, 2003, the fair value of the Senior Notes was approximately 60.0% of par or $52.2 million. From January 1, 2003 to December 31, 2003, the Senior Notes had a fair value that was as low as 60.0% of par and as high as 82.0% of par. The variation in fair value is a function of market interest rate changes and the investor perception of the investment quality of the Senior Notes.

Item 8 *Financial Statements and Supplementary Data*

The Independent Auditors' Report and Consolidated Financial Statements of Schuff International, Inc., including the Notes to such statements, are set forth on pages 50 through 79.

Item 9 *Changes In and Disagreements With Accountants On Accounting and Financial Disclosure*

Ernst & Young LLP served as our independent auditors for the fiscal year ended December 31, 2001. Our contract for services with Ernst & Young LLP expired upon completion of the 2001 audit and on June 3, 2002, we notified Ernst & Young LLP that we had approved the engagement of Deloitte & Touche LLP as our independent auditors for the fiscal year ended December 31, 2002. The decision to change independent auditors was not made as the result of a disagreement of any kind. The change was recommended by our Audit Committee and approved by our Board of Directors.

The audit reports of Ernst & Young LLP on our consolidated balance sheets as of December 31, 2001 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with the audit of the fiscal year ended December 31, 2001 and the interim periods subsequent to December 31, 2001 through June 3, 2002, there were no disagreements between Schuff International and Ernst & Young LLP as to any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure, which such disagreements, if not resolved to the satisfaction of Ernst & Young LLP, would have caused it to make reference to the subject matter of the disagreement in connection with its reports on the financial statements for such periods within the meaning of Item 304(a)(1)(iv) of Regulation S-K. During the fiscal year ended December 31, 2001 and the interim periods subsequent to December 31, 2001 through June 3, 2002, there have been no reportable events (as defined in Item 304(a)(1)(iv) of Regulation S-K).

We did not consult with Deloitte & Touche LLP prior to its engagement regarding the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on the financial statements of Schuff International or any matter that was either the subject of disagreement or a reportable event within the meaning of Item 304 (a) (1) of Regulation S-K.

Item 9A *Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) as of the end of the fiscal period covered by this Form 10-K. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting information required to be disclosed by us in the reports we file or submit under the Exchange Act within the time periods specified in the SEC's rules and forms. There have not been any changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the fiscal period covered by this Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10 *Directors and Executive Officers of the Registrant*

BOARD OF DIRECTORS

This section gives biographical information about our directors and describes their membership on Board committees.

David A. Schuff, 73 — Director since 1976

David A. Schuff has served as the Chairman of the Board of Directors since the Company's inception and is a co-founder of the Company. Mr. Schuff served as President and Chief Executive Officer of the Company from its founding in 1976 to 1995. Mr. Schuff has been involved in the steel fabrication and erection business in a number of capacities since 1958. David A. Schuff is the father of Scott A. Schuff.

Scott A. Schuff, 45 Director since 1976

Scott A. Schuff is the President and Chief Executive Officer of Schuff International, Inc., Schuff Steel Company and a co-founder of the Company. Mr. Schuff has served in numerous capacities with the Company since its founding in 1976, and has been the President and Chief Executive Officer since 1995. Scott A. Schuff is the son of David A. Schuff.

Edward M. Carson, 74 Director since 1997
Member of the Audit Committee
Member of the Compensation Committee

Edward M. Carson was the Chairman of the Board of Directors and Chief Executive Officer of First Interstate Bancorp, a bank holding company, from 1990 through June 1995.

Dennis DeConcini, 66 Director since 1997
Member of the Audit Committee
Member of the Compensation Committee

Dennis DeConcini is a former United States Senator for Arizona and currently is a partner of Parry, Romani, DeConcini and Symms, P.C., a consulting firm based in Washington, D.C., and is a partner of DeConcini McDonald Yetwin & Lacy, P.C., a law firm with offices in Tucson and Phoenix, Arizona, and in Washington, D.C. Mr. DeConcini is a director of Natrol, Inc. and Forensic Technology, Inc. Mr. DeConcini also served, by appointment of the President of the United States, on the Board of Directors of the Federal Home Loan Mortgage Corporation (Freddie Mac), a federally chartered mortgage finance corporation, until May 2000. He is also Chairman of the Board of the National Center for Missing and Exploited Children.

H. Wilson Sundt, 71 Director since 1999
Member of the Audit Committee
Member of the Compensation Committee

H. Wilson Sundt was the Chairman of the Board of Directors of The Sundt Companies, Inc. from January 1999 through December 1999. Mr. Sundt was Chairman of the Board of Directors and Chief Executive Officer of Sundt Corp., a privately-held general construction contracting firm, from 1976 to December 1998, and served as its President from 1979 through 1983. Mr. Sundt also serves as a director of Unisource Energy Corporation. Mr. Sundt has been active in the construction industry since 1957.

Michael R. Hill, 50 Director since 2001

Michael R. Hill has served on the Board of Directors since May 2001, and as the Vice President, Chief Financial Officer, Treasurer and Secretary of the Company since September 30, 2000. Prior to September 30, 2000, Mr. Hill was associated with Motor Coach Industries International, the leading designer, manufacturer, and marketer of inter-city motor coaches and related replacement parts in North America since 1977. Mr. Hill received his B.B.A. degree from Eastern New Mexico University and attended graduate school at the Kellogg School of Management, Northwestern University.

EXECUTIVE OFFICERS

The following are biographies of each of the Company's current executive officers, except for **Scott A. Schuff, David A. Schuff and Michael R. Hill,** whose biographies are included above under "Board of Directors."

Glen S. Davis, 50	**President of Addison Steel, Inc.** Addison Steel, Inc. was acquired by the Company in June 1998. Mr. Davis entered into an employment agreement with the Company in connection with the acquisition. Mr. Davis has been employed with Addison Steel since 1973 and has served as its President since 1989.
Saied Mahdavi, 43	**President of Quincy Joist Company.** Quincy Joist Company was acquired by the Company in June 1998. Mr. Mahdavi entered into an employment agreement with the Company in connection with the acquisition. Mr. Mahdavi has been President of Quincy Joist since January 1990.
Ted F. Rossin, 59	**President of Bannister Steel, Inc.** Bannister Steel, Inc. was acquired by the Company in October 1998. Mr. Rossin has been employed with Bannister Steel since 1979 and has served as its President since June 1996. From 1994 to 1996, Mr. Rossin was Vice President and General Manager of Bannister Steel.
Randy J. Eskelson, 50	**President of Six Industries, Inc. and On-Time Steel Management Holding, Inc.** In August 2001, Mr. Eskelson was appointed President of Six Industries and in May 2003 he was appointed President of On-Time Steel Management Holding, Inc. Mr. Eskelson joined the Company in 1985 as a project manager based in San Diego, California. Since then Mr. Eskelson has held various positions with the Company, including vice president and operations manager for Schuff Steel Company.

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Securities Exchange Act of 1934, as amended, and regulations of the SEC thereunder require our directors, executive officers and persons who own more than 10% of our common stock, as well as certain affiliates of such persons, to file reports with the SEC with respect to their ownership of common stock. Directors, executive officers and persons owning more than 10% of our common stock are required by SEC regulations to furnish us with copies of such reports received by it and written representations that no other reports were required of those persons. We believe that during fiscal 2003 all filing requirements applicable to our directors and executive officers were complied with. We are not aware of any other persons other than directors and executive officers and their affiliates who own more than 10% of our common stock.

Audit Committee

The Audit Committee of the Board of Directors is comprised solely of non-employee directors, each of whom is independent as defined under the current American Stock Exchange listing standards. None of the members of the Audit Committee has any relationship to the Company and its management that may interfere with the Audit Committee's independence from us and our management.

The Board of Directors has determined that the Audit Committee has an audit committee financial expert, Edward Carson. Mr. Carson is independent and for the following reasons is an audit committee financial expert: Mr. Carson has over 50 years of business management experience, including, without limitation, experience in supervising financial and banking personnel as president and former CEO of a major bank. He later became chairman and CEO of the bank's parent company. Mr. Carson has (i) an understanding of generally accepted accounting principles and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience analyzing and evaluating financial statements, (iv) an understanding of internal control over financial reporting, and (v) an understanding of audit committee functions.

In fiscal 2003, the Audit Committee met 10 times and all members were present at each meeting.

Code of Ethics

The Company has a code of ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer and controllers. A copy of this code is incorporated by reference as an exhibit to this annual report on Form 10-K. The Company will provide to any person, without charge, upon request, a copy of the code of ethics. Requests should be addressed to Michael R. Hill, 1841 West Buchanan, Phoenix, Arizona 85007, telephone number 602-252-7787. If we make any amendments to, or grant any waivers of, a provision of the code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controllers, where such amendment or waiver is required to be disclosed under applicable SEC rules, we intend to disclose such amendment or waiver and the reasons therefore on our internet website at www.schuff.com.

Item 11 *Executive Compensation*

The table below sets forth information concerning the annual and long-term compensation for services rendered in all capacities to the Company during each of the years in the three year period ended December 31, 2003, of those persons who were, at December 31, 2003, (i) the Company's Chief Executive Officer and (ii) the four other most highly compensated executive officers of the Company (collectively, the "Named Executive Officers").

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards			
					Awards		Payouts	
Name and Principal Position	Year	Salary $	Bonus $(1)	Other Annual Compensation $(2)	Restricted Stock Award(s) $	Securities Underlying Options/ SAR's	LTIP PAYOUTS $	All Other Compensation $(3)
Scott A. Schuff	2003	$505,841	—	$27,528	—	—	—	$ 3,000
President & Chief	2002	$395,064	—	$28,856	—	—	—	—
Executive Officer	2001	$417,844	$195,495	$ 7,284	—	—	—	$ 2,625
Saied Mahdavi	2003	$305,769	—	$ 8,826				$ 389,333(13)
President,	2002	$300,000	$ 75,000	$10,907	—	—	—	$ 388,663(4)
Quincy Joist Co.	2001	$300,000	$169,745	$ 5,139	—	—(5)	—	$ 604,958(6)
Glen S. Davis..........	2003	$203,845	—	$14,542	—	—	—	$ 363,540(14)
President,	2002	$300,000	$ 86,092	$12,506	—	—	—	$ 266,075(7)
Addison Steel, Inc.	2001	$300,000	$144,070	$ 5,537	—	—(8)	—	$ 389,975(9)
Ted F. Rossin	2003	$407,697	—	$22,271				$ 53,466(15)
President,	2002	$333,656	$ 71,058	$21,278	—	—	—	$ 53,216(10)
Bannister Steel, Inc.	2001	$240,000	$154,835	$19,685	—	—(11)	—	$ 85,092(12)
David A. Schuff........	2003	$475,960	—	$ 8,283				
Chairman of	2002	$390,470	—	$ 8,161	—	—	—	—
The Board	2001	$342,701	$ 30,000	$ 4,324	—	—	—	—

(1) Includes bonus amounts earned and paid in the applicable fiscal year and paid or to be paid in the following fiscal year. Excludes bonuses paid in the applicable fiscal year but earned in the preceding fiscal year.

(2) The aggregate amount of perquisites and other personal benefits, securities or property, given to each Named Executive Officer was less than either $50,000 or 10% of the total annual salary and bonus for that executive during each of these years.

(3) The amounts shown in this column represent the dollar value of contributions made by the Company to the Company's 401(k) retirement savings plan for the benefit of the Named Executive Officers and other compensation as described below.

(4) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,330 and $386,333 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001.

(5) Mr. Mahdavi received an annual stock option grant of 276,000 stock options on February 20, 2001. However, pursuant to the terms of an Agreement to Cancellation of Stock Options and Amended Employment Agreement effective November 12, 2001, the 2001 Annual Options Grant and all prior options granted were cancelled.

(6) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,625, $386,333 pursuant to the terms of an Agreement to Cancellation of Stock Options and $216,000 pursuant to the terms of an Amended Employment Agreement, both agreements effective November 12, 2001, for the cancellation of 664,000 stock options.

(7) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,750 and $263,325 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001.

(8) Mr. Davis received an annual stock option grant of 116,000 stock options on February 20, 2001. However, pursuant to the terms of an Agreement to Cancellation of Stock Options and Amended Employment Agreement effective November 12, 2001, the 2001 Annual Options Grant and all prior options granted were cancelled.

(9) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,625, $263,350 pursuant to the terms of an Agreement to Cancellation of Stock Options and $124,000 pursuant to the terms of an Amended Employment Agreement, both agreements effective November 12, 2001, for the cancellation of 496,000 stock options.

(10) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,750 and $50,466 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001.

(11) Mr. Rossin received an annual stock option grant of 12,800 stock options on February 20, 2001. However, pursuant to the terms of an Agreement to Cancellation of Stock Options and Amended Employment Agreement effective November 12, 2001, the 2001 Annual Options Grant and all prior options granted were cancelled.

(12) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,625, $50,467 pursuant to the terms of an Agreement to Cancellation of Stock Options and $32,000 pursuant to the terms of an Amended Employment Agreement, both agreements effective November 12, 2001, for the cancellation of 73,533 stock options.

(13) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $3,000 and $386,333 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001. Mr. Mahdavi will also receive $386,300 in 2004 pursuant to the terms of the above referenced agreement.

(14) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,181, $263,325 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001, and $98,034 pursuant to the terms of the Second Amendment to Employment Agreement effective September 5, 2002. Mr. Davis will also receive $263,300 in 2004 pursuant to the terms of the above referenced Agreement to Cancellation of Stock Options.

(15) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $3,000 and $50,451 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001. Mr. Rossin will also receive $50,451 in 2004 pursuant to the terms of the above referenced agreement.

Option Grants in Last Fiscal Year

There were no individual grants of stock options during the year ended December 31, 2003 to any of the Named Executive Officers.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

There were no option exercises pertaining to the Named Executive Officers during the year ended December 31, 2003. As of December 31, 2003, there were no outstanding options pertaining to the Named Executive Officers.

Compensation of Directors

Annual Fee: Each non-employee director receives a retainer based on an annualized rate of $20,000. Non-employee directors may elect to receive all or part of their retainer either in shares of the Company's common stock or cash.

Meeting Fees: Each non-employee director receives a fee of:

- $1,000 for attendance at each Board meeting; and
- $700 for attendance at each Board committee meeting not held at the same time as a Board meeting.

Options. Under the Director Compensation Plan, each non-employee director receives an automatic grant of 500 shares of common stock and a non-qualified option to purchase an additional 500 shares of common stock each year as of the third business day following the public release of the Company's fiscal year-end earnings information. For fiscal 2003, Messrs. Carson, DeConcini and Sundt received grants of stock and options to purchase stock under this plan. These annual option grants immediately vest and become exercisable, permitting the holder to purchase shares at their fair market value on the date of grant, which was $1.30 in the case of options granted in 2003. Unless earlier terminated, forfeited or surrendered pursuant to the plan, each option granted will expire on the tenth anniversary date of the grant.

Employment Agreements and Change of Control Arrangements

Employment Agreements

There were no changes to employment agreements between the Company and any of the Named Executive Officers during the year ended December 31, 2003. There were no severance agreements between the Company and any of the Named Executive Officers.

Change of Control Arrangements

If the Company sells all or substantially all of its assets, or merges with or into another corporation, stock options outstanding under the Company's 1997 Stock Option Plan are required to be assumed or equivalent options are required to be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Company's Board of Directors determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the option holder will have the right to exercise his or her option, including shares as to which such option would not otherwise be exercisable. If the Board makes options fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board must notify the option holder that the option is fully exercisable for a period of 30 days from the date of such notice and the option will terminate upon the expiration of such period, but not later than the expiration of the term of the option.

Compensation Committee Report on Executive Compensation

Objectives

Our compensation program for executive officers consists of two key elements:

- a base salary, and
- a performance-based annual bonus

The Compensation Committee believes that this two-part approach best serves our interests and those of our stockholders. As described more fully below, each element of our executive compensation program has a somewhat different purpose.

The two-part approach enables us to meet the requirements of the competitive environment in which we operate while ensuring that executive officers are compensated in a way that advances both the short-term and long-term interests of the stockholders. Under this approach, compensation for these officers was ultimately based upon:

- the Committee's assessment of the executive officers' performance,
- the continuing demand for superior executive talent,
- the Company's overall performance, and
- the Company's future objectives and challenges.

