

# CASTLE A M & CO

## **FORM 8-K** (Current report filing)

Filed 07/29/08 for the Period Ending 07/29/08

Address	3400 N WOLF RD FRANKLIN PARK, IL 60131
Telephone	7084557111
CIK	0000018172
Symbol	CAS
SIC Code	5051 - Metals Service Centers and Offices
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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) July 29, 2008

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

<u>Maryland</u> (State or other jurisdiction of incorporation)	<u>1-5415</u> (Commission File Number)	<u>36-0879160</u> (IRS Employer Identification No.)
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<u>3400 N. Wolf Road, Franklin Park, Illinois</u> (Address of principal executive offices)	<u>60131</u> (Zip Code)
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Registrant's telephone number including area code 847/455-7111

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13 e-4(c) under the Exchange Act (17 CFR 240.13 e-4(c))

**Item 2.02 Results of Operations and Financial Conditions.**

On July 29, 2008, A. M. Castle & Co. issued a news release reporting its 2008 second quarter financial results. A copy of the news release is attached hereto as Exhibit 99.1 to this report and is incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits.**

(c) Exhibits.

<b>Exhibit Number</b>	<b>Description</b>
99.1	A. M. Castle & Co. Press Release Dated July 29, 2008

**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/ Sherry L Holland  
Sherry L. Holland  
Vice President, General Counsel and Secretary

Date July 29, 2008



## A. M. CASTLE & CO.

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### For Further Information:

#### AT THE COMPANY

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Traded: NYSE (CAS)  
Member: S&P SmallCap 600 Index

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### FOR IMMEDIATE RELEASE TUESDAY, JULY 29, 2008

#### A. M. Castle & Co. Reports Second Quarter 2008 Results

**FRANKLIN PARK, IL, JULY 29<sup>th</sup>** – **A. M. Castle & Co. (NYSE: CAS)**, a global distributor of specialty metal and plastic products, value-added services and supply chain solutions, today reported financial results for the fiscal second quarter ended June 30, 2008.

For the second quarter, consolidated net sales were a record \$397.1 million, an increase of \$24.5 million, or 6.6% from the second quarter of 2007. Net income for the quarter was \$11.3 million, or \$0.49 per diluted share as compared to \$16.3 million, or \$0.78 per diluted share in the prior year. In May 2007, the Company completed a secondary equity offering of five million shares, which had a \$0.08 dilutive impact on second quarter 2008 earnings per share as compared to the prior year period.

“Overall demand in our key strategic end-markets remained solid during the second quarter of 2008,” stated Michael Goldberg, President and CEO of A.M. Castle. “In particular, we saw continued healthy demand from our heavy equipment and oil and gas end-markets, and when combined with increasing tons sold per day and higher prices for certain products, we experienced solid revenue growth compared to the prior year. However, significant material cost increases for carbon products pressured our margins resulting in lower overall net income for the quarter,” added Goldberg.

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Metals segment sales were \$365.4 million in the second quarter of 2008, which was \$22.1 million or 6.4% higher than the second quarter of 2007. Average tons sold per day in the Metals business increased 9.3% over the second quarter of 2007.

“Although we were pleased with the overall sales results of the Metals segment in the second quarter, earnings were impacted negatively by higher material costs and higher operating expenses. Material costs for carbon related products were significantly higher and combined with substantial increases in surcharges resulted in lower overall profit margins for the quarter,” stated Goldberg. Second quarter 2008 results included a change in the LIFO inventory reserve of \$29.8 million compared to an \$18.6 million change in the LIFO inventory reserve from the prior year period. In addition, operating expenses increased due to higher transportation and warehouse costs associated with higher sales volumes, which added to margin pressures during the quarter.

Plastic segment sales were \$31.7 million in the quarter, an increase of \$2.4 million or 8.2% from the second quarter of last year, driven by healthy demand in the office furniture and industrial markets.

In April, the Company completed the first implementation of its new Oracle ERP system at its domestic aerospace locations. In addition, the Human Resource systems were also implemented Company-wide during the second quarter.

“We are pleased that the system worked as designed but we experienced the typical learning curve associated with an ERP implementation. Our Aerospace business and our Oracle implementation teams worked extremely hard to install and bring the Company online with the first stage of this project. During the process, several recommendations for improving future implementations across our business were identified, resulting in management’s decision to defer the upcoming Phase Two implementation originally scheduled for the third quarter 2008. In light of the potential impacts to our year-end financial close and in consideration of our internal control environment, we decided to move our next Oracle implementation related to the Castle Metals’ legacy system to the first quarter of 2009,” stated Goldberg.

The Company’s debt to capital ratio was 25.4% at June 30, 2008, which was comparable to 24.1% at March 31, 2008. The increase in the Company’s debt to capital ratio from 18.3% at December 31, 2007 primarily reflects the acquisition of Metals UK Group in January 2008. Inventory DSI (days sales in inventory) for the six months ended June 30, 2008 were 117 days compared to an average of 132 days in 2007.

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“Overall, we are encouraged by the healthy demand for our products across most of our key end-markets. The second half of any fiscal year typically is affected by fewer shipping days and seasonality. Management will continue to focus on improving our inventory turns and gross margin and expense management throughout the balance of the year,” Goldberg added.

The Company also announced a cash dividend of \$0.06 per share payable August 21, 2008 to shareholders of record at close of business on August 7, 2008.

### **Webcast Information**

Management will hold a conference call at 11:00 a.m. ET today to review the Company's results for the three month period ended June 30, 2008. The call can be accessed via the Internet live or as a replay. Those who would like to listen to the call may access the webcast through <http://www.amcastle.com>.

An archived version of the conference call webcast will be accessible for replay on the above website until the next earnings conference call. A replay of the conference call will also be available for seven days by calling 303-590-3000 (international) or 800-405-2236 and citing code 11117179.

