

CASTLE A M & CO
Form 8-K
November 04, 2003
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 4, 2003

A. M. Castle & Co.
(Exact name of registrant as specified in its chapter)

| | | |
|---|--|---|
| <u>Maryland</u> (State or other jurisdiction of incorporation) | <u>1-5415</u> (Commission File Number) | <u>36-0879160</u> (IRS Employer Identification No.) |
| <u>3400 N. Wolf Road, Franklin Park, IL</u> (Address of principal executive offices) | <u>60131</u> (Zip Code) | |

Registrant's telephone number, including area code 847/455-7111

(Former name or former address, if changed since last report)

Item 12. Results of Operations and Financial Condition

On Tuesday, November 4, 2003 the Company disseminated a press release, a copy attached as Exhibit A, announcing the Company's operational results for the Third Quarter and the Nine-Month Period ending September 30, 2003.

As part of the press release there is a discussion of a non-GAAP financial term, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). None of the financial figures contained in the press release is non-GAAP information. The Company believes, however, that EBITDA is an important term and concept because of its use by the professional investment community, including the Company's primary lenders. The Company believes that the use of this term is necessary to a proper understanding of the changes in the Company's earnings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

A. M. Castle & Co.

/s/ Lawrence A. Boik

Lawrence A. Boik
Vice President, Controller/Treasurer

Date ____ 11-3-03 ____

3400 N. Wolf Road

Franklin Park, Illinois 60131
A. M. CASTLE & CO. (847) 455-7111
(847) 455-6930 (Fax)

For Further Information:

-----AT THE
COMPANY-----

Edward Culliton
VP, Finance & Chief Financial
Officer
349-2508

-----AT FRB/WEBER SHANDWICK-----

General Information: Analyst Contacts:
George Zagoudis John McNamara (212) 455-8435
(312) 640-6663

Traded: AMEX, MSE, CSE
(CAS)
Member: S&P SmallCap 600
Index

FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 4, 2003

A. M. CASTLE & CO. ANNOUNCES THIRD QUARTER
AND YEAR-TO-DATE OPERATING RESULTS

FRANKLIN PARK, ILLINOIS, NOVEMBER 4, 2003 A. M. CASTLE & CO. (AMEX: CAS) , A North American distributor of highly engineered metals and plastics, today announced its operating results for the three and nine month periods ended September 30, 2003. For the quarter ended September 30, 2003, Castle reported sales of \$134.9 million, down 1.2% from \$136.6 million in the same period a year ago, and an after tax operating loss of \$2.3 million, an improvement of 13.1% from a loss of \$2.7 million in the prior year. Including preferred stock dividends, the Company reported a net loss applicable to common stock of \$2.6 million, or \$0.16 per share, slightly lower than last year's loss

of \$2.7 million, or \$0.18 per share. For the first nine months of 2003, sales totalled \$410.5 million, down 0.8% from \$413.9 million in the same period last year. After tax losses, including impairment and special charges of \$6.2 million recognized in the second quarter, totalled \$13.5 million, or \$0.86 per share. In the same period of 2002, after tax losses, including \$0.8 million of losses from discontinued operations, totalled \$4.9 million, or \$0.33 per share. Commenting on Castle's current year operating results, Mr. G. Thomas McKane, President and CEO, noted that, exclusive of impairment and other special charges, the Company has generated positive operating income before interest, taxes, depreciation and amortization (EBITDA) in each quarter of 2003. "One of our primary objectives this year," he said, "was to significantly reduce our total debt. The combination of positive EBITDA, improved working capital utilization, the sale of underutilized distribution capacity and the liquidation or sale of under-performing business units has enabled us to make significant progress in this area. A year ago, at September 30, 2002, our total interest bearing debt, including

A. M. Castle & Co.
Add One

advances under our Accounts Receivable Securitization Facility, stood at \$157.2. Today, that debt has been reduced by \$30.5 million to \$126.7 million, our current ratio stands at 1.9 to 1.0, our debt-to-total capital ratio is 47.3%, and we are well within all of our loan covenant requirements. Looking ahead," he added, "proceeds from asset sales and liquidations not yet completed are expected to generate an additional \$6.0 million for future debt reduction in the next several quarters."