Our philosophy is to pay base salaries to executives that reward these executives for ongoing performance throughout the year and that enable us to attract, motivate and retain highly-qualified executives. The annual bonus program is designed to reward executives for performance and is based primarily on our financial results. The Board believes that these compensation components provide a balanced approach that enables us to attract and retain experienced executives, reward such executives for their individual and collective contribution to our profitability, and ensure that the incentives of our executives are aligned with the best interests of our stockholders.

The Board's decisions concerning the specific 2003 compensation elements for individual executive officers, including the Chief Executive Officer, were made within this broad framework and in light of each executive officer's level of responsibility, performance, current salary and prior-year bonus and other compensation awards. As noted below, in most cases the Board's specific decisions involving 2003 executive officer compensation were ultimately based upon the Board's judgment regarding the individual executive officer's performance, potential future contributions, and whether each payment or award would provide an appropriate reward and incentive for such officer to sustain and enhance our long-term performance.

In addition to the foregoing, the base salary, annual bonus, and other related compensation for Messrs. Davis, Mahdavi, and Rossin were primarily established through negotiations with the executives at the time we acquired Addison Steel, Quincy Joist and Bannister Steel in fiscal 1998, and is set forth in the executives' respective employment agreements with us as described above.

Base Salaries:

The Board typically establishes each executive's base salary at a level that is designed to reflect that executive's position and responsibility within the Company, to attract and retain highly-qualified executives, and to be competitive with similarly situated executives at steel services companies of similar size and revenue levels. The Board also takes into account, among other things, the individual executive's experience and performance during the past year.

Annual Bonuses:

Bonuses typically are paid based upon the Board's judgment regarding the significance of the individual executive officer's contributions during a given year and our overall financial performance. Our bonus plan generally makes such bonuses substantially contingent upon our achievement of certain objective performance goals related to revenue and net income, although the plan does not preclude discretionary bonuses based upon other factors, such as individual achievement. However, no bonuses were paid based on 2003 performance.

Other Benefits

Certain executives also participate in various other benefit plans, including medical plans and a 401(k) plan, which are generally available to all employees of the Company.

Compensation of the Chief Executive Officer

In 2003, our President, Chief Executive Officer and co-founder, Scott A. Schuff, received a base salary of $505,841. Mr. Schuff's salary was determined based on his extraordinary contributions to the Company, our historical operating performance and his continuing contributions in his role as President and Chief Executive

Officer of Schuff International, Inc. and Schuff Steel Company. Due to the difficult economic circumstances in which we operated in 2003, Mr. Schuff requested that he receive no bonus. The Board believes that our success continues to depend to a great extent upon the efforts of Mr. Schuff.

Deductibility of Executive Compensation Under Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code, adopted as part of the Revenue Reconciliation Act of 1993, provides that executive compensation in excess of $1.0 million is not deductible for corporate income tax purposes unless it is performance-based and is paid under a plan meeting requirements set forth in Section 162(m). The Committee intends to ensure that our executive compensation programs continue to satisfy the requirements of Section 162(m). However, the Committee may determine, based on business considerations, that compensation should be paid even if it is not deductible under Section 162(m).

Dennis DeConcini
Edward M. Carson
H. Wilson Sundt
As Members of the Compensation Committee

Compensation Committee Interlocks and Insider Participation

The following non-employee directors were the members of the Compensation Committee of the Board of Directors through December 2003: Messrs. Carson, Sundt and DeConcini. None of the members of the Compensation Committee is an executive officer of the Company. No member of the Compensation Committee is or ever has been an employee of the Company and no executive officer of the Company has served as a director or board member of a compensation committee of another company of which any member of the Committee is an executive officer.

The Compensation Committee met five times during fiscal 2003. Mr. Sundt was unable to attend one meeting. All members were present at the other four committee meetings.

Stock Price Performance Graph

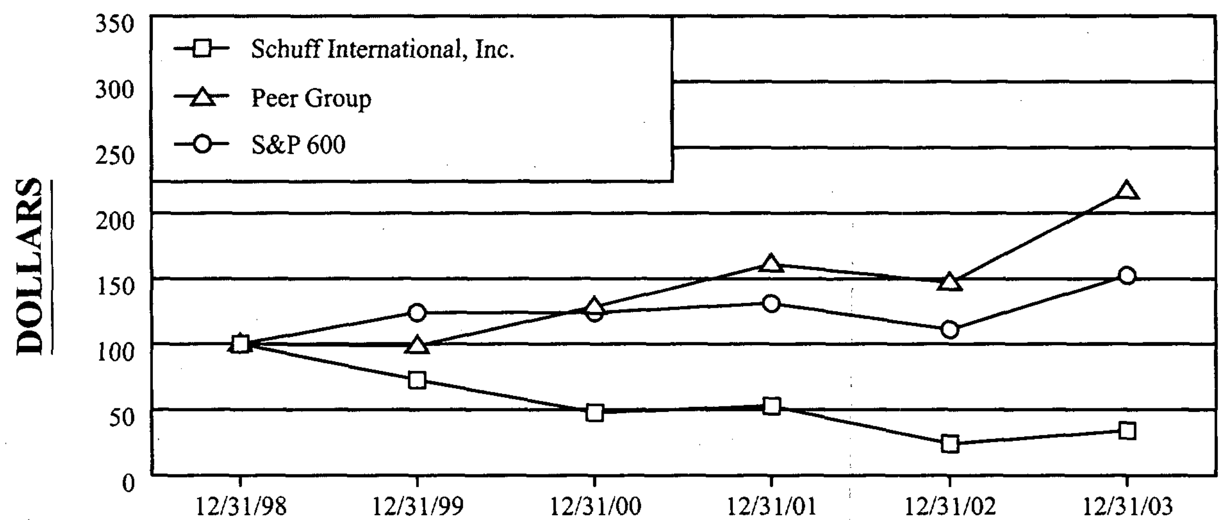
The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) of (i) the Company's common stock, (ii) the Standard & Poor's Small Cap 600 Stock Index ("S&P 600") and (iii) a peer group index selected by the Company (the "Peer Group"), from July 7, 1997 (the date of the Company's initial public offering) through December 31, 2003 (the end of the Company's fiscal year). The Peer Group was selected by the Company on an industry basis and includes:

- Ameron International Corporation
- Granite Construction Incorporated
- Jacobs Engineering Group Inc.
- Simpson Manufacturing Co., Inc.
- Foster Wheeler Corporation
- Northwest Pipe Company
- Meadow Valley Corporation
- Williams Industries, Inc.
- Gulf Island Fabrication, Inc.
- Pitt-Des Moines, Inc.
- Fluor Corporation
- Chicago Bridge & Iron Co. N.V.

The graph assumes that $100 was invested on July 7, 1997 in the Company's common stock and in each of the comparison indices, and assumes that all dividends paid were reinvested. The comparisons in the graph are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's common stock.

Comparison of Cumulative Total Return Among
Schuff International, Inc., the S&P 600 and the Peer Group

TOTAL RETURN TO STOCKHOLDERS
(Assumes $100 investment on 12/31/98)



Total Return Analysis

	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
Schuff International, Inc.	$100.00	$ 72.73	$ 47.64	$ 52.73	$ 23.82	$ 33.82
Peer Group	$100.00	$ 98.54	$128.30	$161.05	$147.01	$216.87
S&P 600	$100.00	$123.81	$123.81	$130.91	$110.86	$152.47

Source: CTA Public Relations www.ctapr.com (303) 665-4200. Data from BRIDGE Information Systems, Inc.

Item 12 *Security Ownership Of Certain Beneficial Owners And Management*

The following table sets forth, as of March 17, 2004, the number and percentage of outstanding shares of common stock beneficially owned by each person known by the Company to beneficially own more than 5% of such stock, by each director and Named Executive Officer of the Company, and by all directors and executive officers of the Company as a group.

Name & Address of Beneficial Owner(1)	Shares Beneficially Owned	Shares Subject to Unexercised Options(3)	Percentage Owned
David A. Schuff and Nancy A. Schuff(2),	2,553,000(4)	—	36.1%
Scott A. Schuff and Teryl H. Schuff(2),	2,469,200(5)	—	35.0%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	369,200(6)	—	5.23%
Glen S. Davis(2)	21,132	—	*
Saied Mahdavi(2)	3,295	—	*
Ted F. Rossin(2)	5,000	—	*
Edward M. Carson(2)	56,069	11,000	*
H. Wilson Sundt(2)	24,684	2,500	*
Dennis DeConcini(2)	34,596	11,000	*
Michael R. Hill(2)	12,800	12,800	*
All Directors and Executive Officers as a group (10 persons)	5,244,885	97,900	74.3%

* Represents less than 1% of the Company's outstanding common stock.

(1) This information regarding beneficial ownership of the Company's common stock by certain beneficial owners and management of the Company is as of March 17, 2004. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date set forth above through the exercise of any option, warrant, or right. Shares of common stock subject to options, warrants, or rights that are currently exercisable or exercisable within 60 days are deemed outstanding for the purpose of computing the percentage of the person holding such options, warrants, or rights, but are not deemed outstanding for computing the percentage of any other person. The amounts and percentages are based upon 7,063,122 shares of common stock outstanding as of March 17, 2004. The persons named in the table, to the Company's knowledge, have sole voting and sole dispositive power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the footnotes hereunder.

(2) The address of each of the listed stockholders is 1841 West Buchanan Street, Phoenix, Arizona 85007.

(3) The number of Shares Beneficially Owned includes Shares Subject to Unexercised Options which are exercisable on March 17, 2004, or within 60 days thereafter.

(4) 2,053,000 of these shares are owned by the Schuff Family Trust Under Trust Agreement dated June 28, 1983, as amended, and 500,000 of these shares are owned by the Schuff Irrevocable Trust Under Trust Agreement Dated December 31, 1996. David A. Schuff and Nancy A. Schuff, husband and wife, are co-trustees of each of the trusts and exercise voting and investment power over such shares.

(5) 2,269,200 of these shares are owned by the Scott A. Schuff Family Trust Under Trust Agreement dated March 12, 1992, as amended, and 200,000 of these shares are owned by the Scott A. Schuff Irrevocable Trust Under Trust Agreement dated December 31, 1996, as amended. Scott A. Schuff and Teryl Hall Schuff, husband and wife, are co-trustees of each of these trusts and exercise voting and investment power over such shares.

(6) Amount based on last filed Schedule 13G/A effective December 31, 2003.

Item 13 ***Certain Relationships and Related Transactions***

On June 29, 2001, a holding company form of organizational structure was adopted to provide a framework that generally allows for greater administrative and operational flexibility. The new structure was consummated by the merger of Schuff Merger Company into Schuff Steel Company, which was the surviving corporation. Prior to the merger, Schuff Merger Company was a wholly-owned subsidiary of Schuff International, Inc., a holding company and initially a wholly-owned subsidiary of Schuff Steel Company. As a result of the merger, Schuff Merger Company ceased to exist, and Schuff Steel Company became a wholly-owned subsidiary of Schuff International, Inc., with all of Schuff Steel Company's outstanding common stock converted, on a share for share basis, into common stock of Schuff International, Inc.

Since its inception, the Company has maintained business relationships and engaged in certain transactions with the affiliated companies and parties described below. Since the closing of its initial public offering in July 1997, all transactions between the Company and its affiliated entities, executive officers, directors, or significant stockholders have been approved by a majority of the non-employee directors of the Company. The Company also believes these transactions were on terms that were no less favorable to the Company than the Company could have obtained from non-affiliated parties.

The Company leases some of its fabrication and office facilities from 19th Avenue/Buchanan Limited Partnership, an Arizona limited partnership (the "Schuff Partnership"). The general and limited partners of the Schuff Partnership are David A. Schuff, Scott A. Schuff, and certain of their family members. David A. Schuff is a co-founder and the Chairman of the Board of Directors of the Company, and Scott A. Schuff is a Director and the President and Chief Executive Officer of the Company. David A. Schuff and Scott A. Schuff presently are the beneficial owners of approximately 71% of the issued and outstanding common stock of the Company. See "Security Ownership of Principal Stockholders and Management."

The Company has three leases with the Schuff Partnership for its principal fabrication and office facilities, the property and equipment acquired in the 1997 acquisition of B&K Steel, and additional office facilities adjacent to the Company's principal office and shop facilities. Each lease has a 20 year term and is subject to increases every five years based on increases in the Consumer Price Index. The Company's annual rental payments for the three leases were approximately $1.0 million in 2003. During 2002, the Company amended all three leases. The annual rent was reduced to $800,000 from $1.1 million. Effective July 1, 2003, the Schuff Partnership increased the rent to the original amount.

Item 14 *Principal Accountant Fees and Services*

Audit Fees and Non-Audit Fees

The following table presents fees billed and accrued for professional services rendered by Deloitte and Touche LLP for the audit of our financial statements for 2003 and 2002, respectively, and fees billed and accrued for other services rendered by Deloitte and Touche LLP.

	2003	2002
Audit fees (filing of 10-K and 10-Q's)	$418,675	$319,000
Audit-Related Fees(1)	33,000	32,400
Tax Fees	—	—
All Other Fees	—	—
	$451,675	$351,400

(1) Includes fees related to employee benefit plan audits.

The Audit Committee approved all the audit and non-audit services, and related fees provided to us by the independent auditors prior to the services being performed.

Audit Committee Pre-Approval Procedures for Independent Auditor-Provided Services

Our Audit Committee must pre-approve all allowable services provided by our independent auditors and related fees associated with those services. The following procedures govern the pre-approval process for audit and permitted non-audit services provided by our independent auditors.

Audit Services

Any specific audit service incorporated within the independent auditor's engagement letter approved by the Audit Committee is deemed pre-approved. The following specific audit services and estimated fees are identified in the independent auditor's annual service plan approved by our Audit Committee each year:

- Annual audit of Schuff International's consolidated financial statements
- Audit services related to Schuff International's quarterly Form 10-Q filings

The pre-approval requirement is therefore met for these specific audit services.

Accounting Research and Consultation Services

The independent auditors may provide accounting research and consultation services to assist with analysis and decision-making and to evaluate the impact on financial statements of new accounting pronouncements. Because this line item represents a broad category of services, specific services falling within this category must be individually pre-approved.

Pre-Approval Procedures

The following pre-approval procedures are followed for proposed permitted, non-audit services:

- Management documents the purpose, scope and estimated fees of the proposed service.
- Our Audit Committee considers the proposed service for approval, including:
  - Business purpose
  - Reasonableness of estimated fees
  - Potential impact on external auditor independence (relative to both the service individually and collectively with other non-audit services)
- Approved non-audit services and related fees will be noted in meeting minutes of our Audit Committee.

Monitoring and Reporting

At each regular Audit Committee meeting:

- The Audit Committee Chair will review any non-audit services and related fees pre-approved subsequent to the last committee meeting.
- Management will summarize independent auditor services and fees paid to date and report whether such services and fees have been pre-approved in accordance with the required pre-approval process.

Item 15 ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a)(1) *Consolidated Financial Statements*

The following documents are filed as part of this Annual Report on Form 10-K:

(a)(2) *Financial Statement Schedules*

The financial statement schedules have been omitted since the information required to be set forth therein is contained elsewhere herein or are not required.

(a)(3) *Exhibits*

The following exhibits are filed as part of this Annual Report on Form 10-K.

