CASTLE A M & CO
Form 10-Q
April 29, 2010

Table of Contents

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

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For Quarterly Period Ended March 31, 2010

or,

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________
Commission File Number 1-5415
A. M. Castle & Co.
(Exact name of registrant as specified in its charter)

Maryland	36-0879160
(State or Other Jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
3400 North Wolf Road, Franklin Park, Illinois	60131
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone, including area code (847) 455-7111
None
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer o	Accelerated Filer þ	Non-Accelerated Filer o	Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at April 23, 2010

Common Stock, $0.01 Par Value	22,938,020 shares

A. M. CASTLE & CO.
Part I. FINANCIAL INFORMATION

Table of Contents

Item 1. Condensed Consolidated Financial Statements (unaudited)

Amounts in thousands, except par value and per share data

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2010	As of December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 26,200	$ 28,311
Accounts receivable, less allowances of $4,228 and $4,195	126,507	105,832
Inventories, principally on last-in, first-out basis (replacement cost higher by $117,965 and $116,816)	161,413	170,960
Other current assets	6,227	5,241
Income tax receivable	18,615	18,970
Total current assets	338,962	329,314
Investment in joint venture	24,251	23,468
Goodwill	50,095	50,072
Intangible assets	46,691	48,575
Prepaid pension cost	20,292	19,913
Other assets	3,647	3,906
Property, plant and equipment, at cost		
Land	5,194	5,192
Building	52,018	51,945
Machinery and equipment	180,670	178,545
	237,882	235,682
Less accumulated depreciation	(156,550)	(152,929)
	81,332	82,753
Total assets	$ 565,270	$ 558,001
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 88,452	$ 71,295
Accrued liabilities	24,079	22,419
Income taxes payable	1,363	1,848
Deferred income taxes	9,638	9,706
Current portion of long-term debt	7,639	7,778
Short-term debt	9,679	13,720
Total current liabilities	140,850	126,766
Long-term debt, less current portion	65,903	67,686
Deferred income taxes	31,333	32,032
Other non-current liabilities	4,999	5,281

Pension and post retirement benefit obligations		8,136		8,028
Commitments and contingencies				
Stockholders equity				
Preferred stock, $0.01 par value 10,000 shares authorized; no shares issued and outstanding at March 31, 2010 and December 31, 2009				
Common stock, $0.01 par value 30,000 shares authorized; 23,115 shares issued and 22,899 outstanding at March 31, 2010 and 22,906 outstanding at December 31, 2009		230		230
Additional paid-in capital		178,625		178,129
Retained earnings		151,765		156,387
Accumulated other comprehensive loss		(13,401)		(13,528)
Treasury stock, at cost 216 shares at March 31, 2010 and 209 shares at December 31, 2009		(3,170)		(3,010)
Total stockholders equity		314,049		318,208
Total liabilities and stockholders equity	$	565,270	$	558,001

The accompanying notes are an integral part of these statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2010	**2009**
Net sales	$ 222,996	$ 252,244
Costs and expenses:		
Cost of materials (exclusive of depreciation and amortization)	169,043	182,180
Warehouse, processing and delivery expense	28,904	30,926
Sales, general, and administrative expense	26,942	31,960
Depreciation and amortization expense	5,150	5,416
Operating (loss) income	(7,043)	1,762
Interest expense, net	(1,293)	(1,705)
(Loss) income before income taxes and equity in earnings (losses) of joint venture	(8,336)	57
Income taxes	2,848	445
(Loss) Income before equity in earnings (losses) of joint venture	(5,488)	502
Equity in earnings (losses) of joint venture	866	(22)
Net (loss) income	$ (4,622)	$ 480
Basic (loss) earnings per share	$ (0.20)	$ 0.02
Diluted (loss) earnings per share	$ (0.20)	$ 0.02
Dividends per common share	$	$