A key element to improving the Company's current and future EBITDA is to continue to decrease operating expenses and, by so doing, reduce our breakeven point. In the third quarter of 2003, other operating expenses totalled \$40.1 million, down 5.4%, or \$2.3 million from \$42.4 million in the prior year period. Exclusive of the plastics business, which saw a 12.6% year-over-year quarterly sales increase, operating expenses of the Company's metals segment fell \$2.8 million, or 7.4% on a 3.0% decline in metals sales, reflecting the structural expense reductions we have made along with continued productivity gains. "These improvements in operating efficiencies," McKane said, "are part of a continuing effort to reduce the Company's breakeven point. We started 2001 with a breakeven point of \$700 million which was reduced to \$600 million by the beginning of 2003. Through the third quarter of this year, we have further reduced the breakeven point to \$575 million on our way to our target of \$545 million, about equal to our current annual sales run rate."

In discussing the Company's near-term expectations, Mr. McKane noted that, "as the third quarter developed, there were some indications of improved demand in the general manufacturing sector of the economy while demand in aerospace continued to be very soft and readings in the oil and gas markets were mixed." He also stated that "the Company had a number of aggressive sales programs underway which are expected to result in new business in 2004 in our traditional core metals product areas." In addition, McKane stated, "we are seeing solid business growth in our Mexico joint venture which is expected to grow sales by over 20%."

McKane cautioned that the fourth quarter of 2003 was expected to be impacted by extended customer plant shutdowns during Thanksgiving week and again during the holiday season the last two weeks of December. "We won't have a good reading on 2004," McKane said, "until January or February, which will tell the tale of whether a real recovery is underway as opposed to the bounce we saw early in 2003. If this is the beginning of a sustained recovery, we expect it to be a slow and gradual one building strength over an extended period of time. "

A recording of the Company's quarterly investor's conference call is available to interested parties through November 14, 2003 at www.amcastle.com

A. M. Castle & Co.

Add Two

Founded in 1890, A. M. Castle & Co. provides highly engineered materials and value added services to a wide range of companies within the producer durable equipment sector of the economy. Its customer base includes many Fortune 500 companies as well as thousands of medium and smaller-sized firms spread across a wide spectrum of industries. Within its core metals business, it specializes in the distribution of carbon, alloy and stainless steels; nickel alloy; aluminum; titanium; copper and brass. Through its subsidiary, Total Plastics, Inc., the Company also distributes a broad range of value-added industrial plastics. Together, Castle and its affiliated companies operate over 50 locations throughout North America. Its common stock is traded on the American and Chicago Stock Exchange under the ticker symbol "CAS".

This release may contain forward-looking statements relating to future financial results. Actual results may differ materially as a result of factors over which the company has no control. These risk factors and additional information are included in the company's reports on file with the Securities and Exchange Commission.

Financial tables to follow.

A.M. CASTLE & CO.

CONSOLIDATED STATEMENTS
OF OPERATIONS

(Amounts in thousands, except per
share data)
(Unaudited)

| | For the Three | | For the Nine | |
|---|-----------------|-----------------|------------------|------------------|
| | Months Ended | | Months Ended | |
| | September 30, | | September 30, | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Net sales | \$ 134,917 | \$ 136,604 | \$ 410,510 | \$ 413,854 |
| Cost of material sold | (95,948) | (96,592) | (287,931) | (290,470) |
| Special charges | - | - | (1,524) | - |
| | <u>38,969</u> | <u>40,012</u> | <u>121,055</u> | <u>123,384</u> |
| Gross material margin | | | | |
| Plant and delivery expense | (21,300) | (22,112) | (65,913) | (66,854) |
| Sales, general, and administrative expense | (16,723) | (18,040) | (52,402) | (50,720) |
| Depreciation and amortization expense | (2,083) | (2,249) | (6,700) | (6,438) |
| Impairment and other operating expenses | - | - | (5,924) | - |
| | <u>(40,106)</u> | <u>(42,401)</u> | <u>(130,939)</u> | <u>(124,012)</u> |
| Total other operating expense | | | | |
| Operating loss | (1,137) | (2,389) | (9,884) | (628) |
| Equity earnings (loss) of joint ventures | 2 | 326 | (79) | 420 |
| Impairment to joint venture investment and advances | - | - | (2,830) | - |