Exhibit Number	Description
3.1	— Certificate of Incorporation of the Registrant(5)
3.2	— Bylaws of the Registrant(5)
4.1	— Certificate of Incorporation of the Registrant (filed as Exhibit 3.1)
4.2	— Form of Certificate representing Common Stock(1)
4.3	— Indenture dated June 4, 1998, by and between the Company and Harris Trust Company of California, as Trustee(2)
4.4	— Registration Rights Agreement dated June 4, 1998, by and among the Company, the Guarantors (as defined therein), Donaldson, Lufkin & Jenrette Securities Corporation, Jefferies & Company, Inc., and Friedman, Billings, Ramsey & Co., Inc.(2)
4.5	— Form of 10 ½% Senior Note due June 1, 2008(4)
10.1	— Lease dated March 1, 1997 for 420 S. 19th Avenue in Phoenix, Arizona between 19th Avenue/Buchanan Limited Partnership and the Registrant(1)
10.1.1	— Amendment dated September 1, 2002 to lease dated March 1, 1997 for 420 S. 19th Avenue in Phoenix, Arizona between 19th Avenue/Buchanan Limited Partnership and the Registrant(6)
10.3	— Lease dated March 1, 1997 for 619 N. Cooper Road in Gilbert, Arizona between 19th Avenue/Buchanan Limited Partnership and the Registrant(1)
10.2.1	— Amendment dated September 1, 2002 to lease dated March 1, 1997 for 619 N. Cooper Road in Gilbert, Arizona between 19th Avenue/Buchanan Limited Partnership and the Registrant(6)
10.3	— Lease dated May 1, 1997 for 1841 W. Buchanan Street in Phoenix, Arizona between 19th Avenue/Buchanan Limited Partnership and the Registrant(1)
10.3.1	— Amendment dated September 1, 2002 to lease dated May 1, 1997 for 1841 W. Buchanan Street in Phoenix, Arizona between 19th Avenue/Buchanan Limited Partnership and the Registrant(6)
10.4(a)	— Schuff International, Inc. 1997 Stock Option Plan(1)*
10.4(b)	— Schuff International, Inc. 1997 Stock Option Plan (Amended and Restated as of April 24, 1998)(3)*

Exhibit Number		Description
10.4(c)	—	Form of Incentive Stock Option Agreement for 1997 Stock Option Plan(1)*
10.4(d)	—	Form of Non-Qualified Stock Option Agreement for 1997 Stock Option Plan(1)*
10.5	—	Form of Indemnity Agreement between the Registrant and its directors(1)
10.6	—	Schuff International, Inc. 1998 Director Compensation Plan(4)*
10.6(a)	—	Schuff International, Inc. Director Compensation Plan and First Amendment(8)
10.7	—	Credit and Security Agreement dated August 13, 2003 by and between Schuff International, Inc., other Persons listed therein and Wells Fargo Credit, Inc.(7)
14.1	—	Code of Ethics(6)
21.1	—	Subsidiaries of the Registrant
23.1	—	Consent of Deloitte & Touche LLP, independent auditors
23.2	—	Consent of Ernst & Young LLP, independent auditors
24.1	—	Power of Attorney of David A. Schuff
24.2	—	Power of Attorney of Dennis DeConcini
24.3	—	Power of Attorney of Edward M. Carson
24.4	—	Power of Attorney of H. Wilson Sundt
24.5	—	Power of Attorney of Ted Rossin
24.6	—	Power of Attorney of Randy J. Eskelson
24.7	—	Power of Attorney of Sam Mahdavi
24.8	—	Power of Attorney of Glen S. Davis
31.1	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	—	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates a management contract or compensation plan.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-26711), effective June 26, 1997.

(2) Incorporated by reference to the Company's Current Report on Form 8-K/A, filed June 19, 1998.

(3) Incorporated by reference to the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders, filed May 28, 1998 (File No 0-22715).

(4) Incorporated by reference to the Company's Registration Statement on Form S-4 (Registration No. 333-58123), effective July 21, 1998.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

(7) Incorporated by reference to the Company's Current Report on Form 8-K, filed September 2, 2003

(8) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-107099), effective July 16, 2003

(b) Reports on Form 8-K/none

(c) See Item 15(a) (3) above.

(d) See "Financial Statements and Supplementary Data" included under Item 8 to this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCHUFF INTERNATIONAL, INC.,
a Delaware corporation

/s/ SCOTT A. SCHUFF
Scott A. Schuff
President and Chief Executive Officer

Date: March 29, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name and Signature	Title	Date
/s/ SCOTT A. SCHUFF Scott A. Schuff	President, Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2004
/s/ MICHAEL R. HILL Michael R. Hill	Vice President and Chief Financial Officer, Secretary, Treasurer and Director (Principal financial and accounting officer)	March 29, 2004
/s/ MICHAEL R. HILL* David A. Schuff	Chairman of the Board of Directors	March 29, 2004
/s/ MICHAEL R. HILL* Dennis DeConcini	Director	March 29, 2004
/s/ MICHAEL R. HILL* Edward M. Carson	Director	March 29, 2004
/s/ MICHAEL R. HILL* H. Wilson Sundt	Director	March 29, 2004

*By: Michael R. Hill
Attorney-in-Fact

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Schuff International, Inc.
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Schuff International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated statements of operations, stockholders' equity and cash flows of Schuff International, Inc. and subsidiaries for the year ended December 31, 2001 were audited by other auditors whose report, dated February 15, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, such 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of Schuff International, Inc and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets with indefinite lives as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was effective January 1, 2002.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 26, 2004

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Schuff International, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Schuff International, Inc. for the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above of Schuff International, Inc. present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Phoenix, Arizona
February 15, 2002

SCHUFF INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	December 31 2003	December 31 2002
	(In thousands, except for share data)	
ASSETS (Note 7)		
Current assets:		
Cash and cash equivalents	$ 7,645	$ 10,755
Restricted funds on deposit (Note 7)	7,513	3,468
Receivables (Note 3)	48,923	62,405
Income tax receivable (Note 8)	2,491	—
Costs and recognized earnings in excess of billings on uncompleted contracts (Note 3)	10,723	16,139
Inventories (Note 4)	4,374	4,714
Deferred tax asset (Note 8)	2,695	2,317
Prepaid expenses and other current assets	736	590
Total current assets	85,100	100,388
Property, plant and equipment, net (Note 5)	24,394	27,132
Goodwill, net	17,115	17,115
Other assets	3,673	3,710
	$130,282	$148,345
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,946	$ 12,707
Accrued payroll and employee benefits	3,400	5,015
Accrued interest	798	810
Other current liabilities (Note 6)	7,019	5,922
Billings in excess of costs and recognized earnings on uncompleted contracts (Note 3)	8,464	13,521
Income taxes payable (Note 8)	—	23
Current portion of long-term debt (Note 7)	—	81
Total current liabilities	31,627	38,079
Long-term debt, less current portion (Note 7)	87,040	91,170
Deferred income taxes (Note 8)	1,728	1,912
Other liabilities	356	1,713
Minority interest	46	117
Commitments and Contingencies (Notes 7, 9, 11, 12 and 13)		
Stockholders' equity (Notes 7 and 11):		
Preferred stock, $.001 par value — authorized 1,000,000 shares, none issued	—	—
Common stock, $.001 par value — authorized 20,000,000 shares, 7,472,757 and 7,372,894 shares issued; 7,036,957 and 6,937,094 outstanding, respectively	7	7
Additional paid-in capital	15,369	15,248
Retained earnings	(5,235)	755
Treasury stock (435,800 shares), at cost	(656)	(656)
Total stockholders' equity	9,485	15,354
	$130,282	$148,345

See accompanying notes.

SCHUFF INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31		
	2003	2002	2001
	(In thousands, except per share data)		
Revenues	$174,245	$230,985	$234,061
Cost of revenues	151,897	198,524	189,745
Gross profit	22,348	32,461	44,316
General and administrative expenses	23,635	23,627	28,368
Goodwill amortization	—	—	2,165
Operating (loss) income	(1,287)	8,834	13,783
Interest expense	(10,111)	(10,542)	(10,875)
Other income	1,831	1,609	1,604
(Loss) income before income tax benefit (provision), minority interest and cumulative effect of a change in accounting principle	(9,567)	(99)	4,512
Income tax benefit (provision) (Note 8)	3,505	287	(2,037)
(Loss) income before minority interest and cumulative effect of a change in accounting principle	(6,062)	188	2,475
Minority interest in loss of subsidiaries	72	32	—
(Loss) income before cumulative effect of a change in accounting principle	(5,990)	220	2,475
Cumulative effect of a change in accounting principle	—	(29,591)	—
Net (loss) income	$ (5,990)	$(29,371)	$ 2,475
Basic (loss) income per share:			
(Loss) income per share before cumulative effect of a change in accounting principle	$ (0.85)	$ 0.03	$ 0.34
Cumulative effect per share of a change in accounting principle	—	(4.11)	—
(Loss) income per share	$ (0.85)	$ (4.08)	$ 0.34
Diluted (loss) income per share:			
(Loss) income per share before cumulative effect of a change in accounting principle	$ (0.85)	$ 0.03	$ 0.33
Cumulative effect per share of a change in accounting principle	—	(4.11)	—
(Loss) income per share	$ (0.85)	$ (4.08)	$ 0.33
Weighted average shares used in computation:			
Basic	7,009	7,199	7,227
Diluted	7,009	7,199	7,394

See accompanying notes.

SCHUFF INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Retained	Treasury	
	Shares	Amount	Capital	Earnings	Stock	Total
			(In thousands)			
Balance at January 1, 2001	7,161	$ 7	$14,742	$27,651	$ —	$42,400
Net income	—	—	—	2,475	—	2,475
Issuance of common stock	91	—	202	—	—	202
Issuance of stock awards	9	—	39	—	—	39
Exercise of stock options	2	—	6	—	—	6
Balance at December 31, 2001	7,263	7	14,989	30,126	—	45,122
Net loss	—	—	—	(29,371)	—	(29,371)
Issuance of common stock	70	—	168	—	—	168
Issuance of stock awards	40	—	91	—	—	91
Purchase of treasury stock, at cost	(436)	—	—	—	(656)	(656)
Balance at December 31, 2002	6,937	$ 7	15,248	755	(656)	15,354
Net loss	—	—	—	(5,990)	—	(5,990)
Issuance of common stock	78	—	88	—	—	88
Issuance of stock awards	22	—	33	—	—	33
Balance at December 31, 2003	7,037	$ 7	$15,369	$ 5,235	$(656)	$ 9,485

See accompanying notes

SCHUFF INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Operating Activities			
Net (loss) income	$(5,990)	$(29,371)	$ 2,475
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	4,159	4,427	6,652
Cumulative effect of a change in accounting principle	—	29,591	—
Gain from extinguishment of debt	(1,148)	(748)	(151)
Gain on disposals of property, plant and equipment	(298)	(79)	(41)
Gain on disposal of long-term investment	—	—	(107)
Deferred income taxes	(562)	(735)	(268)
Minority interest in loss of subsidiaries	(72)	(32)	—
Stock awards	33	91	39
Changes in operating assets and liabilities:			
Restricted funds on deposit	(4,045)	(3,468)	—
Receivables	13,482	(2,451)	1,475
Costs and recognized earnings in excess of billings on uncompleted contracts	5,416	(846)	(5,718)
Inventories	340	2,500	4,104
Prepaid expenses and other current assets	(146)	(61)	(106)
Accounts payable	(761)	4,822	632
Accrued payroll and employee benefits	(1,615)	593	69
Accrued interest	(12)	(134)	(49)
Other current liabilities	1,097	1,569	(701)
Billings in excess of costs and recognized earnings on uncompleted contracts	(5,057)	4,719	(3,911)
Income taxes payable/receivable	(2,514)	635	(2,811)
Other liabilities	(1,357)	(338)	1,638
Net cash provided by operating activities	950	10,684	3,221
Investing activities			
Acquisitions of property, plant and equipment	(1,508)	(971)	(4,360)
Proceeds from disposals of property, plant and equipment	565	194	154
Proceeds from sale of long-term investment	—	—	132
(Increase) decrease in other assets	(210)	213	(228)
Net cash used in investing activities	(1,153)	(564)	(4,302)
Financing activities			
Proceeds from revolving line of credit and long-term debt	—	—	1,689
Principal payments on revolving line of credit and long-term debt	(2,777)	(3,613)	(7,303)
Proceeds from exercise of stock options and stock purchase plan	88	168	208
Payment of debt issuance costs	(218)	—	—
Purchase of treasury stock	—	(656)	—
Minority interest	—	150	—
Net cash used in financing activities	(2,907)	(3,951)	(5,406)
(Decrease) increase in cash and cash equivalents	(3,110)	6,169	(6,487)
Cash and cash equivalents at beginning of year	10,755	4,586	11,073
Cash and cash equivalents at end of year	$ 7,645	$ 10,755	$ 4,586

See accompanying notes

SCHUFF INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003

1. Name and Organizational Structure Change

On June 29, 2001, Schuff Steel Company completed a corporate reorganization involving the formation of a parent holding company, Schuff International, Inc. Through the reorganization, Schuff Steel Company became a direct wholly-owned subsidiary of Schuff International, Inc. and all of Schuff Steel Company's outstanding common stock was converted, on a share-for-share basis, into common stock of Schuff International, Inc.

2. Summary of Significant Accounting Policies

Description of Business

Schuff International, Inc. and its wholly-owned subsidiaries ("Schuff" or the "Company") are primarily steel fabrication and erection contractors with headquarters in Phoenix, Arizona and operations in Arizona, Florida, Georgia, Texas and California. The Company's construction projects are primarily in Arizona, Nevada, California, Florida, Georgia and Texas.

Principles of Consolidation

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

Operating Cycle

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

Cash and Cash Equivalents

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

Inventories

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

Long-Lived Assets with Definite Lives

In accordance with Financial Accounting Standards Board ("FASB") Statement of Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company evaluates the recoverability of property, plant and equipment with definite lives not held for sale by comparing the carrying amount of the asset or group of assets against the estimated undiscounted future cash flows expected to result from the use of the asset or group of assets and their eventual disposition. If the undiscounted cash flows are less than the carrying value of the asset or group of assets being evaluated, an impairment loss is recorded. The loss is measured as the difference between the fair value and carrying value of the asset or group of assets being evaluated. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less cost to sell. The estimated fair value is based on the best information available under the circumstances, including prices for similar assets or the results of valuation techniques, including the present value of expected future cash flows using a discount rate commensurate with the risks involved.

Property, Plant and Equipment

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

Goodwill

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets." Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed at least annually for impairment.

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

In connection with adopting this standard as of January 1, 2002, during the first quarter of 2002 the Company completed step one of the test for impairment, which indicated that the carrying values of certain reporting units exceeded their estimated fair values, as determined utilizing various evaluation techniques including discounted cash flow and comparative market analysis. Given the indication of a potential impairment, the Company completed step two of the test. Based on that analysis, a transitional impairment loss of $29.6 million, or $4.11 per basic and diluted earnings per share, was recognized as the cumulative effect of a change in accounting principle. The impairment charge resulted from declining results given current and expected future economic conditions in the Commercial — Pacific, Commercial — Southeast and Manufacturing — Other segments. The enterprise values of the reporting units were estimated by a third party appraisal firm considering both income and market multiple approaches. The impaired goodwill was not deductible for tax purposes, and as a result, no tax benefit was recorded in relation to the charge.

The following table presents the pro forma financial results for the year ended December 31, 2001, on a basis consistent with the new accounting principle (in thousands, except per share data):

Reported net income before cumulative effect of a change in accounting principle	$2,475
Add back goodwill amortization	2,165
Adjusted net income	$4,640
Income per share — basic	$ 0.64
Income per share — diluted	$ 0.63

The changes in the carrying amount of goodwill for the year ended December 31, 2002 were as follows:

	Commercial		Manufacturing	
	Pacific	Southeast	Other	Total
	(In thousands)			
Balance at January 1, 2002	$11,233	$23,536	$11,937	$46,706
Transitional impairment charge	8,924	12,098	8,569	29,591
Balance at December 31, 2002	$ 2,309	$11,438	$ 3,368	$17,115

There were no changes in the carrying amount of goodwill for the year ended December 31, 2003.

Revenue and Cost Recognition

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

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

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

Income (Loss) Per Common Share

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

Stock Options

The Company has a stock-based employee compensation plan, which is described in more detail in Note 11. The Company generally grants stock options for a fixed number of shares to employees and directors with an exercise price equal to the fair market value of the shares at the date of grant. The Company accounts for stock option grants to employees and directors under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure.* Accordingly, no compensation cost has been recognized for these stock option grants. Awards under the plan vest over periods ranging from immediate vesting to five years, depending upon the type of award. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period presented, using the Black-Scholes valuation model.

	Year Ended December 31		
	2003	2002	2001
		(In thousands)	
Net (loss) income as reported	$(5,990)	$(29,371)	$2,475
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	231	462	—
Pro forma net (loss) income	$(6,221)	$(29,833)	$2,475
(Loss) income per share — basic — as reported	$ (0.85)	$ (4.08)	$ 0.34
Pro forma (loss) income per share — basic	$ (0.89)	$ (4.14)	$ 0.34
(Loss) income per share — diluted — as reported	$ (0.85)	$ (4.08)	$ 0.33
Pro forma (loss) income per share — diluted	$ (0.89)	$ (4.14)	$ 0.33

Stock Purchase Plan

The Company adopted the 1999 Employee Stock Purchase Plan (the "Stock Purchase Plan") effective January 1, 1999 whereby eligible employees (as defined) of the Company and its subsidiaries may purchase common stock of the Company through payroll deductions. The Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. Subject to adjustments, the total number of shares reserved and available for issuance under the Stock Purchase Plan is 350,000 shares. The purchase price for each share of common stock purchased under the Stock Purchase Plan will equal 85% of the lesser of the fair market value of a share of common stock on the first day of an offering period or on the last day of an offering period. The offering period is defined as the period beginning January 1, 1999 and ending June 30, 1999, and every six-month period thereafter, with the second offering period beginning on July 1, 1999 and ending December 31, 1999. During 2003, 2002 and 2001, employees of the Company purchased an aggregate of approximately 78,000, 70,000 and 91,000 shares of common stock for an approximate amount of $88,000, $168,000 and $202,000, respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance SFAS No. 109, "Accounting for Income Taxes."