The accompanying notes are an integral part of these statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2010	2009
Operating activities:		
Net (loss) income	$ (4,622)	$ 480
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and amortization	5,150	5,416
Amortization of deferred gain	(218)	(227)
Loss on sale of fixed assets		(6)
Equity in (earnings) losses of joint venture	(866)	22
Dividends from joint venture	83	485
Deferred tax benefit	(810)	(3,363)
Share-based compensation expense	336	470
Increase (decrease) from changes, net of acquisitions, in:		
Accounts receivable	(20,767)	19,123
Inventories	9,108	9,149
Other current assets	(979)	(65)
Other assets	(44)	(169)
Prepaid pension costs	(262)	(188)
Accounts payable	17,759	(19,944)
Accrued liabilities	1,766	(3,194)
Income taxes payable	(389)	(2,092)
Postretirement benefit obligations and other liabilities	154	(1,222)
Net cash from operating activities	5,399	4,675
Investing activities:		
Capital expenditures	(1,953)	(3,825)
Proceeds from sale of fixed assets		15
Insurance proceeds		250
Net cash used in investing activities	(1,953)	(3,560)
Financing activities:		
Short-term (repayments) borrowings, net	(4,153)	4,421
Repayments of long-term debt	(299)	(823)
Net cash (used in) from financing activities	(4,452)	3,598
Effect of exchange rate changes on cash and cash equivalents	(1,105)	(117)
Net increase in cash and cash equivalents	(2,111)	4,596
Cash and cash equivalents beginning of year	28,311	15,277
Cash and cash equivalents end of period	$ 26,200	$ 19,873

The accompanying notes are an integral part of these statements.

Table of Contents

A. M. Castle & Co.
Notes to Condensed Consolidated Financial Statements
(Unaudited   Amounts in thousands except per share data)

(1) Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared by A. M. Castle & Co. and subsidiaries (the   Company), without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). The Condensed Consolidated Balance Sheet at December 31, 2009 is derived from the audited financial statements at that date. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited statements, included herein, contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of financial results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s latest Annual Report on Form 10-K. The 2010 interim results reported herein may not necessarily be indicative of the results of the Company s operations for the full year.

Non-cash investing activities for the three months ended March 31, 2010 and 2009 consisted of $169 and $101, of capital expenditures financed by accounts payable, respectively.

(2) New Accounting Standards

Standards Adopted

Effective January 1, 2010, the Company adopted Accounting Standards Update (ASU) 2009-17,   Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities   (ASU 2009-17). The revised guidance amends the consolidation guidance that applies to a variable interest entity (VIE). The adoption of the ASU did not have an impact on the Company s financial position, results of operations and cash flows.

(3) Earnings Per Share

Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock plus common stock equivalents. Common stock equivalents consist of stock options, non-vested shares, restricted stock units, and other share-based payment awards, which have been included in the calculation of weighted average shares outstanding using the treasury stock method. The following table is a reconciliation of the basic and diluted earnings per share calculations for the three months ended March 31, 2010 and 2009:

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Numerator:		
Net (loss) income	$ (4,622)	$ 480
Denominator:		
Denominator for basic (loss) earnings per share:		
Weighted average common shares outstanding	22,652	22,727
Effect of dilutive securities:		
Outstanding common stock equivalents		342
Denominator for diluted (loss) earnings per share	22,652	23,069
Basic (loss) earnings per share	$ (0.20)	$ 0.02

Diluted (loss) earnings per share	$	(0.20)	$	0.02
Excluded outstanding share-based awards having an anti-dilutive effect		796		150

Table of Contents

For the three months ended March 31, 2010 and 2009, the undistributed (losses) earnings attributed to participating securities, which represent certain non-vested shares granted by the Company, were approximately one percent of total (losses) earnings.

(4) Debt

Short-term and long-term debt consisted of the following:

	March 31, 2010	December 31, 2009
SHORT-TERM DEBT		
U.S. Revolver A (a)	$ 1,500	$ 5,000
Trade acceptances (b)	8,179	8,720
Total short-term debt	9,679	13,720
LONG-TERM DEBT		
6.76% insurance company loan due in scheduled installments through 2015	50,026	50,026
U.S. Revolver B (a)	22,777	24,246
Other, primarily capital leases	739	1,192
Total long-term debt	73,542	75,464
Less current portion	(7,639)	(7,778)
Total long-term portion	65,903	67,686
TOTAL SHORT-TERM AND LONG-TERM DEBT	$ 83,221	$ 89,184