Edgar Filing: CASTLE A M & CO - Form 8-K

| | | | | |
|--|------------|------------|-------------|------------|
| Interest expense, net | (2,452) | (1,820) | (7,347) | (5,337) |
| Discount on sale of accounts receivable | (295) | (360) | (874) | (939) |
| <hr/> | | | | |
| Loss from continuing operations before income taxes | (3,882) | (4,243) | (21,014) | (6,484) |
| <hr/> | | | | |
| Income taxes | | | | |
| Federal | 1,284 | 1,372 | 6,808 | 2,047 |
| State | 261 | 181 | 1,431 | 306 |
| <hr/> | | | | |
| | 1,545 | 1,553 | 8,239 | 2,353 |
| <hr/> | | | | |
| Net loss from continuing operations | (2,337) | (2,690) | (12,775) | (4,131) |
| <hr/> | | | | |
| Discontinued operations: | | | | |
| Loss from discontinued operations; net of income tax | | | | (26) |
| Loss on disposal of subsidiary, net of tax | | | | (729) |
| <hr/> | | | | |
| Net loss | (2,337) | (2,690) | (12,775) | (4,886) |
| Preferred Dividends | (242) | - | (719) | - |
| <hr/> | | | | |
| Net loss applicable to common stock | \$ (2,579) | \$ (2,690) | \$ (13,494) | \$ (4,886) |
| Basic & diluted earnings per share from: | | | | |
| Continuing operations | \$ (0.16) | \$ (0.18) | \$ (0.86) | \$ (0.28) |
| Discontinued operations | - | - | - | (0.05) |
| <hr/> | | | | |
| Total | \$ (0.16) | \$ (0.18) | \$ (0.86) | \$ (0.33) |
| <hr/> | | | | |

A.M. CASTLE & CO.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except per share data)

(Unaudited)

| | Sept. 30, 2003 | Dec. 31, 2002 | Sept. 30, 2002 |
|--|-------------------|------------------|-------------------|
| | <hr/> | <hr/> | <hr/> |
| ASSETS | | | |
| Current assets | | | |
| Cash and equivalents | \$ 831 | \$ 918 | \$ 2,621 |
| Accounts receivable, net | 51,666 | 34,273 | 29,229 |
| Inventories (principally on last-in first-out basis) | 119,730 | 131,704 | 130,525 |
| Income tax receivable | - | 9,897 | 7,109 |
| Advances to joint ventures and other current assets | 5,546 | 7,930 | 7,352 |