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Company disclose estimated fair values of financial instruments. Cash and cash equivalents, receivables, accounts payable, other accrued liabilities, and debt, excluding the Senior Notes, are carried at amounts that reasonably approximate their fair values at December 31, 2003. The fair value of the Company's Senior Notes at December 31, 2003 was approximately $52.2 million based upon the open market price.

Concentrations of Credit Risk

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

Use of Estimates

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

Impact of Recently Issued Accounting Standards

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits". The provisions of this revised statement retain the existing disclosure requirements of the original guidance in SFAS No. 132 and contain additional requirements for both annual and interim reporting. This revision also amends the disclosure requirements under APB Opinion No. 28, "Interim Financial Reporting". The revised statement is effective for fiscal years ending and interim periods beginning after December 15, 2003. The adoption of this Statement had no impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement requires, among other things, the classification of certain financial instruments, previously classified within the equity section of the balance sheet, to be included in liabilities. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and June 15, 2003 for all other instruments. The adoption of this Statement had no impact on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This Statement amended and refined certain characteristics of derivative instruments and hedges. The adoption of this Statement had no impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities — An Interpretation of Accounting Research Bulletin ("ARB") No. 51." This interpretation was subsequently revised by FIN 46 (Revised 2003) in December 2003. This revised interpretation states that consolidation of variable interest entities will be required by the primary beneficiary if the entities do not effectively disperse risks among the parties involved. The requirements are effective for fiscal years ending after December 15, 2003 for special-purpose entities and for all other types of entities for periods ending after

March 31, 2004. The Company does not have any variable interest entities and does not believe that FIN No. 46(R) will impact its future financial results.

Reclassifications

Certain amounts in the 2002 and 2001 consolidated financial statements have been reclassified to conform with the 2003 presentation.

3. Receivables and Contracts in Progress

Receivables consist of the following:

	December 31	
	2003	2002
	(In thousands)	
Contract receivables:		
Contracts in progress	$36,433	$47,829
Unbilled retentions	12,578	14,524
Allowance for doubtful accounts	(227)	(318)
	48,784	62,035
Other receivables	139	370
	$48,923	$62,405

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

A summary of activity in the allowance for doubtful accounts is as follows:

Balance at January 1, 2001	$(282)
Increase in allowance	(56)
Write-off of bad debts	18
Balance at December 31, 2001	(320)
Increase in allowance	(97)
Write-off of bad debts	99
Balance at December 31, 2002	(318)
Increase in allowance	(283)
Write-off of bad debts	374
Balance at December 31, 2003	$(227)

Costs and recognized earnings in excess of billings on uncompleted contracts and billings in excess of costs and recognized earnings on uncompleted contracts at December 31, 2003 and 2002 consist of the following:

	December 31	
	2003	2002
	(In thousands)	
Costs incurred on contracts completed and in progress	$517,620	$448,938
Estimated earnings	90,250	73,496
	607,870	522,434
Less progress billings	605,611	519,816
	$ 2,259	$ 2,618
The above is included in the accompanying consolidated balance sheets under the following captions:		
Costs and recognized earnings in excess of billings on uncompleted contracts	$ 10,723	$ 16,139
Billings in excess of costs and recognized earnings on uncompleted contracts	(8,464)	(13,521)
	$ 2,259	$ 2,618

4. Inventories

Inventories consist of the following:

	December 31	
	2003	2002
	(In thousands)	
Raw materials	$4,266	$4,632
Finished goods	108	82
	$4,374	$4,714

5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31	
	2003	2002
	(In thousands)	
Land	$ 5,491	$ 5,657
Buildings	11,541	11,837
Machinery and equipment	22,303	21,918
Leasehold improvements	3,203	3,164
Furniture and fixtures	449	449
Transportation equipment	1,890	1,701
Cranes	485	433
Office equipment	2,022	2,242
Detailing equipment	366	361
EDP equipment	3,940	3,454
Construction in progress	120	—
	51,810	51,216
Less accumulated depreciation and amortization	27,416	24,084
	$24,394	$27,132

Depreciation expense was $3,768,000, $4,046,000 and $4,043,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

6. Other Current Liabilities

Other current liabilities consists of the following:

	December 31	
	2003	2002
	(In thousands)	
Sales, use and property taxes	$ 799	$ 525
Workers' compensation	3,286	2,530
Other	2,934	2,867
	$7,019	$5,922

7. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2003	2002
	(In thousands)	
Senior notes with interest payable semi-annually at 10½ percent on June 1 and December 1, maturing in 2008	$87,040	$91,040
Obligations under capital leases	—	211
	87,040	91,251
Less current portion	—	81
	$87,040	$91,170

On June 4, 1998, the Company completed a private placement pursuant to Rule 144A of the Securities Act of 1933 of $100.0 million in principal amount of its 10½% Senior Notes due 2008 ("Senior Notes"). Net proceeds of the Senior Notes were used to repay certain indebtedness of the Company and to pay the cash portions of the purchase price for the Company's acquisitions of certain subsidiaries. The Senior Notes are redeemable at the option of the Company in whole or in part, beginning in 2003 at a premium declining ratably to par by 2006. During 2003 and 2002, the Company repurchased $4.0 million and $4.5 million, respectively, in principal amount of its 10½% senior notes at a discount on the open market. The Company recognized gains of $1,148,000 and $748,000 on the repurchase of debt in 2003 and 2002, respectively. The Senior Notes contain covenants that, among other things, provide limitations on additional indebtedness, sale of assets, change of control and dividend payments, as defined. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated basis by the Company's current and future, direct and indirect subsidiaries.

The events of default under the indentures governing our Senior Notes include the following:

- failure to pay principal or interest when due
- failure to comply with covenants
- commencing any proceeding for bankruptcy, insolvency or reorganization
- default under any other indebtedness for borrowed money having an aggregate principal amount of at least $10 million, which default is caused by a failure to pay the principal or interest when due or results in such indebtedness being declared due and payable prior to its maturity date
- entry by a court of one or more final judgments against the Company in an uninsured or unindemnified aggregate amount in excess of $5.0 million that is not discharged, waived, appealed, stayed, bonded or satisfied for a period of 60 consecutive days

At December 31, 2003, the Company was in compliance with all covenants under our Senior Notes.

On August 13, 2003, the Company entered into a Credit and Security Agreement with Wells Fargo Credit, Inc. ("Wells Fargo"), pursuant to which Wells Fargo agreed to advance up to a maximum aggregate amount of $15.0 million to the Company and cause the issuance of letters of credit in the maximum amount of $11.5 million for the Company's account. The facility under the Credit and Security Agreement replaces the Company's credit facility under the Credit Agreement, dated June 30, 1998, as amended, between the Company and Wells Fargo Bank, N.A. The credit facility is primarily maintained to enable the Company to issue letters of credit to its performance bond surety and workers compensation insurance carrier. At December 31, 2003, the Company had no borrowings but had $9.9 million of outstanding letters of credit issued under its line of credit. These letters of credit are secured by cash held in an escrow account, which is classified as restricted funds on deposit on the December 31, 2003 balance sheet. There was $5.1 million available under the Company's line of credit at December 31, 2003.

The new credit facility is secured by a first priority, perfected security interest in all of our assets and our present and future subsidiaries. The interest rate is prime plus 1.5%. The credit facility contains covenants that, among other things, limit the Company's ability to pay cash dividends or make other distributions, limit the Company's ability to repurchase its Senior Notes, incur additional indebtedness, change its business, and merge, consolidate or dispose of material portions of its assets. The security agreements to which the Company's assets are pledged prohibit any further pledge of such assets without the written consent of the bank.

The new credit facility also requires that the Company maintain a specified Debt Service Coverage Ratio (defined as the sum of net income, depreciation and amortization, interest expense and unfinanced capital expenditures divided by the sum of current maturities of long-term debt and interest expense), a minimum book net worth, a minimum monthly stop loss (defined as a net loss not exceeding $500,000 in any one month and $1.0 million in any two consecutive months) and maximum capital expenditures.

The events of default under our $15.0 million credit facility include the following:

- failure to pay principal or interest when due
- failure to comply with covenants, representations and warranties under the credit agreement
- default in the payment of, or failure to comply with the covenants relating to, other indebtedness
- commencing any proceeding for bankruptcy, insolvency or reorganization
- entry of a final judgment in excess of $250,000
- occurrence of a termination event with respect to any pension plan or the complete or partial withdrawal from any multiemployer plan
- a guarantor's failure to perform, death or cessation of existence
- liquidating, dissolving, terminating or suspending business operations or selling or attempting to sell all or substantially all of the Company's assets without written consent of the bank
- a change in control of the Company without written consent of the bank
- an adverse change in the financial condition of the Company in which the bank believes the prospect of payment or performance is impaired

At December 31, 2003, the Company was not in compliance with some of these credit facility covenants due to its 2003 financial performance. The Company received a waiver of such noncompliance from the bank dated March 19, 2004. The Company is currently in the process of negotiating financial covenants for fiscal year 2004. The Company believes that the covenants for fiscal year 2004 will be similar to and no more restrictive than the covenants for fiscal year 2003.

The Company made interest payments of approximately $9,565,000, $10,139,000 and $10,510,000 for the years ended December 31, 2003, 2002 and 2001, respectively, on its long-term debt and line of credit.

8. Income Taxes

Deferred tax assets and liabilities are composed of the following:

	December 31, 2003		December 31, 2002	
	Current	Long-Term	Current	Long-Term
	(In thousands)			
Deferred tax assets:				
Compensation accrual	$ 415	$ —	$ 471	$ —
Accrued liabilities	1,330	—	1,086	—
Deferred rents payable	—	141	—	145
Revenue recognition on contracts in progress	508	—	—	—
Stock-based compensation	304	—	669	—
Property, plant and equipment basis difference	—	115	—	—
Accelerated depreciation	—	9	—	—
Other	138	134	91	54
	2,695	399	2,317	199
Deferred tax liabilities:				
Property, plant and equipment basis difference	—	747	—	703
Accelerated depreciation	—	1,380	—	1,408
	—	2,127	—	2,111
Net deferred tax assets (liabilities)	$2,695	$(1,728)	$2,317	$(1,912)

Significant components of the income tax benefit (expense) are as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Current:			
Federal	$2,958	$(382)	$(2,033)
State	(15)	(66)	(272)
	2,943	(448)	(2,305)
Deferred:			
Federal	590	608	219
State	(28)	127	49
	562	735	268
	$3,505	$ 287	$(2,037)

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

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Tax at U.S. federal statutory rates	$3,253	$ 34	$(1,529)
State income taxes, net of federal tax benefit	161	40	(309)
Amortization of goodwill	—	—	(736)
Research and experimentation credits	464	341	600
Valuation allowance	(286)	—	—
Other	(87)	(128)	(63)
	$3,505	$ 287	$(2,037)

Total income tax payments for the years ended December 31, 2003, 2002 and 2001, were approximately $212,000, $403,000 and $4,377,000, respectively. At December 31, 2003, the Company had approximately $286,000 of state net operating loss carry-forwards which begin expiring in 2005.

9. Employee Retirement Plans

The Company maintains a 401(k) retirement savings plan which covers eligible employees and permits participants to contribute to the plan, subject to Internal Revenue Code restrictions. The plan also permits the Company to make discretionary matching contributions, which amounted to approximately $165,000, $195,000 and $233,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Certain of the Company's fabrication and erection workforce are subject to collective bargaining agreements. The Company made contributions to union sponsored pension plans of $1,172,000, $1,140,000 and $1,074,000 during the years ended December 31, 2003, 2002 and 2001, respectively. Information from the administrators of the plans is not available to permit the Company to determine its share of accumulated benefits and related assets.

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

On August 15, 1994, the Company and local representatives of the United Steelworkers of America reached an agreement whereby the Company became a participating employer in a multi-employer defined benefit retirement plan. Effective January 1, 2002, the Company is required to contribute 65 cents to the plan (compared to 60 cents in 2001) for each hour worked in the preceding month by each plan participant. The Company's funding policy is to make monthly contributions to the plan. Total cost recognized as expense was approximately $255,000, $398,000 and $338,000 during the years ended December 31, 2003, 2002 and 2001, respectively.

10. Income Per Share

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

	Year Ended December 31		
	2003	2002	2001
	(In thousands except per share data)		
Numerator:			
(Loss) income before the cumulative effect of a change in accounting Principle	$ (5,990)	$ 220	$ 2,475
Cumulative effect of a change in accounting principle	—	(29,591)	—
Net (loss) income	$ (5,990)	$(29,371)	$ 2,475
Denominator for basic (loss) income per share — weighted average shares	7,009	7,199	7,227
Effect of dilutive securities:			
Employee and director stock options	—	—	167
Denominator for diluted (loss) income per share — adjusted weighted average shares and assumed conversions	7,009	7,199	7,394
Basic (loss) income per share:			
(Loss) income per share before the cumulative effect of a change in accounting principle	$ (0.85)	$ 0.03	$ 0.34
Cumulative effect per share of a change in accounting principle	—	(4.11)	—
(Loss) income per share	$ (0.85)	$ (4.08)	$ 0.34
Diluted (loss) income per share:			
(Loss) income per share before the cumulative effect of a change in accounting principle	$ (0.85)	$ 0.03	$ 0.33
Cumulative effect per share of a change in accounting principle	—	(4.11)	—
(Loss) income per share	$ (0.85)	$ (4.08)	$ 0.33

Options to purchase 1,000,380 and 1,130,174 shares of common stock at prices ranging from $1.30 to $13.75 were outstanding during 2003 and 2002, respectively, but were not included in the computation of diluted net loss per share because the options would be anti-dilutive due to the net loss.

11. Stock Options

The Company established a qualified stock option plan (the "Plan") effective February 5, 1997. The exercise price of the options, as well as the vesting period, is established by the Company's Board of Directors. A summary of activity under the Plan is as follows:

	Shares Available Under Grant	Outstanding Options	
		Number	Weighted Average Exercise Price
Balance at January 1, 2001	369,352	1,903,028	$5.83
Newly authorized	500,000	—	—
Granted	(818,260)	818,260	4.35
Exercised	—	(1,900)	3.38
Canceled	1,685,213	(1,685,213)	4.89
Balance at December 31, 2001	1,736,305	1,034,175	6.19
Granted	(252,920)	252,920	2.50
Canceled	156,921	(156,921)	4.91
Balance at December 31, 2002	1,640,306	1,130,174	5.54
Granted	(2,500)	2,500	1.30
Canceled	132,294	(132,294)	3.54
Balance at December 31, 2003	1,770,100	1,000,380	$5.76
Exercisable at December 31, 2003		651,799	

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number	Weighted Average Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 1.30 - $ 4.35	550,840	7.11	$ 3.45	234,059	$ 3.55
$ 5.00 - $ 6.25	125,380	3.19	$ 5.03	125,380	$ 5.03
$ 7.00 - $ 8.00	186,160	4.96	$ 7.19	154,360	$ 7.20
$10.13 - $13.75	138,000	4.27	$13.73	138,000	$13.72
	1,000,380			651,799	

The Company's 1997 Stock Option Plan has authorized the grant of options to issue up to 2,800,000 shares to officers, directors or key employees of the Company. All options have ten-year terms and generally vest ratably over five years from the date of grant. The weighted average fair value of options granted at fair market value during the years ended December 31, 2003, 2002 and 2001 were $1.30, $2.50 and $4.35, respectively.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations for our stock option plan. The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148. Accordingly, no compensation cost has been recognized for the stock option plan. Had compensation cost for the stock option plan been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123 and the amendment of

SFAS No. 148, our net (loss) income and net (loss) income per share would have been reduced to the pro forma amounts indicated in Note 2.