### **About A. M. Castle & Co.**

Founded in 1890, A.M. Castle & Co. is a global distributor of specialty metal and plastic products and supply chain services, principally serving 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 variety of industries. Within its metals business, it specializes in the distribution of alloy and stainless steels; nickel alloys; aluminum and carbon. Through its subsidiary, Total Plastics, Inc., the Company also distributes a broad range of value-added industrial plastics. Together, Castle operates over 65 locations throughout North America, Europe and Asia. Its common stock is traded on the New York Stock Exchange under the ticker symbol "CAS".

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**Safe Harbor Statement / Regulation G Disclosure**

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 Exchange Commission. The financial statements included in this release contain a non-GAAP disclosure, EBITDA, which consists of income before provision for income taxes plus depreciation and amortization, and interest expense, less interest income. EBITDA is presented as a supplemental disclosure because this measure is widely used by the investment community for evaluation purposes and provides the reader with additional information in analyzing the Company's operating results. EBITDA should not be considered as an alternative to net income or any other item calculated in accordance with U.S. GAAP, or as an indicator of operating performance. Our definition of EBITDA used here may differ from that used by other companies. A reconciliation of EBITDA to net income is provided per U.S. Securities and Exchange Commission requirements.

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**CONSOLIDATED STATEMENTS OF INCOME***(Dollars in thousands, except per share data)**Unaudited*

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	\$ 397,115	\$ 372,608	\$ 790,594	\$ 747,959
Costs and expenses:				
Cost of materials (exclusive of depreciation and amortization)	297,196	270,263	588,540	539,713
Warehouse, processing and delivery expense	40,091	34,293	78,616	69,863
Sales, general, and administrative expense	36,168	33,947	71,650	70,341
Depreciation and amortization expense	6,067	4,977	11,878	9,873
Operating income	17,593	29,128	39,910	58,169
Interest expense, net	(2,213)	(4,163)	(4,259)	(8,424)
Income before income taxes and equity in earnings of joint venture	15,380	24,965	35,651	49,745
Income taxes	(6,949)	(9,994)	(15,299)	(19,871)
Income before equity in earnings of joint venture	8,431	14,971	20,352	29,874
Equity in earnings of joint venture	2,820	1,391	4,713	2,323
Net income	11,251	16,362	25,065	32,197
Preferred stock dividends	-	(350)	-	(593)
Net income applicable to common stock	\$ 11,251	\$ 16,012	\$ 25,065	\$ 31,604
Basic earnings per share	\$ 0.50	\$ 0.81	\$ 1.12	\$ 1.65
Diluted earnings per share	\$ 0.49	\$ 0.78	\$ 1.11	\$ 1.59
EBITDA *	\$ 26,480	\$ 35,496	\$ 56,501	\$ 70,365

*\*Earnings before interest, taxes, and depreciation and amortization*

Reconciliation of EBITDA to net income:	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 11,251	\$ 16,362	\$ 25,065	\$ 32,197
Depreciation and amortization expense	6,067	4,977	11,878	9,873
Interest expense, net	2,213	4,163	4,259	8,424
Income taxes	6,949	9,994	15,299	19,871
EBITDA	\$ 26,480	\$ 35,496	\$ 56,501	\$ 70,365

**CONDENSED CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except share and par value data)**Unaudited***ASSETS**

## Current assets

	As of	
	June 30, 2008	December 31, 2007
Cash and cash equivalents	\$ 26,132	\$ 22,970
Accounts receivable, less allowances of \$3,434 at June 30, 2008 and \$3,220 at December 31, 2007	211,137	146,675
Inventories, principally on last-in, first-out basis (replacement cost higher by \$174,912 at June 30, 2008 and \$142,118 at December 31, 2007)	248,007	207,284
Other current assets	<u>16,722</u>	<u>13,462</u>
Total current assets	501,998	390,391
Investment in joint venture	21,050	17,419
Goodwill	113,847	101,540
Intangible assets	60,939	59,602
Prepaid pension cost	28,373	25,426
Other assets	8,389	7,516
Property, plant and equipment, at cost		
Land	5,194	5,196
Building	49,591	48,727
Machinery and equipment (includes construction in progress)	<u>167,729</u>	<u>155,950</u>
	222,514	209,873
Less - accumulated depreciation	<u>(139,794)</u>	<u>(134,763)</u>
	82,720	75,110
Total assets	<u>\$ 817,316</u>	<u>\$ 677,004</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

## Current liabilities

Accounts payable	\$ 173,836	\$ 109,055
Accrued liabilities	31,342	33,143
Income taxes payable	3,190	2,497
Deferred income taxes - current	6,563	7,298
Current portion of long-term debt	7,416	7,037
Short-term debt	<u>36,378</u>	<u>18,739</u>
Total current liabilities	258,725	177,769
Long-term debt, less current portion	94,721	60,712
Deferred income taxes	39,992	37,760
Other non-current liabilities	17,144	15,688

## Commitments and contingencies

## Stockholders' equity

Common stock, \$0.01 par value - 30,000,000 shares authorized; 22,850,106 shares issued and 22,638,707 outstanding at June 30, 2008 and 22,330,946 shares issued and 22,097,869 outstanding at December 31, 2007	228	223
Additional paid-in capital	178,195	179,707
Retained earnings	229,515	207,134
Accumulated other comprehensive income (loss)	1,860	1,498
Treasury stock, at cost - 211,399 shares at June 30, 2008 and 233,077 shares at December 31, 2007	<u>(3,064)</u>	<u>(3,487)</u>
Total stockholders' equity	406,734	385,075
Total liabilities and stockholders' equity	<u>\$ 817,316</u>	<u>\$ 677,004</u>