Edgar Filing: CASTLE A M & CO - Form 8-K

| | | | |
|---|------------|------------|------------|
| Total current assets | 177,773 | 184,722 | 176,836 |
| Investment in joint ventures | 5,317 | 7,278 | 6,909 |
| Goodwill | 31,619 | 31,947 | 31,942 |
| Pension assets | 41,823 | 40,359 | 34,373 |
| Advances to joint ventures and other assets | 8,875 | 6,754 | 5,812 |
| Property, plant and equipment, at cost | | | |
| Land | 5,020 | 6,025 | 6,174 |
| Building | 48,885 | 53,322 | 53,307 |
| Machinery and equipment | 118,741 | 125,376 | 127,109 |
| | 172,646 | 184,723 | 186,590 |
| Less - accumulated depreciation | (101,763) | (103,188) | (101,104) |
| | 70,883 | 81,535 | 85,486 |
| Total assets | \$ 336,290 | \$ 352,595 | \$ 341,358 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | | |
| Current liabilities | | | |
| Accounts payable | \$ 60,422 | \$ 64,192 | \$ 58,113 |
| Accrued liabilities and deferred gains | 19,259 | 16,092 | 16,136 |
| Current and deferred income taxes | 4,183 | 4,351 | 4,598 |
| Current portion of long-term debt | 7,980 | 3,546 | 2,442 |
| Total current liabilities | 91,844 | 88,181 | 81,289 |
| Long-term debt, less current portion | 98,786 | 108,801 | 113,785 |
| Deferred income taxes | 16,018 | 21,101 | 21,367 |
| Deferred gain on sale of assets | 6,997 | - | - |
| Minority interest | 1,441 | 1,352 | 1,345 |
| Post retirement benefits obligations | 2,352 | 2,236 | 2,283 |
| Stockholders' equity | | | |
| Preferred stock | 11,239 | 11,239 | - |
| Common stock | 159 | 158 | 151 |
| Additional paid in capital | 35,017 | 35,017 | 31,782 |
| Earnings reinvested in the business | 72,002 | 85,490 | 90,763 |
| Accumulated other comprehensive income (loss) | 727 | (555) | (895) |
| Other - deferred compensation | (62) | (195) | (282) |
| Treasury stock, at cost | (230) | (230) | (230) |
| Total stockholders' equity | 118,852 | 130,924 | 121,289 |
| Total liabilities and stockholders' equity | \$ 336,290 | \$ 352,595 | \$ 341,358 |

A.M. CASTLE & CO.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

For the nine months

September 30,

| | <u>2003</u> | <u>2002</u> |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (13,494) | \$ (4,886) |
| Net loss from discontinued operations | | 755 |
| Depreciation | 6,700 | 6,438 |
| Amortization of deferred gain | (150) | - |
| Equity loss (earnings) from joint ventures | 79 | (420) |
| Decrease in deferred taxes and income tax receivable | 4,732 | 463 |
| Non-cash pension income | (1,053) | (1,887) |
| Other | (3,257) | (5,567) |
| | <u> </u> | <u> </u> |
| Cash used by operating activities before working capital changes | (6,443) | (5,104) |
| Asset impairment and special charges | 10,278 | - |
| Net change in accounts receivable sold | (5,866) | 1,000 |
| Other Increase in working capital | (61) | 10,113 |
| | <u> </u> | <u> </u> |
| Net cash (used by) provided from operating activities - continuing operations | (2,092) | 6,009 |
| Net cash used by operating activities - discontinued operations | - | (1,194) |
| | <u> </u> | <u> </u> |
| Net cash (used by) provided from operating activities | (2,092) | 4,815 |
| | <u> </u> | <u> </u> |
| Cash flows from investing activities: | | |
| Investments and acquisitions | - | (842) |
| Proceeds from disposition of subsidiary | - | 2,486 |
| Advances to joint ventures | (199) | (2,044) |
| Capital expenditures | (2,183) | (758) |
| Proceeds from sale of assets | 10,538 | - |
| | <u> </u> | <u> </u> |
| Net cash provided from (used by) investing activities - continuing operations | 8,156 | (1,158) |
| Net cash provided from investing activities - discontinued operations | - | 98 |
| | <u> </u> | <u> </u> |
| Net cash provided from (used by) investing activities | 8,156 | (1,060) |
| | <u> </u> | <u> </u> |
| Cash flows from financing activities | | |
| Long-term borrowings, net | (6,453) | (4,204) |
| Effect of exchange rate changes on cash | 302 | 7 |
| Other | - | 325 |
| | <u> </u> | <u> </u> |
| Net cash used by financing activities - continuing operations | (6,151) | (3,872) |
| Net cash provided from financing activities - discontinued operations | - | 937 |
| | <u> </u> | <u> </u> |
| Net cash used by financing activities | (6,151) | (2,935) |

Edgar Filing: CASTLE A M & CO - Form 8-K

| | | |
|---------------------------------|---------------|-----------------|
| Net (decrease) increase in cash | (87) | 820 |
| Cash - beginning of year | <u>\$ 918</u> | <u>\$ 1,801</u> |
| Cash - end of period | <u>\$ 831</u> | <u>\$ 2,621</u> |