Average assumptions used in determining the estimated fair value of stock options under the Black-Scholes valuation model are as follows:

	Year Ended December 31		
	2003	2002	2001
Expected life of award	5 years	5 years	5 years
Volatility	1.5626	.6545	.7104
Risk-free interest rate	2.96%	3.825%	4.50%
Expected dividends yield	0%	0%	0%

12. Related Party Transactions and Leases

The Company leases certain properties from a partnership owned by related parties which includes the Company's principal stockholders. The leases expire in 2017 and require stipulated rent increases every five years based on the Consumer Price Index. During 2002, the Company amended the leases. The annual rent was reduced to $800,000 from $1.1 million. Effective July 1, 2003, the partnership increased the rent to the original amount. The rent continues to be subject to an increase every five years based on the Consumer Price Index. All other terms and conditions of the lease remain unchanged. The Company is also obligated to pay the partnership any taxes related to the lease payments.

Rent expense under the related party leases totaled approximately $986,000, $1,030,000 and $1,072,000, for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company also leases certain property, vehicles, and equipment from nonrelated parties for which it incurred rent expense of approximately $388,000, $403,000 and $482,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Future minimum rentals (excluding taxes), by year, and in the aggregate under these noncancelable operating leases are as follows for the years ending December 31:

	(In thousands)
2004	$ 1,327
2005	1,298
2006	1,214
2007	1,191
2008	1,152
Thereafter	9,325
	$15,507

13. Commitments and Contingencies

The Company is involved from time to time through the ordinary course of business in certain claims, litigation, and assessments. Due to the nature of the construction industry, the Company's employees from time to time become subject to injury, or even death, while employed by the Company. The Company does not believe there are any such contingencies at December 31, 2003 for which the eventual outcome would have a material adverse impact on the financial position, results of operations or liquidity of the Company.

On April 16, 2001, Copeland Steel Erectors, Inc. brought suit in the Circuit Court of Orange County Florida against the Company's subsidiary, Addison Steel, Inc., its surety bond and the surety bond of the general contractor, Clark Construction, for payment of additional costs incurred on the Airside 2 Base Terminal project in Orlando, Florida. Clark Construction was the general contractor to the owner, the Greater Orlando Aviation Authority. Addison Steel, Inc. was the structural steel subcontractor to Clark Construction. Copeland Steel Erectors, Inc. was Addison's erection subcontractor. Copeland's claim is for approximately $1.1 million of additional work caused by design deficiencies in the contract documents. Addison Steel, in turn, has brought a cross and third-party claim against Clark Construction for the Copeland claim as well as its own claim for additional work of approximately $400,000 for damages caused due to design deficiencies in the structural steel work. Clark Construction has submitted the claims of Addison (and its subcontractor) to the owner, the Greater Orlando Aviation Authority, as part of its much larger lawsuit in the same court in excess of $22.0 million for damages caused by the owner due to, among other things, design deficiencies, acceleration directives, extra costs, outstanding change orders and unpaid contract balance and retention. The owner disputed liability and claimed that Clark Construction and its subcontractors delayed the project and were not entitled to any additional monies. The Company believed it was entitled to payment of Addison's claim and did not believe that it was liable under any potential counterclaim. In the fourth quarter of 2003, the matter was fully settled with Clark Construction making final payments to Addison Steel, Inc. and Copeland Steel Erectors, Inc. There was no material financial impact as a result of the settlement.

On February 13, 2002, the Company's subsidiary, Schuff Steel Company, instituted a lien foreclosure lawsuit against general contractor Peck/Jones Construction Company, OC America and others, in Los Angeles County Court, State of California relating to structural steel work done on the Sherman Oaks Galleria Project in Sherman Oaks, California. Schuff Steel is currently owed the principal sum in excess of approximately $1.4 million in unpaid contract balance, retention and/or unpaid change orders by the general contractor for a total claim in excess of $2.4 million. Schuff Steel is also seeking interest, penalty interest, additional disruption costs, and attorneys' fees and costs against this general contractor. Until February 2003, no back-charges had been claimed against Schuff Steel, and Peck/Jones represented that it was simply in close-out negotiations with the owner. Peck/Jones now has purportedly closed-out the project with the owner, and has asserted for the first time back-charges in excess of $1.0 million dollars against Schuff Steel Company. The Company believes that the back-charges are frivolous and will continue to vigorously pursue this matter to a satisfactory resolution. Trial is set to begin on July 12, 2004.

On October 24, 2002, a union organizer and several employees brought a lawsuit against the Company's subsidiary, Bannister Steel, in San Diego County Superior Court, State of California, alleging certain violations of the California wage and hour laws. The Company denies any knowing violation of the California wage and hour laws and believed the lawsuit was improperly brought as part of its union organizing efforts by the Ironworkers Local 627, Shopworkers (the "Union"). An organizing election was held in the fourth quarter of 2002 with the Union prevailing. Bannister objected to the election because the Union impermissibly influenced the election by sponsoring and pursuing the wage and labor lawsuit against Bannister. The Local Region of the National Labor Relations Board ("NLRB") denied Bannister's objections to the election in late February 2003. Bannister appealed that decision to the NLRB in Washington D.C. to pursue a new election. In June 2003, the Union, several employees and Bannister Steel reached a comprehensive settlement agreement of all outstanding matters. The settlement resulted in the recognition of the Union until the end of 2003, with an extension of a collective bargaining agreement until June 2006 upon approval by the San Diego Superior Court of the settlement and dismissal of the wage and hour lawsuit. Under the terms of the settlement, Bannister agreed to pay a class of current and former employees the sum of $120,000. The Company believes that this was a satisfactory resolution to the matter, given the time, expense and distraction of litigation. The Company has paid approximately $118,000 of the settlement as of December 31, 2003.

On November 24, 2003, the Company's subsidiary, Schuff Steel Company, initiated a lawsuit for approximately $1.3 million against Sverdrup/Conco and its bonding companies, relating to structural steel work done on the Millbrae BART Station. Schuff and the general contractor, Sverdrup/Conco ("S/CO"), were severely impacted by the owner (BART), and the outside inspection agencies, in completing the work on the project. S/CO has presented an approximate $6.0 million submission to the owner which included an approximately $1.0 million disruption claim by Schuff Steel. The owner has rejected the claim. S/CO has also refused to pay Schuff Steel its contract balance and pending change orders of approximately $400,000. The Company will continue to vigorously pursue this matter to a satisfactory resolution.

On April 2, 2003, Evans Welding Services Inc. Inc. brought suit in the General Court of Justice, Superior Court Division, County of Mecklenburg, North Carolina against the Company's subsidiary, Addison Steel, Inc., its surety bond, the general contractor J.A. Jones Construction Company and its surety bonds and Starport I, LLC, the owner of the new Westin Hotel in Charlotte, North Carolina. J.A. Jones was the general contractor to the owner, Starport. Addison Steel was the structural steel subcontractor to J.A. Jones and Evans Welding was Addison's erection subcontractor. Evans Welding's claim is for approximately $300,000 of additional work on the project. Addison Steel has filed a cross claim and its own action, which has been consolidated with the Evans Welding lawsuit. Addison Steel seeks to enforce its lien and bond rights and is owed approximately $2.4 million from J.A. Jones for unpaid contract work, retention, change orders and claims. On September 25, 2003, J.A. Jones filed for bankruptcy. However, Addison Steel is continuing to pursue its lien and bond rights against the owner and J.A. Jones' sureties. The sureties have asserted backcharges against Addison Steel for approximately $1.0 million. The Company believes that the back-charges are largely unsupported and/or related to Evans Welding and will continue to vigorously pursue this matter to a satisfactory resolution.

14. Segment Reporting and Significant Customers

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

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

The accounting policies of the segments are the same as those described in Note 2. All intersegment revenues and expenses are eliminated during consolidation. Segment information as reviewed by the Company is as follows:

	Year Ended December 31, 2003				
	Commercial			Manufacturing	
	Pacific	Southwest	Southeast	Other	Total
			(In thousands)		
Revenues from external customers	$25,231	$85,091	$32,358	$31,565	$174,245
Revenues from other segments	—	2,614	176	4,837	7,627
Gross profit	945	11,700	3,188	6,515	22,348
Interest expense	1,854	1,902	3,596	3,402	10,754
Depreciation and amortization	468	1,333	809	1,549	4,159
Operating (loss) income	(2,150)	1,409	(1,731)	1,185	(1,287)
Total assets	17,226	77,704	37,096	43,994	176,020

	Year Ended December 31, 2002				
	Commercial			Manufacturing	
	Pacific	Southwest	Southeast	Other	Total
			(In thousands)		
Revenues from external customers	$37,010	$102,253	$51,328	$40,394	$230,985
Revenues from other segments	—	2,685	—	4,993	7,678
Gross profit	5,876	9,202	9,776	7,607	32,461
Interest expense	1,941	2,420	3,596	3,275	11,232
Depreciation and amortization	393	1,694	837	1,503	4,427
Operating income	3,087	158	3,983	1,606	8,834
Total assets	21,292	88,527	40,193	46,968	196,980

	Year Ended December 31, 2001				
	Commercial			Manufacturing	
	Pacific	Southwest	Southeast	Other	Total
			(In thousands)		
Revenues from external customers	$31,644	$99,691	$54,996	$47,730	$234,061
Revenues from other segments	—	690	—	5,804	6,494
Gross profit	5,545	10,552	12,093	16,126	44,316
Interest expense	1,909	2,868	3,628	3,302	11,707
Depreciation and amortization	771	1,966	1,635	2,280	6,652
Operating income, excluding goodwill amortization	3,214	801	4,449	7,484	15,948
Total assets	27,333	73,516	51,216	54,152	206,217

Reconciliation of Revenues	2003	2002	2001
		(In thousands)	
Total external revenues for reportable segments	$174,245	$230,985	$234,061
Intersegment revenues for reportable segments	7,627	7,678	6,494
Elimination of intersegment revenues	(7,627)	(7,678)	(6,494)
Total consolidated revenues	$174,245	$230,985	$234,061

Reconciliation of Interest Expense	2003	2002	2001
		(In thousands)	
Total interest expense for reportable segments	$ 10,754	$ 11,232	$ 11,707
Elimination of intersegment interest expense	(643)	(690)	(832)
Total consolidated interest expense	$ 10,111	$ 10,542	$ 10,875

Reconciliation of Total Assets	2003	2002	2001
		(In thousands)	
Total assets for reportable segments	$176,020	$196,980	$206,217
Elimination of intercompany receivables	(30,910)	(33,792)	(21,989)
Elimination of investment in subsidiaries	(15,147)	(15,147)	(13,447)
Other adjustments	319	304	320
Total consolidated assets	$130,282	$148,345	$171,101

During 2003, 2002 and 2001, the Company did not have revenues from any one customer that were in excess of 10 percent.

During the years ended December 31, 2003, 2002 and 2001, the Company's revenues included approximately $424,000, $59,000 and $235,000, respectively, relating to projects carried out internationally for which there were no outstanding amounts in accounts receivable at December 31, 2003 and 2002.

15. Subsidiary Guarantors

The Company's 10½% Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated basis by the Company's current and future, direct and indirect subsidiaries (collectively the "Subsidiary Guarantors"). Excluding On-Time Steel Management-Colorado ("OTSM-Colorado") and On-Time Steel Management-Northwest ("OTSM-Northwest"), the subsidiary guarantors are wholly-owned. OTSM-Colorado and OTSM-Northwest have a 10% and 20% minority interest, respectively. There are currently no restrictions on the ability of the Subsidiary Guarantors to transfer funds to the parent in the form of cash dividends, loans or advances.

The condensed consolidating financial information for the parent and its subsidiary guarantors as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 is as follows:

	December 31, 2003			
	Parent	Subsidiary Guarantors	Eliminations	Schuff Consolidated
	(In thousands)			
Cash and cash equivalents	$ 7,896	$ (266)	$ 15	$ 7,645
Receivables	1	49,374	(452)	48,923
Property and equipment, net	413	23,981	—	24,394
Goodwill, net	—	16,810	305	17,115
Other assets	33,146	44,665	(45,606)	32,205
Total assets	$41,456	$134,564	$(45,738)	$130,282
Current liabilities	$28,244	$ 34,279	$(30,896)	$ 31,627
Long-term debt	(3,000)	90,040	—	87,040
Other non-current liabilities	(91)	2,221	—	2,130
Total liabilities	25,153	126,540	(30,896)	120,797
Stockholders' equity	16,303	8,024	(14,842)	9,485
Total liabilities and stockholders' equity	$41,456	$134,564	$(45,738)	$130,282

SCHUFF INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2002			
	Parent	Subsidiary Guarantors	Eliminations	Schuff Consolidated
	(In thousands)			
Cash and cash equivalents	$11,729	$ (974)	$ —	$ 10,755
Receivables	—	63,187	(782)	62,405
Property and equipment, net	39	27,093	—	27,132
Goodwill, net	—	16,810	305	17,115
Other assets	26,526	52,569	(48,157)	30,938
Total assets	$38,294	$158,685	$(48,634)	$148,345
Current liabilities	$31,824	$ 40,047	$(33,792)	$ 38,079
Long-term debt, less current portion	(8,960)	100,130	-	91,170
Other non-current liabilities	—	3,742	—	3,742
Total liabilities	22,864	143,919	(33,792)	132,991
Stockholders' equity	15,430	14,766	(14,842)	15,354
Total liabilities and stockholders' equity	$38,294	$158,685	$(48,634)	$148,345

	Year Ended December 31, 2003			
	Parent	Subsidiary Guarantors	Eliminations	Schuff Consolidated
	(In thousands)			
Revenues	$ –	$181,871	$(7,626)	$174,245
Cost of revenues	–	159,523	(7,626)	151,897
Gross profit	–	22,348	–	22,348
General and administrative expenses	749	22,886	–	23,635
Operating loss	(749)	(538)	–	(1,287)
Interest expense	128	(10,881)	642	(10,111)
Other income	1,863	610	(642)	1,831
Income (loss) before income tax (provision) benefit and minority interest	1,242	(10,809)	–	(9,567)
(Provision) benefit for income taxes	(489)	3,994	–	3,505
Income (loss) before minority interest	753	(6,815)	–	(6,062)
Minority interest	–	72	–	72
Net income	$ 753	$ (6,743)	$ –	$ (5,990)
Operating activities, net	$ (306)	$ 1,241	$ 15	$ 950
Investing activities:				
Acquisitions of property, plant and equipment	(442)	(1,066)	–	(1,508)
Proceeds from disposals of property, plant and equipment	–	565	–	565
Other	(178)	(32)	–	(210)
	(620)	(533)	–	(1,153)
Financing activities:				
Principal payments on long-term debt	(2,777)	–	–	(2,777)
Other	(130)	–	–	(130)
	(2,907)	–	–	(2,907)
Increase (decrease) in cash and cash equivalents	$(3,833)	$ 708	$ 15	$ (3,110)

	Year Ended December 31, 2002			
	Parent	Subsidiary Guarantors	Eliminations	Schuff Consolidated
	(In thousands)			
Revenues	$ —	$238,663	$(7,678)	$230,985
Cost of revenues	—	206,202	(7,678)	198,524
Gross profit	—	32,461	—	32,461
General and administrative expenses	349	23,278	—	23,627
Operating (loss) income	(349)	9,183	—	8,834
Interest expense	(32)	(11,200)	(690)	(10,542)
Other income	1,357	942	(690)	1,609
Income (loss) before income tax (provision) benefit, minority interest and cumulative effect of a change in accounting principle	976	(1,075)	—	(99)
Income tax (provision) benefit	(147)	434	—	287
Income (loss) before minority interest and cumulative effect of a change in accounting principle	829	(641)	—	188
Minority interest	—	32	—	32
Income (loss) before a cumulative effect of change in accounting principle	829	(609)	—	220
Cumulative effect of a change in accounting principle	—	(29,591)	—	(29,591)
Net income (loss)	$ 829	$(30,200)	—	$(29,371)
Operating activities, net	$11,303	$ (619)	—	$ 10,684
Investing activities:				
Acquisitions of property, plant and equipment	(35)	(936)	—	(971)
Proceeds from disposals of property, plant and equipment	—	194	—	194
Other	(833)	1,046	—	213
	(868)	304	—	(564)
Financing activities:				
Principal payments on revolving line of credit and long-term debt	(3,613)	—	—	(3,613)
Other	(488)	150	—	(338)
	(4,101)	150	—	(3,951)
Increase (decrease) in cash and cash equivalents	$ 6,334	$ (165)	—	$ 6,169

	Year Ended December 31, 2001			
	Parent	Subsidiary Guarantors	Eliminations	Schuff Consolidated
	(In thousands)			
Revenues	$ —	$240,555	$(6,494)	$234,061
Cost of revenues	—	196,239	(6,494)	189,745
Gross profit	—	44,316	—	44,316
General and administrative expenses	484	27,884	—	28,368
Goodwill amortization	—	2,165	—	2,165
Operating (loss) income	(484)	14,267	—	13,783
Interest expense	(65)	(11,642)	832	(10,875)
Other income	558	1,878	(832)	1,604
Income before income taxes	9	4,503	—	4,512
Provision for income taxes	8	2,029	—	2,037
Net income	$ 1	$ 2,474	$ —	$ 2,475
Operating activities, net	$ 6,934	$ (3,713)	$ —	$ 3,221
Investing activities:				
Acquisitions of property, plant and equipment	(8)	(4,352)	—	(4,360)
Proceeds from disposals of property, plant and equipment	—	154	—	154
Other	(12,272)	12,176	—	(96)
	(12,280)	7,978	—	(4,302)
Financing activities:				
Proceeds from revolving line of credit and long-term debt	1,689	—	—	1,689
Principal payments on revolving line of credit and long-term debt	(5,913)	(1,390)	—	(7,303)
Other	14,967	(14,759)	—	208
	10,743	(16,149)	—	(5,406)
Increase (decrease) in cash and cash equivalents	$ 5,397	$(11,884)	$ —	$ (6,487)

The Company has no other subsidiaries other than the Subsidiary Guarantors. The Subsidiary Guarantors' net income also includes goodwill amortization and interest expense, net of tax benefits, allocated from the Company to reflect the amount of long-term debt used and goodwill generated in the acquisitions.