(a) The Company s amended and Restated Credit Agreement (the 2008 Senior Credit Facility) dated as of September 5, 2006, provides a $230,000 five-year secured revolver consisting of (i) a $170,000 revolving A loan (the U.S. Revolver A), (ii) a $50,000 multicurrency revolving B loan (the U.S. Revolver B), and (iii) a Canadian dollar $9,784 revolving loan (corresponding to $10,000 in U.S. dollars as of the amendment closing date; availability expressed in U.S. dollars changes based on movement in the exchange rate between the Canadian dollar and U.S. dollar). The maturity date of the 2008 Senior Credit Facility is January 2, 2013.

The Company has classified U.S. Revolver A as short-term based on its ability and intent to repay amounts outstanding under this instrument within the next 12 months. U.S. Revolver B is classified as long-term as the Company s cash projections indicate that amounts outstanding under this instrument are not expected to be repaid within the next 12 months. The Company had availability of $77,786 under its U.S. Revolver A and $27,223 under its U.S. Revolver B as of March 31, 2010. The Company s Canadian subsidiary had availability of approximately $9,639 in U.S dollars. The weighted average interest rate for borrowings under the U.S. Revolver A and U.S. Revolver B for the three months ended March 31, 2010 was 2.15% and 1.40%, respectively. The weighted average interest rate for borrowings under the Canadian Revolver for the three months ended March 31, 2010 was 0.25%.

Table of Contents

(b) A trade acceptance is a form of debt instrument having a definite maturity and obligation to pay and which has been accepted by an acknowledgement by the company upon whom it is drawn. At March 31, 2010, the Company had $8,179 in outstanding trade acceptances with varying maturity dates ranging up to 120 days. The weighted average interest rate was 1.20% for the three months ended March 31, 2010.

The fair value of the Company s fixed rate debt as of March 31, 2010, including current maturities, was estimated to be between $48,500 and $49,500 compared to a carrying value of $50,026. The fair value of the fixed rate debt was determined using a market approach, which estimates fair value based on companies with similar credit quality and size of debt issuances. As of March 31, 2010, the estimated fair value of the Company s debt outstanding under its revolving credit facility is $21,434, assuming the current amount of debt outstanding at the end of the period was outstanding until the maturity of the Company s facility in January 2013. Although borrowings could be materially greater or less than the current amount of borrowings outstanding at the end of the period, it is not practical to estimate the amounts that may be outstanding during future periods since there is no predetermined borrowing or repayment schedule. The estimated fair value of the Company s debt outstanding under its revolving credit facility is lower than the carrying value of $24,277 since the terms of this facility are more favorable than those that might be expected to be available in the current lending environment.

As of March 31, 2010, the Company remained in compliance with the covenants of its financing agreements, which require it to maintain certain funded debt-to-capital and working capital-to-debt ratios and a minimum adjusted consolidated net worth as defined within the agreements.

(5) Segment Reporting

The Company distributes and performs processing on both metals and plastics. Although the distribution processes are similar, the customer markets, supplier bases and types of products are different. Additionally, the Company s Chief Executive Officer, the chief operating decision-maker, reviews and manages these two businesses separately. As such, these businesses are considered reportable segments and are reported accordingly.

In its Metals segment, the Company s marketing strategy focuses on distributing highly engineered specialty grades and alloys of metals as well as providing specialized processing services designed to meet very precise specifications. Core products include alloy, aluminum, stainless, nickel, titanium and carbon. Inventories of these products assume many forms such as plate, sheet, round bar, hexagon bar, square and flat bar, tubing and coil. Depending on the size of the facility and the nature of the markets it serves, service centers are equipped as needed with bar saws, plate saws, oxygen and plasma arc flame cutting machinery, water-jet cutting, stress relieving and annealing furnaces, surface grinding equipment and sheet shearing equipment. This segment also performs various specialized fabrications for its customers through pre-qualified subcontractors that thermally process, turn, polish and straighten alloy and carbon bar.