16. Quarterly Results of Operations (Unaudited)

A summary of the quarterly results of operations for the years ended December 31, 2003 and 2002 follows (in thousands, except for per share amounts):

	2003			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 50,240	$39,992	$38,150	$45,863
Gross profit	7,291	4,878	4,415	5,764
Net loss	(410)	(1,626)	(2,688)	(1,266)
Loss per share:				
Basic	$ (0.06)	$ (0.23)	$ (0.38)	$ (0.18)
Diluted	(0.06)	$ (0.23)	$ (0.38)	$ (0.18)
Weighted average number of shares outstanding:				
Basic	6,979	6,997	7,025	7,034
Diluted	6,979	6,997	7,025	7,034

	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 51,096	$51,899	$62,021	$65,969
Gross profit	8,504	6,976	8,764	8,217
Income (loss) before cumulative effect of a change in accounting principle	91	(931)	470	590
Cumulative effect of a change in accounting principle	(29,591)	—	—	—
Net (loss) income	(29,500)	(931)	470	590
Basic (loss) income per share:				
Income (loss) per share before cumulative effect of a change in accounting principle	$ 0.01	$ (0.13)	$ 0.06	$ 0.08
Cumulative effect per share of a change in accounting principle	(4.07)	—	—	—
(Loss) income per share	$ (4.06)	$ (0.13)	$ 0.06	$ 0.08
Diluted (loss) income per share:				
Income (loss) per share before cumulative effect of a change in accounting principle	$ 0.01	$ (0.13)	$ 0.06	$ 0.08
Cumulative effect per share of a change in accounting principle	(4.07)	—	—	—
(Loss) income per share	$ (4.06)	$ (0.13)	$ 0.06	$ 0.08
Weighted average number of shares outstanding:				
Basic	7,263	7,273	7,268	6,994
Diluted	7,263	7,273	7,268	6,994

The 2003 and 2002 quarterly results for basic and diluted (loss) income per share, when totaled, may not equal the basic and diluted (loss) income per share for the years ended December 31, 2003 and 2002. These variances are due to rounding, certain options being antidilutive for certain quarters but not for the year and the purchase of a large number of treasury shares in the fourth quarter of 2002.

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SCHUFF INTERNATIONAL, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 12, 2004

To Our Stockholders:

The 2004 Annual Meeting of Stockholders of Schuff International, Inc. will be held at its offices located at 1841 W. Buchanan Street, Phoenix, Arizona, on Tuesday, October 12, 2004, beginning at 10:00 a.m. local time. At the meeting, stockholders will act on the following matters:

1. Election of six directors, each for a term of one year; and
2. Any other matters that properly come before the meeting.

Stockholders of record at the close of business on September 2, 2004 are entitled to vote at the meeting or any postponement or adjournment thereof. We have enclosed a copy of the Company's 2003 Annual Report to Stockholders, which includes audited financial statements, and the Company's Proxy Statement.

IF YOU PLAN TO ATTEND: *Please note that space limitations make it necessary to limit attendance to stockholders and one guest. Registration and seating will begin at 9:00 a.m. Complimentary parking is available. Stockholders holding stock in brokerage accounts ("street name" holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting.*

Your vote is important. In order to assure your representation at the meeting, you are requested to complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed postage-paid envelope.

By Order of the Board of Directors

Michael R. Hill
Vice President, Chief Financial Officer,
Treasurer and Secretary

September 15, 2004
Phoenix, Arizona

TABLE OF CONTENTS

SCHUFF INTERNATIONAL, INC.
1841 WEST BUCHANAN STREET
PHOENIX, ARIZONA 85007

PROXY STATEMENT

This Proxy Statement contains information related to the 2004 Annual Meeting of Stockholders to be held on October 12, 2004 at 10:00 a.m. local time, at its offices located at 1841 W. Buchanan Street, Phoenix, Arizona, or at such other time and place to which the annual meeting may be adjourned or postponed. **The enclosed proxy is solicited by the Board of Directors of the Company.** The proxy materials relating to the annual meeting are first being mailed to stockholders entitled to vote at the meeting on or about September 15, 2004.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At the Company's annual meeting, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of directors. In addition, the Company's management will report on the Company's performance during fiscal 2003 and respond to questions from stockholders.

Who is entitled to vote?

Only stockholders of record at the close of business on the record date, September 2, 2004, are entitled to receive notice of the annual meeting and to vote the shares of common stock that they held on that date at the meeting, or any postponement or adjournment of the meeting. Each outstanding share entitles its holder to cast one vote on each matter to be voted upon.

Who may attend the meeting?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting, and each may be accompanied by one guest. Registration and seating will begin at 9:00 a.m. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Please note that, if you hold your shares in "street name" (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk before the meeting.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum, permitting the Company to conduct its business at the annual meeting. As of the record date, 7,063,122 shares of common stock of the Company were outstanding. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

How do I vote?

You can vote on matters to come before the meeting in two ways:

1. You can attend the annual meeting and cast your vote in person; or

2. You can vote by completing, dating and signing the enclosed proxy card and returning it in the enclosed postage-paid envelope. If you do so, you will authorize the individuals named on the proxy card, referred to as the proxies, to vote your shares according to your instructions or, if you provide no instructions, according to the recommendation of the Board of Directors.

What if I vote and then change my mind?

You may revoke your proxy at any time before it is exercised by:

- filing with the Secretary of the Company a notice of revocation; or
- sending in another duly executed proxy bearing a later date; or
- attending the meeting and casting your vote in person.

Your last vote will be the vote that is counted.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendations are set forth together with a description of each item in this proxy statement. In summary, the Board recommends a vote:

- *for* election of the nominated slate of directors (see Page 4).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

What vote is required to approve each item?

Election of Directors - The six nominees who receive the most votes will be elected to the Board of Directors. A properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. A "broker non-vote" (*discussed below*) also will have no effect on the outcome since only a plurality of votes actually cast is required to elect a director.

Other Items - For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked "ABSTAIN" with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

Effect of Broker Non-Votes - If you hold your shares in "street name" through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum.

How much did this proxy solicitation cost?

The Company has retained Computershare Trust Company, Inc. to assist in the solicitation of proxies from stockholders at an estimated fee of $2,000, plus reasonable expenses. (Note: This fee does not include the costs of printing the proxy statements, which is borne by the Company.) Some of the officers and other employees of the Company also may solicit proxies by further mailing or personal conversations, or by telephone, facsimile or other electronic means, although they will not receive compensation for doing so other than their regular compensation. The Company also will, upon request, reimburse brokers and other persons holding stock in their names, or in the names of nominees, for their reasonable out-of-pocket expenses for forwarding proxy materials to the beneficial owners of the common stock and to obtain proxies.

BOARD OF DIRECTORS

This section gives biographical information about our directors and describes their membership on Board committees, their attendance at meetings, and their compensation.

Election of Directors

The Board of Directors proposes that each of the nominees described below be elected to serve until the 2005 Annual Meeting of Stockholders or until his successor shall have been duly elected and qualified or until his resignation or removal, whichever first occurs. All of the director nominees are currently serving as directors of the Company.

Each of the nominees has consented to serve a one-year term. If any of them should become unavailable to serve as a director, the Board may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by the Board.

The directors standing for election are:

David A. Schuff, 73 — Director since 1976

David A. Schuff has served as the Chairman of the Board of Directors since the Company's inception and is a co-founder of the Company. Mr. Schuff served as President and Chief Executive Officer of the Company from its founding in 1976 to 1995. Mr. Schuff has been involved in the steel fabrication and erection business in a number of capacities since 1958. David A. Schuff is the father of Scott A. Schuff.

Scott A. Schuff, 46 — Director since 1976

Scott A. Schuff is the President and Chief Executive Officer of Schuff International, Inc., Schuff Steel Company and a co-founder of the Company. Mr. Schuff has served in numerous capacities with the Company since its founding in 1976, and has been the President and Chief Executive Officer since 1995. Scott A. Schuff is the son of David A. Schuff.

Edward M. Carson, 74 — Director since 1997
Member of the Audit Committee
Member of the Compensation Committee

Edward M. Carson was the Chairman of the Board of Directors and Chief Executive Officer of First Interstate Bancorp, a bank holding company, from 1990 through June 1995.

Dennis DeConcini, 67 — Director since 1997
Member of the Audit Committee
Member of the Compensation Committee

Dennis DeConcini is a former United States Senator for Arizona and currently is a partner of Parry, Romani, DeConcini and Symms, P.C., a consulting firm based in Washington, D.C., and is a partner of DeConcini McDonald Yetwin & Lacy, P.C., a law firm with offices in Tucson and Phoenix, Arizona, and in Washington, D.C. Mr. DeConcini is a director of Natrol, Inc. and Forensic Technology, Inc. Mr. DeConcini also served, by appointment of the President of the United States, on the Board of Directors of the Federal Home Loan Mortgage Corporation (Freddie Mac), a federally chartered mortgage finance corporation, until May 2000. He is also Chairman of the Board of the National Center for Missing and Exploited Children.

H. Wilson Sundt, 72

Director since 1999
Member of the Audit Committee
Member of the Compensation Committee

H. Wilson Sundt was the Chairman of the Board of Directors of The Sundt Companies, Inc. from January 1999 through December 1999. Mr. Sundt was Chairman of the Board of Directors and Chief Executive Officer of Sundt Corp., a privately-held general construction contracting firm, from 1976 to December 1998, and served as its President from 1979 through 1983. Mr. Sundt also serves as a director of Unisource Energy Corporation. Mr. Sundt has been active in the construction industry since 1957.

Michael R. Hill, 50

Director since 2001

Michael R. Hill has served on the Board of Directors since May 2001, and as the Vice President, Chief Financial Officer, Treasurer and Secretary of the Company since September 30, 2000. Prior to September 30, 2000, Mr. Hill was associated with Motor Coach Industries International, the leading designer, manufacturer, and marketer of inter-city motor coaches and related replacement parts in North America since 1977. Mr. Hill received his B.B.A. degree from Eastern New Mexico University and attended graduate school at the Kellogg School of Management, Northwestern University.

The Board of Directors unanimously recommends a vote FOR election of each of the director nominees.

How are non-employee directors compensated?

Annual Fee: Each non-employee director receives a retainer based on an annualized rate of $20,000. Non-employee directors may elect to receive all or part of their retainer either in shares of the Company's common stock or cash.

Meeting Fees: Each non-employee director receives a fee of:

- $1,000 for attendance at each Board meeting; and
- $700 for attendance at each Board committee meeting not held at the same time as a Board meeting.

Options. Under the 1998 Director Compensation Plan, each non-employee director receives an automatic grant of 500 shares of common stock and a non-qualified option to purchase an additional 500 shares of common stock each year as of the third business day following the public release of the Company's fiscal year-end earnings information. For fiscal 2003, Messrs. Carson, DeConcini and Sundt received grants of stock and options to purchase stock under this plan. These annual option grants immediately vest and become exercisable, permitting the holder to purchase shares at their fair market value on the date of grant, which was $1.30 in the case of options granted in 2003. Unless earlier terminated, forfeited or surrendered pursuant to the plan, each option granted will expire on the tenth anniversary date of the grant.

Expenses: Each non-employee director is also reimbursed for reasonable travel expenses incurred in connection with attendance at each Board and Board committee meeting.

Are employees of the Company paid additional compensation for service as a director?

No. We do, however, reimburse them for travel and other related expenses.

How often did the Board meet during fiscal 2003?

The Board of Directors met four (4) times during fiscal 2003. Attendance by directors at the meetings of the Board and Board committees on which they served was 100%.

What committees has the Board established?

The Board of Directors has standing Compensation and Audit Committees. The members who serve on the Compensation and Audit Committees are indicated in the following table.

Name	Compensation Committee	Audit Committee
Edward M. Carson	X	X
Dennis DeConcini	X	X
H. Wilson Sundt	X	X

Compensation Committee. The Compensation Committee of the Board of Directors reviews all aspects of compensation of executive officers of the Company, makes recommendations on such matters to the full Board of Directors, and administers the Company's 1997 Stock Option Plan and 1999 Employee Stock Purchase Plan. In fiscal 2003, the Compensation Committee met five (5) times and all members were present at each meeting.

Audit Committee. The Audit Committee makes recommendations to the Board concerning the selection and retention of outside auditors for the Company, reviews the financial statements of the Company, oversees the establishment and implementation of such systems of internal accounting and auditing control as it deems appropriate, and considers such other matters in relation to the external audit of the financial affairs of the Company as may be necessary or appropriate in order to facilitate accurate and timely financial reporting. The Audit Committee also reviews certain proposals for major transactions. In fiscal 2003, the Audit Committee met ten (10) times and all members were present at each meeting.

REPORT OF THE AUDIT COMMITTEE

The audit functions of the Company's Audit Committee are focused on three areas:

- The adequacy of the Company's internal controls and financial reporting process and the reliability of the Company's financial statements;
- The independence and performance of the independent auditors; and
- Compliance with legal and regulatory requirements.

The Audit Committee meets with management periodically to consider the adequacy of the Company's internal controls and the objectivity of its financial reporting. The Audit Committee discusses these matters with the independent auditors and with the appropriate financial management.

The Audit Committee meets privately with the independent auditors, who have unrestricted access to the Audit Committee.

The Audit Committee also recommends to the Board of Directors the appointment of the independent auditors and periodically reviews their performance and independence from management.

In addition, the Audit Committee reviews the Company's financing plans and reports recommendations to the full Board for approval and to authorize action.

The Board of Directors has determined that none of the Directors serving on the Audit Committee has a relationship to the Company that may interfere with their independence from the Company and its management. As a result, each Director who serves on the Audit Committee is "independent" as required by American Stock Exchange listing standards.

The Board of Directors has determined that the Audit Committee has an audit committee financial expert, Edward Carson. Mr. Carson is independent and for the following reasons is an audit committee financial expert: Mr. Carson has over 50 years of business management experience, including, without limitation, experience in supervising financial and banking personnel as president and former CEO of a major bank. He later became chairman and CEO of the bank's parent company. Mr. Carson has (i) an understanding of generally accepted accounting principles and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience analyzing and evaluating financial statements, (iv) an understanding of internal control over financial reporting, and (v) an understanding of audit committee functions.

Management has primary responsibility for the Company's financial statements and the overall reporting process, including its system of internal controls.

The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America, and discuss with the Audit Committee any issues the independent auditors believe should be raised.

This year, the Audit Committee reviewed the Company's financial statements and met with the Company's management and Deloitte & Touche LLP, the Company's independent auditors for the fiscal year ended December 31, 2003, to discuss the financial statements. Management has represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee has received from and discussed with Deloitte & Touche LLP the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). These items related to that firm's independence from the Company. The Audit Committee also discussed with Deloitte & Touche LLP any matter required to be discussed by Statement on Auditing Standards ("SAS") No. 61 (Communication with Audit Committees), as amended by SAS No. 90 (Audit Committee Communications).

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Dennis DeConcini
Edward M. Carson
H. Wilson Sundt
As Members of the Audit Committee

Nomination of Directors

The Company does not maintain a standing nominating committee or other committee performing similar functions because more than 50% of the voting power is beneficially held by the Schuff Family and, therefore, the company is a controlled company under American Stock Exchange ("AMEX") rules. The function of nominating directors is carried out by the entire Board of Directors. Our Bylaws, however, provide a procedure for you to recommend candidates for director at an annual meeting. For more information, see Page 22 under "Stockholder Proposals and Nominations."

The Board will consider director nominee recommendations by stockholders, provided the names of such nominees, accompanied by relevant biographical and other information, are properly submitted in writing to the Secretary of the Company in accordance with the manner described for stockholder nominations below under the heading "Proposals by Stockholders." To be considered by the Board, each nominee, whether submitted by a stockholder or the Board, must have a strong professional or other background with a reputation for integrity and responsibility. Each nominee must have experience relevant to the Company's business in such areas (among others) as construction, business development, finance or accounting. The nominee must be able to commit sufficient time to appropriately prepare for, attend, and participate in all Board and applicable Board committee meetings, as well as the annual meeting of stockholders, and must not have any conflicts of interest with the Company. The Board also requires a certain number of director nominees to be independent as defined under the AMEX listing standards and SEC regulations, and that at least one member of the Audit Committee be a financial expert. The Board will seek recommendations from outside legal, accounting, and other advisors in order to locate qualified nominees. All nominees, whether submitted by a stockholder or the Board, will be evaluated in the same manner by the Board, based upon their qualifications, experience, interpersonal, and other relevant skills.

EXECUTIVE OFFICERS AND COMPENSATION

This section contains biographies of all of our executive officers and charts that show the amount of compensation earned by our Chief Executive Officer and by our four other most highly paid executive officers. It also contains the report of the Compensation Committee explaining the compensation philosophy for the Company's most highly paid officers.

Executive Officers

The following are biographies of each of the Company's current executive officers, except for **Scott A. Schuff, David A. Schuff and Michael R. Hill**, whose biographies are included above under "Board of Directors."

Glen S. Davis, 50 — **President of Schuff Steel - Atlantic, Inc.** Schuff Steel-Atlantic, formerly known as Addison Steel, Inc., was acquired by the Company in June 1998. Mr. Davis entered into an employment agreement with the Company in connection with the acquisition. Mr. Davis has been employed with Schuff Steel-Atlantic since 1973 and has served as its President since 1989.

Saied Mahdavi, 43 — **President of Quincy Joist Company.** Quincy Joist Company was acquired by the Company in June 1998. Mr. Mahdavi entered into an employment agreement with the Company in connection with the acquisition. Mr. Mahdavi has been President of Quincy Joist since January 1990.

Ted F. Rossin, 59 — **President of Schuff Steel-Pacific, Inc.** Schuff Steel-Pacific, formerly known as Bannister Steel, Inc., was acquired by the Company in October 1998. Mr. Rossin has been employed with Schuff Steel-Pacific since 1979 and has served as its President since June 1996. From 1994 to 1996, Mr. Rossin was Vice President and General Manager of Bannister Steel.

Randy J. Eskelson, 51 — **President of On-Time Steel Management Holding, Inc**. In August 2001, Mr. Eskelson was appointed President of Six Industries, and held that position until May 2004. In May 2003 he was appointed President of On-Time Steel Management Holding, Inc. Mr. Eskelson joined the Company in 1985 as a project manager based in San Diego, California. Since then Mr. Eskelson has held various positions with the Company, including vice president and operations manager for Schuff Steel Company.

Stephen H. Knippel, 45 — **President of Schuff Steel-Gulf Coast, Inc.** In May 2004, Mr. Knippel was appointed President of Schuff Steel-Gulf Coast, formerly known as Six Industries, Inc. Mr. Knippel served as Vice President Operations of Six Industries from August 2000 until April 2003, and as Executive Vice President from May 2003, until his appointment as President.

Summary Compensation Table

The table below sets forth information concerning the annual and long-term compensation for services rendered in all capacities to the Company during each of the years in the three year period ended December 31, 2003, of those persons who were, at December 31, 2003, (i) the Company's Chief Executive Officer and (ii) the four other most highly compensated executive officers of the Company (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			All Other Compensation $[3]
					Awards		Payouts	
		Salary $	Bonus $ [1]	Other Annual Compensation $[2]	Restricted Stock Award(s) $	Securities Underlying Options / SAR's	LTIP PAYOUTS $	
Scott A. Schuff	2003	$505,841	--	$27,528				$ 3,000
President & Chief	2002	$395,064	--	$28,856	--	--	--	--
Executive Officer	2001	$417,844	$195,495	$ 7,284	--	--	--	$ 2,625
Saied Mahdavi	2003	$305,769	--	$ 8,826				$389,333[7]
President,	2002	$300,000	$ 75,000	$10,907	--	--	--	$388,663[8]
Quincy Joist Co.	2001	$300,000	$169,745	$ 5,139	--	--[4]	--	$604,958[9]
Glen S. Davis	2003	$203,845	--	$14,542				$363,540[10]
President,	2002	$300,000	$ 86,092	$12,506	--	--	--	$266,075[11]
Addison Steel, Inc.	2001	$300,000	$144,070	$ 5,537	--	--[5]	--	$389,975[12]
Ted F. Rossin	2003	$407,697	--	$22,271				$ 53,466[13]
President,	2002	$333,656	$ 71,058	$21,278	--	--	--	$ 53,216[14]
Bannister Steel, Inc.	2001	$240,000	$154,835	$19,685	--	--[6]	--	$ 85,092[15]
David A. Schuff	2003	$475,960	--	$ 8,283				
Chairman of	2002	$390,470	--	$ 8,161	--	--	--	--
The Board	2001	$342,701	$ 30,000	$ 4,324	--	--	--	--

(1) Includes bonus amounts earned and paid in the applicable fiscal year and paid or to be paid in the following fiscal year. Excludes bonuses paid in the applicable fiscal year but earned in the preceding fiscal year.

(2) The aggregate amount of perquisites and other personal benefits, securities or property, given to each Named Executive Officer was less than either $50,000 or 10% of the total annual salary and bonus for that executive during each of these years.

(3) The amounts shown in this column represent the dollar value of contributions made by the Company to the Company's 401(k) retirement savings plan for the benefit of the Named Executive Officers and other compensation as described below.

(4) Mr. Mahdavi received an annual stock option grant of 276,000 stock options on February 20, 2001. However, pursuant to the terms of an Agreement to Cancellation of Stock Options and Amended Employment Agreement effective November 12, 2001, the 2001 Annual Options Grant and all prior options granted were cancelled.

(5) Mr. Davis received an annual stock option grant of 116,000 stock options on February 20, 2001. However, pursuant to the terms of an Agreement to Cancellation of Stock Options and Amended Employment Agreement effective November 12, 2001, the 2001 Annual Options Grant and all prior options granted were cancelled.

(6) Mr. Rossin received an annual stock option grant of 12,800 stock options on February 20, 2001. However, pursuant to the terms of an Agreement to Cancellation of Stock Options and Amended Employment Agreement effective November 12, 2001, the 2001 Annual Options Grant and all prior options granted were cancelled.

(7) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $3,000 and $386,333 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001. Mr. Mahdavi also received $386,300 in 2004 pursuant to the terms of the above referenced agreement.

(8) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,330 and $386,333 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001.

(9) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,625, $386,333 pursuant to the terms of an Agreement to Cancellation of Stock Options, and $216,000 pursuant to the terms of an Amended Employment Agreement, both agreements effective November 12, 2001, for the cancellation of 664,000 stock options.

(10) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,181, $263,325 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001, and $98,034 pursuant to the terms of the Second Amendment to Employment Agreement effective September 5, 2002. Mr. Davis also received $263,300 in 2004 pursuant to the terms of the above referenced Agreement to Cancellation of Stock Options.

(11) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,750 and $263,325 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001.

(12) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,625, $263,350 pursuant to the terms of an Agreement to Cancellation of Stock Options, and $124,000 pursuant to the terms of an Amended Employment Agreement, both agreements effective November 12, 2001, for the cancellation of 496,000 stock options.

(13) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $3,000 and $50,451 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001. Mr. Rossin also received $50,451 in 2004 pursuant to the terms of the above referenced agreement.

(14) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,750 and $50,466 pursuant to the terms of an Agreement to Cancellation of Stock Options effective November 12, 2001.

(15) Amount represents Company's 401(k) contribution (referenced in (3) above) in the amount of $2,625, $50,467 pursuant to the terms of an Agreement to Cancellation of Stock Options, and $32,000 pursuant to the terms of an Amended Employment Agreement, both agreements effective November 12, 2001, for the cancellation of 73,533 stock options.

Options/SAR Grants in Last Fiscal Year

The Company did not grant any stock options to the Named Executive Officers during the fiscal year ended December 31, 2003, and does not maintain an option or other stock based plan that provides for the grant of stock appreciation rights ("SARs").

Aggregated Option/SAR Exercises In Last Fiscal Year and Fiscal Year-End Option/SAR Values

There were no outstanding options pertaining to the Named Executive Officers. The Company does not maintain an option or other stock based plan that provides for the grant of SARs.

Employment Agreements

There were no employment agreements between the Company and any of the Named Executive Officers during the year ended December 31, 2003. There were no severance agreements between the Company and any of the Named Executive Officers.

Change of Control Arrangements

If the Company sells all or substantially all of its assets, or merges with or into another corporation, stock options outstanding under the Company's 1997 Stock Option Plan are required to be assumed or equivalent options are required to be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Company's Board of Directors determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the option holder will have the right to exercise his or her option, including shares as to which such option would not otherwise be exercisable. If the Board makes options fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board must notify the option holder that the option is fully exercisable for a period of 30 days from the date of such notice and the option will terminate upon the expiration of such period, but not later than the expiration of the term of the option.

Report of the Compensation Committee on Executive Compensation

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report.

The Compensation Committee of the Board of Directors has furnished the following report on executive compensation for fiscal 2003.

What is the Company's philosophy of executive officer compensation?

The Company's compensation program for executive officers consists of two key elements:

- a base salary, and
- a performance-based annual bonus.

The Compensation Committee believes that this two-part approach best serves the interests of the Company and its stockholders. As described more fully below, each element of the Company's executive compensation program has a somewhat different purpose.

The two-part approach enables the Company to meet the requirements of the competitive environment in which the Company operates while ensuring that executive officers are compensated in a way that advances both the short-term and long-term interests of the stockholders. Under this approach, compensation for these officers was ultimately based upon:

- the Committee's assessment of the executive officers' performance,
- the continuing demand for superior executive talent,
- the Company's overall performance, and
- the Company's future objectives and challenges.

The Company's philosophy is to pay base salaries to executives that reward these executives for ongoing performance throughout the year and that enable the Company to attract, motivate and retain highly-qualified executives. The annual bonus program is designed to reward executives for performance and is based primarily on the Company's financial results. The Board believes that these compensation components provide a balanced approach that enables the Company to attract and retain experienced executives, reward such executives for their individual and collective contribution to the profitability of the Company, and ensure that the incentives of the Company's executives are aligned with the best interests of its stockholders.

The Board's decisions concerning the specific 2003 compensation elements for individual executive officers, including the Chief Executive Officer, were made within this broad framework and in light of each executive officer's level of responsibility, performance, current salary and prior-year bonus and other compensation awards. As noted below, in most cases the Board's specific decisions involving 2003 executive officer compensation were ultimately based upon the Board's judgment regarding the individual executive officer's performance, potential future contributions, and whether each payment or award would provide an appropriate reward and incentive for such officer to sustain and enhance the Company's long-term performance.

In addition to the foregoing, the base salary, annual bonus, and other related compensation for Messrs. Davis, Mahdavi, and Rossin were primarily established through negotiations with the executives at the time the Company acquired Addison Steel, Quincy Joist and Bannister Steel in fiscal 1998, and is set forth in the executives' respective employment agreements with the Company as described above.

How do we determine base salary for Messrs. Schuff and Schuff?

The Board typically establishes each executive's base salary at a level that is designed to reflect that executive's position and responsibility within the Company, to attract and retain highly-qualified executives, and to be competitive with similarly situated executives at steel services companies of similar size and revenue levels. The Board also takes into account, among other things, the individual executive's experience and performance during the past year.

How are annual bonuses determined for Executive Officers?

Bonuses typically are paid based upon the Board's judgment regarding the significance of the individual executive officer's contributions during a given year and the overall financial performance of the Company. The Company's bonus plan generally makes such bonuses substantially contingent upon the Company's achievement of certain objective performance goals related to revenue and net income, although the plan does not preclude discretionary bonuses based upon other factors, such as individual achievement. Due to the difficult economic circumstances in which the Company operated in 2003, none of the Company's Executive Officers received bonuses attributable to performance for this period.

Do executives receive any other benefits?

Certain executives also participate in various other benefit plans, including medical plans and a 401(k) plan, which are generally available to all employees of the Company.

How is the Company addressing Internal Revenue Code limits on deductibility of compensation?

Section 162(m) of the Internal Revenue Code, adopted as part of the Revenue Reconciliation Act of 1993, provides that executive compensation in excess of $1 million is not deductible for corporate income tax purposes unless it is performance-based and is paid under a plan meeting requirements set forth in Section 162(m). The Committee intends to ensure that the Company's executive compensation programs continue to satisfy the requirements of Section 162(m). However, the Committee may determine, based on business considerations, that compensation should be paid even if it is not deductible under Section 162(m).

Dennis DeConcini
Edward M. Carson
H. Wilson Sundt
As Members of the Compensation Committee

Compensation Committee Interlocks
And Insider Participation

No member of the Compensation Committee was an officer or employee of the Company, or its subsidiaries, in the fiscal year ended December 31, 2003, or was formerly such an employee or had any other relationship requiring disclosure hereunder.

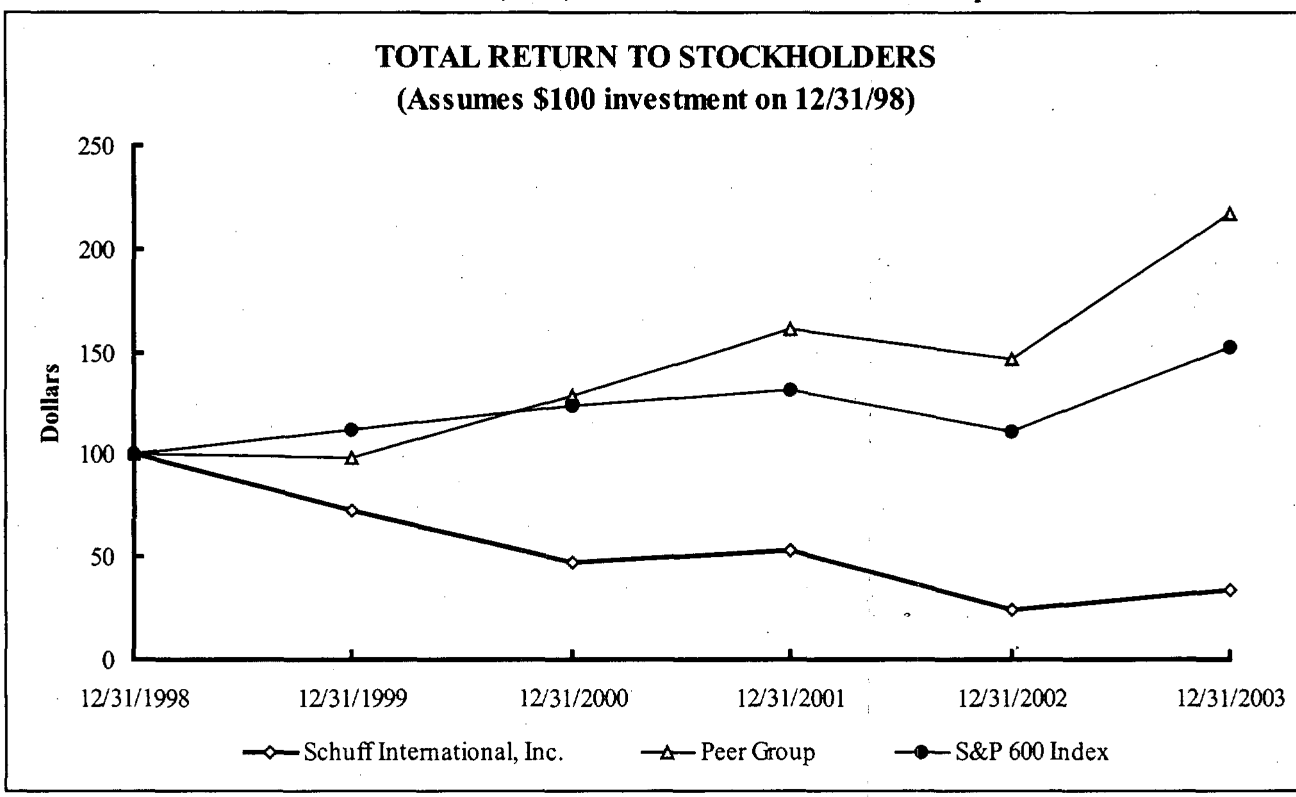
STOCK PRICE PERFORMANCE GRAPH

The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) of (i) the Company's common stock, (ii) the Standard & Poor's Small Cap 600 Stock Index ("S&P 600") and (iii) a peer group index selected by the Company (the "Peer Group"), from July 7, 1997 (the date of the Company's initial public offering) through December 31, 2003 (the end of the Company's fiscal year). The Peer Group was selected by the Company on an industry basis and includes:

- Ameron International Corporation
- Granite Construction Incorporated
- Jacobs Engineering Group Inc.
- Simpson Manufacturing Co., Inc.
- Foster Wheeler Corporation
- Northwest Pipe Company
- Meadow Valley Corporation
- Williams Industries, Inc.
- Gulf Island Fabrication, Inc.
- Pitt-Des Moines, Inc.
- Fluor Corporation
- Chicago Bridge & Iron Co. N.V.