The Company s Plastics segment consists exclusively of a wholly owned subsidiary that operates as Total Plastics, Inc. (TPI) headquartered in Kalamazoo, Michigan. The Plastics segment stocks and distributes a wide variety of plastics in forms that include plate, rod, tube, clear sheet, tape, gaskets and fittings. Processing activities within this segment include cut to length, cut to shape, bending and forming according to customer specifications. The Plastics segment s diverse customer base consists of companies in the retail (point-of-purchase), marine, office furniture and fixtures, transportation and general manufacturing industries. TPI has locations throughout the upper northeast and midwest regions of the U.S. and one facility in Florida from which it services a wide variety of users of industrial plastics.

Table of Contents

The accounting policies of all segments are the same as described in *Note 1*, Basis of Presentation and Significant Accounting Policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Management evaluates the performance of its business segments based on operating income.
Segment information for the three months ended March 31, 2010 and 2009 is as follows:

	Net Sales	Operating (Loss) Income	Capital Expenditures	Depreciation & Amortization
2010				
Metals segment	$ 199,674	$ (5,821)	$ 1,888	$ 4,820
Plastics segment	23,322	163	65	330
Other		(1,385)		
Consolidated	$ 222,996	$ (7,043)	$ 1,953	$ 5,150
2009				
Metals segment	$ 231,082	$ 4,015	$ 3,734	$ 5,085
Plastics segment	21,162	(408)	91	331
Other		(1,845)		
Consolidated	$ 252,244	$ 1,762	$ 3,825	$ 5,416

Other Operating loss includes the costs of executive, legal and finance departments, which are shared by both the Metals and Plastics segments.
Segment information for total assets is as follows:

	March 31, 2010	December 31, 2009
Metals segment	$ 493,770	$ 488,090
Plastics segment	47,249	46,443
Other	24,251	23,468
Consolidated	$ 565,270	$ 558,001

Other Total assets consist of the Company s investment in joint venture.

(6) Goodwill and Intangible Assets

The changes in carrying amounts of goodwill during the three months ended March 31, 2010 were as follows:

	Metals Segment	Plastics Segment	Total
Balance as of January 1, 2010			
Goodwill	$ 97,316	$ 12,973	$ 110,289
Accumulated impairment losses	(60,217)		(60,217)
Balance as of January 1, 2010	37,099	12,973	50,072

Currency valuation	23		23
Balance as of March 31, 2010			
Goodwill	97,339	12,973	110,312
Accumulated impairment losses	(60,217)		(60,217)
Balance as of March 31, 2010	$ 37,122	$ 12,973	$ 50,095

Table of Contents

As discussed in *Note 8,* Goodwill and Intangible Assets , in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, the Company recorded a goodwill impairment charge of $1,357 for the year ended December 31, 2009. The Company s annual test for goodwill impairment is completed as of January 1st each year. Based on the January 1, 2010 test, the Company determined that there was no impairment of goodwill.
The following summarizes the components of intangible assets:

	March 31, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$ 69,386	$ 23,019	$ 69,549	$ 21,435
Non-compete agreements	2,854	2,530	2,938	2,477
Trade name	378	378	378	378
Total	$ 72,618	$ 25,927	$ 72,865	$ 24,290

The weighted-average amortization period for the intangible assets is 10.5 years, 10.8 years for customer relationships and 3 years for non-compete agreements. Substantially all of the Company s intangible assets were acquired as part of the acquisitions of Transtar on September 5, 2006 and Metals U.K. on January 3, 2008, respectively. For the three-month periods ended March 31, 2010 and 2009, amortization expense was $1,771 and $1,895, respectively.
The following is a summary of the estimated annual amortization expense for 2010 and each of the next 4 years:

2010	$ 7,053
2011	6,600
2012	6,140
2013	6,140
2014	6,140

(7) Inventories

Over eighty percent of the Company s inventories are valued at the lower of LIFO cost or market. Final inventory determination under the LIFO method is made at the end of each fiscal year based on the actual inventory levels and costs at that time. Interim LIFO determinations, including those at March 31, 2010, are based on management s estimates of future inventory levels and costs. The Company values its LIFO increments using the cost of its latest purchases during the periods reported.
Current replacement cost of inventories exceeded book value by $117,965 and $116,816 at March 31, 2010 and December 31, 2009, respectively. Income taxes would become paya