The graph assumes that $100 was invested on July 7, 1997 in the Company's common stock and in each of the comparison indices, and assumes that all dividends paid were reinvested. The comparisons in the graph are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's common stock.

Comparison of Cumulative Total Return Among Schuff International, Inc., the S&P 600 and the Peer Group



Total Return Analysis	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
Schuff International, Inc.	**$100.00**	**$ 72.73**	**$ 47.64**	**$ 52.73**	**$ 23.82**	**$ 33.82**
Peer Group	**$100.00**	**$ 98.54**	**$128.30**	**$161.05**	**$147.01**	**$216.87**
S&P 600	**$100.00**	**$123.81**	**$123.81**	**$130.91**	**$110.86**	**$152.47**

Source: CTA Public Relations www.ctapr.com (303) 665-4200. Data from BRIDGE Information Systems, Inc.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of its common stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of such forms furnished to the Company, or written representations that no Forms 5 were required, the Company believes that during the Company's preceding fiscal year its officers, directors and greater than 10% beneficial owners complied with all Section 16(a) filing requirements.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth, as of August 31, 2004, the number and percentage of outstanding shares of common stock beneficially owned by each person known by the Company to beneficially own more than 5% of such stock, by each director and Named Executive Officer of the Company, and by all directors and executive officers of the Company as a group.

Name & Address of Beneficial Owner [(1)]	Shares Beneficially Owned	Shares Subject to Unexercised Options [(3)]	Percentage Owned
David A. Schuff and Nancy A. Schuff [(2)]	2,553,000[(4)]	--	36.1%
Scott A. Schuff and Teryl H. Schuff [(2)]	2,469,200[(5)]	--	35.0%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	369,200[(6)]	--	5.23%
Springhouse Capital LLC 520 Madison Avenue, 35th Floor New York, New York 10022	366,800[(7)]	--	5.2%
Glen S. Davis [(2)]	21,132	--	*
Saied Mahdavi [(2)]	3,295	--	*
Ted F. Rossin [(2)]	5,000	--	*
Edward M. Carson [(2)]	56,069	11,000	*
H. Wilson Sundt [(2)]	24,684	2,500	*
Dennis DeConcini [(2)]	34,596	11,000	*
Michael R. Hill [(2)]	12,800	12,800	*
All Directors and Executive Officers as a group (10 persons)	5,244,885	97,900	74.3%

* Represents less than 1% of the Company's outstanding common stock.

(1) This information regarding beneficial ownership of the Company's common stock by certain beneficial owners and management of the Company is as of August 31, 2004. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date set forth above through the exercise of any option, warrant, or right. Shares of common stock subject to options, warrants, or rights that are currently exercisable or exercisable within 60 days are deemed outstanding for the purpose of computing the percentage of the person holding such options, warrants, or rights, but are not deemed outstanding for computing the percentage of any other person. The amounts and percentages are based upon 7,063,122 shares of common stock outstanding as of August 31, 2004. The persons named in the table, to the Company's knowledge, have sole voting and sole dispositive power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the footnotes hereunder.

(2) The address of each of the listed stockholders is 1841 West Buchanan Street, Phoenix, Arizona 85007.

(3) The number of Shares Beneficially Owned includes Shares Subject to Unexercised Options which are exercisable on August 31, 2004, or within 60 days thereafter.

(4) 2,053,000 of these shares are owned by the Schuff Family Trust Under Trust Agreement dated June 28, 1983, as amended, and 500,000 of these shares are owned by the Schuff Irrevocable Trust Under Trust Agreement Dated December 31, 1996. David A. Schuff and Nancy A. Schuff, husband and wife, are co-trustees of each of the trusts and exercise voting and investment power over such shares.

(5) 2,269,200 of these shares are owned by the Scott A. Schuff Family Trust Under Trust Agreement dated March 12, 1992, as amended, and 200,000 of these shares are owned by the Scott A. Schuff Irrevocable Trust Under Trust Agreement dated December 31, 1996, as amended. Scott A. Schuff and Teryl Hall Schuff, husband and wife, are co-trustees of each of these trusts and exercise voting and investment power over such shares.

(6) Amount based on last filed Schedule 13G/A effective December 31, 2003.

(7) Amount based on last filed Schedule 13G/A effective May 26, 2004.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

On June 29, 2001, a holding company form of organizational structure was adopted to provide a framework that generally allows for greater administrative and operational flexibility. The new structure was consummated by the merger of Schuff Merger Company into Schuff Steel Company, which was the surviving corporation. Prior to the merger, Schuff Merger Company was a wholly-owned subsidiary of Schuff International, Inc., a holding company and initially a wholly-owned subsidiary of Schuff Steel

Company. As a result of the merger, Schuff Merger Company ceased to exist, and Schuff Steel Company became a wholly-owned subsidiary of Schuff International, Inc., with all of Schuff Steel Company's outstanding common stock converted, on a share for share basis, into common stock of Schuff International, Inc.

Since its inception, the Company has maintained business relationships and engaged in certain transactions with the affiliated companies and parties described below. Since the closing of its initial public offering in July 1997, all transactions between the Company and its affiliated entities, executive officers, directors, or significant stockholders have been approved by a majority of the non-employee directors of the Company. The Company also believes these transactions were on terms that were no less favorable to the Company than the Company could have obtained from non-affiliated parties.

The Company leases some of its fabrication and office facilities from 19th Avenue/Buchanan Limited Partnership, an Arizona limited partnership (the "Schuff Partnership"). The general and limited partners of the Schuff Partnership are David A. Schuff, Scott A. Schuff, and certain of their family members. David A. Schuff is a co-founder and the Chairman of the Board of Directors of the Company, and Scott A. Schuff is a Director and the President and Chief Executive Officer of the Company. David A. Schuff and Scott A. Schuff presently are the beneficial owners of approximately 71% of the issued and outstanding common stock of the Company. See "Security Ownership of Principal Stockholders and Management."

The Company has three leases with the Schuff Partnership for its principal fabrication and office facilities, the property and equipment acquired in the 1997 acquisition of B&K Steel, and additional office facilities adjacent to the Company's principal office and shop facilities. Each lease has a 20 year term and is subject to increases every five years based on increases in the Consumer Price Index. The Company's annual rental payments for the three leases were approximately $1.0 million in 2003. During 2002, the Company amended all three leases. The annual rent was reduced to $800,000 from $1.1 million. Effective July 1, 2003, the Schuff Partnership increased the rent to the original amount.

On April 30, 2004, the Company's Chairman of the Board, David A. Schuff, and President and Chief Executive Officer, Scott A. Schuff, and their affiliates (the "Schuffs") caused Schuff Acquisition Corp., an Arizona corporation wholly owned by the Schuffs ("SAC"), to commence a tender offer to acquire all of the outstanding shares of Schuff International's common stock, not already owned by SAC and the Schuffs, for $2.17 in cash per share.

In response to the tender offer, a special committee, comprised of the three independent members of the Board, was formed to review and evaluate the going private proposal. Following an evaluation and review of the tender offer by the special committee, and subsequent discussions with the Schuffs, the Schuffs agreed to cause SAC to increase its tender offer to $2.30 in cash per share. The tender offer was scheduled to expire at 5:00 p.m., Denver Time, on May 28, 2004, unless extended. On May 28, 2004, SAC announced that it was extending the expiration date of the tender offer to 5:00 p.m., Denver Time, on June 10, 2004, unless further extended. On June 10, 2004, SAC announced that it was extending the expiration date of the tender offer to 5:00 .m., Denver Time, on June 24, 2004, unless further extended. On June 24, 2004, SAC announced that it was extending the expiration date of the tender offer to 5:00 p.m., Denver Time, on July 29, 2004.

The tender offer expired at 5:00 p.m., Denver Time, on July 29, 2004, at which time, approximately 849,168 shares of the common stock had been tendered and not withdrawn. On July 29, 2004, SAC announced that the number of shares tendered pursuant to its offer to purchase all of the Company's outstanding common stock not owned by SAC was not sufficient to satisfy the non-waivable minimum tender condition of the tender offer, and that the tender offer had been withdrawn. All tendered shares of common stock were returned to their respective holders. Currently, both SAC and Schuff International are considering alternatives to the going private proposal, but have not yet determined a course of action.

Effective June 1, 2004, the Company completed corporate name changes for three of its wholly owned subsidiaries. Bannister Steel, Inc. is now Schuff Steel – Pacific, Inc.; Six Industries, Inc. is now Schuff Steel - Gulf Coast, Inc.; and Addison Steel, Inc. is now Schuff Steel – Atlantic, Inc.

Disclosure with Respect to the Company's Equity Compensation Plans

The Company maintains the 1997 Stock Option Plan (the "1997 Plan"), the 1998 Director Compensation Plan (the "1998 Plan") and the 1999 Employee Stock Purchase Plan (the "ESPP"), pursuant to which it may grant equity awards to eligible persons.

The Company currently does not intend to issue additional shares under the ESPP, because the maximum number of shares authorized for issuance under the Plan has been purchased.

The following table gives information about equity awards at December 31, 2003 under the Company's 1997 Plan, the 1998 Plan and the ESPP.

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	*1,130,174*(1)	*$5.54*	*1,722,463*(2)
Equity compensation plans not approved by security holders	--	--	--
Total	*1,130,174*	*$5.54*	*1,722,463*

(1) Of these options, 1,123,674 are outstanding under the 1997 Plan and 6,500 are outstanding under the 1998 Plan.
(2) Of these securities, 82,157 remain available for purchase under the ESPP. The remaining 1,640,306 are options available for grant under the 1997 Plan.

Amounts indicated in the table above do not reflect the 1,500 stock options granted to the independent members of the Board on March 17, 2004 at the exercise price of $1.89 under the 1998 Plan.

INDEPENDENT PUBLIC ACCOUNTANTS

The principal independent public accounting firm we used during 2003 was Deloitte & Touche LLP. The following reflects various fees paid to Deloitte & Touche LLP during 2003.

Fees Paid to Deloitte & Touche LLP

The following table shows the fees paid or accrued by the Company for the audit and other services provided by the Company's accountants for the fiscal years ended December 31, 2002 and 2003:

	2003	2002
Audit fees for the years ended December 31 and fees for the review of financial statements included in the quarterly reports on Form 10-Q	$418,675	$319,000
Audit-Related Fees [1]	$33,000	$32,400
Tax Fees	-0-	-0-
Other Services Fees	-0-	-0-
Total:	$451,675	$351,400

[1] Includes accounting and financial reporting services related to the Company's 401(k) plan audits and attendance at Audit Committee meetings.

All services described above were approved by the Audit Committee.

Policy on Audit Committee Pre-Approval

The Audit Committee is responsible for reviewing and pre-approving both audit and permissible non-audit services to be provided by the independent accountant. This pre-approval duty may be delegated to one or more designated members of the Audit Committee, provided that any pre-approval given by such delegate(s) must be reported to the Audit Committee at its next regularly scheduled meeting. The Audit Committee's pre-approval policies and procedures as described herein are included within the Audit Committee Charter.

Change in Independent Registered Accounting Firm

On September 8, 2004, the Company notified Deloitte & Touche LLP ("Deloitte") of its decision to dismiss Deloitte as its independent registered public accounting firm. McGladrey & Pullen, LLP ("McGladrey") has been selected to replace Deloitte as its independent registered public accounting firm, subject to completion of McGladrey's customary client acceptance procedures. The decision to dismiss Deloitte and to select McGladrey, which was made to reduce the costs of compliance with SEC accounting rules, was approved by the Company's Audit Committee on September 3, 2004 and subsequently approved by the Board of Directors with an effective date of September 8, 2004.

Deloitte's audit reports on the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2003 and December 31, 2002, respectively, did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, except that Deloitte's independent auditors' report on the Company's 2002 financial statement contained an explanatory paragraph relating to a change in method of accounting for goodwill and other intangible assets with infinite lives as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was effective January 1, 2002.

During the Company's two most recent fiscal years and in the subsequent interim period through September 8, 2004, the Company did not have any disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to Deloitte's satisfaction, would have caused it to make a reference to the subject matter of the disagreements in connection with its reports; except that, in performing its review of the Company's consolidated financial statements for the quarterly report on Form 10-Q for the quarter ended September 30, 2003, Deloitte had a disagreement with management over the Company's accounting for a significant construction contract. Subsequently, management recorded an adjustment to reduce revenues by $1,250,000, which is reflected in its quarterly report on Form 10-Q for the quarter ended September 30, 2003 as a significant audit adjustment. As a result of recording the adjustment, the disagreement was resolved to the satisfaction of Deloitte.

Deloitte has advised the Company that it agrees with the first sentence of the first paragraph of the section entitled ***Change in Independent Registered Accounting Firm*** above, and with the statements made in the second and third paragraphs above.

Representatives of Deloitte and McGladrey will attend the annual meeting, have an opportunity to make a statement, and will be available to answer questions.

STOCKHOLDER PROPOSALS AND NOMINATIONS

Stockholder proposals for the 2005 Annual Meeting, which is anticipated to be held in May 2005, should be received at the principal executive offices of the Company by January 25, 2005, but in no event later than a reasonable time prior to the printing of the proxy materials, to be considered for inclusion in the Company's proxy materials relating to such meeting.

Under our Bylaws, if you wish to nominate directors or bring other business before the stockholders at the 2005 Annual Meeting of Stockholders:

- You must be a stockholder of record at the time of giving notice and be entitled to vote at the meeting of stockholders to which the notice relates.
- You should notify the Secretary in writing no later than January 25, 2005, which is 120 days prior to the anticipated dated of the 2005 Annual Meeting of Stockholders, but in no event later than a reasonable time prior to the printing of the proxy materials.
- Your notice must contain the specific information required in our Bylaws.

A nomination or other proposal will be disregarded if it does not comply with the above procedure and any additional requirements set forth in our Bylaws. Please note that these requirements relate only to the matters you wish to bring before your fellow stockholders at an annual meeting. They are separate from the SEC's requirements to have your proposal included in our proxy statement.

OTHER MATTERS

As of the date of this proxy statement, the Board of Directors does not intend to present at the annual meeting any matters other than those described herein and does not presently know of any matters that will be presented by other parties. If any other matter is properly brought before the meeting for action by stockholders, proxies in the enclosed form returned to the Company will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

SCHUFF INTERNATIONAL, INC.

Scott A. Schuff
President and Chief Executive Officer

September 15, 2004