

CASTLE A M & CO  
Form 8-K  
August 03, 2004

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**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) August 3, 2004

A. M. Castle & Co.

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(Exact name of registrant as specified in its charter)

Maryland  
(State of jurisdiction  
or incorporation)

1-5415

(Commission  
File Number)

36-0879160  
(IRS Employer  
Identification Number)

Park, IL  
offices)

3400 North Wolf Road, Franklin  
(Address of principal executive  
offices)

60131  
Code)

(Zip

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

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



**Item 12. Results of Operations and Financial Condition**

On Tuesday, August 3, 2004 the Company disseminated a press release, Attached as Exhibit A, announcing the Company s operational results for the Second Quarter and the Six-Month Period ending June 30, 2004.

As part of the press release there is a discussion of a non-GAAP financial term EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). That term is also shown on the Comparative Statements of Operations. It is below the disclosure of the GAAP figures for Operating income, Net income and Diluted earnings per share. There is also a reconciliation of EBITDA to Net income for the Three Months Ended June 30 , and for Six Months Ended June 30 at the bottom of the page.

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 lendersThe Company believes 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: August 3, 2004

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**A. M. CASTLE & CO.**

3400 N. Wolf Road  
 Franklin Park, Illinois 60131  
 (847) 455-7111  
 (847) 455-6930 (Fax)

**For Further Information:**

| -----AT THE COMPANY-----  | -----AT FINANCIAL RELATIONS BOARD-----  |   |
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Traded: AMEX, CSE (CAS)  
 Member: S&P SmallCap 600 Index

**FOR IMMEDIATE RELEASE  
 TUESDAY, AUGUST 3, 2004**

**A. M. Castle & Co. Announces Significantly  
 Improved Results for Second Quarter and First Half of 2004**

**Franklin Park, Illinois, August 3, 2004** A. M. Castle & Co. (AMEX:CAS), a North American distributor of highly engineered metals and plastics, announced today significantly improved sales and earnings for the three and six month periods ending June 30, 2004. For the quarter ended June 30, 2004, Castle sales totalled \$188.2 million, up 41% from \$133.9 million a year ago. Net income applicable to common stock totalled \$5.8 million, or 36 cents per share, compared with a loss of \$9.3 million, or 59 cents per share, in the second quarter of 2003. Results for both the second quarter and first half of 2003 include \$10.3 million of pre-tax costs for impairments and special charges which, net of their tax benefits, increased prior period losses by \$6.3 million, or 40 cents per share. Excluding the impact of those charges, the net loss for second quarter of last year totalled \$3.0 million, or 19 cents per share.

For the first six months of 2004, Castle reported sales of \$363.9 million, a 32% increase over prior year sales of \$275.6 million, and net income of \$7.8 million, or 50 cents per share, compared with a loss of \$10.9 million, or 69 cents per share in 2003. Excluding impairment and special charges, the net loss for the first half of last year was \$4.6 million, or 29 cents per share.

In making the announcement, G. Thomas McKane, Chairman and CEO, cited stronger demand from its customers, higher material price levels and improved operating efficiency as the key factors driving the Company's results. In the metals portion of our business, said Mr. McKane, year-over-year tons sold were up 13% and 15% in the second quarter and first half,



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respectively. This increase was driven by strong demand from virtually all the markets that Castle serves. The aerospace and the gas and oil markets, which started the year slowly, began to show improvement towards the end of the second quarter. In response to improved market demand for metals, coupled with raw material shortages, mill prices have increased sharply. On a year-over-year basis, average metal prices rose 22% for the quarter and 15% for the first six months of the year with wide variations among our various product groups.

Volumes also increased significantly in the Company's plastics business which accounts for approximately 12% of its sales. With virtually no price increases, sales were up 35% for the quarter and 33% for the first six months of the year. Both our metals and plastics business are making strong contributions to our success, said McKane.

In this environment, the dollar value of each order handled increases significantly with the result that activity driven expenses do not increase nearly as rapidly as tons, sales and gross profit. This creates strong upside operating leverage in an improving market environment. The key measure of this leverage, Mr. McKane stated, is our earnings before interest, taxes, depreciation and amortization (EBITDA). For the second quarter of 2004, EBITDA totalled a near record \$14.7 million, up from \$458K (exclusive of impairments and special charges) in the same period last year. This represents a return on incremental sales volume of 26%. For the first half, EBITDA totalled \$23.5 million, compared with \$3.2 million (exclusive of impairments and special charges) in the first six months of 2003, for a 23% return on the increase in total sales. It is important to point out that there is very little inventory inflation profit in our operating results as a substantial majority of Castle's inventories are accounted for on a last-in, first-out (LIFO) basis.

In discussing the outlook for the second half of the year, Mr. McKane stated that the industry traditionally experiences a seasonal slowdown during the months of July and August, when many of its customers have annual vacation and maintenance shutdowns, and again late in the fourth quarter during the Thanksgiving and Christmas holiday periods. Our current expectation, McKane said, is that while the number and length of these shutdowns may not be nearly as extensive as they were from 2000 through 2003, we will still see some seasonal slowdown in demand.

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Mr. McKane also noted that the raw materials required for metal production remains in short supply worldwide and that mill lead times continue to be extended. In this environment, he said, material tends to be in short supply indicating that mill pricing is likely to remain strong. He added that, as an important customer to its major suppliers, Castle is competitively positioned to continue to meet its customers material requirements.

In closing, Mr. McKane invited interested parties to listen to its conference call scheduled for 11:00 a.m. (EST) today, Tuesday, August 3, 2004. Connection is available at [www.amcastle.com](http://www.amcastle.com) and will be available for 14 days following the call.

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; copper and brass. Through its subsidiary, Total Plastics, Inc., the Company also distributes a broad range of value-added industrial plastics. Together, Castle operates over 60 locations throughout North America. Its common stock is traded on the American and Chicago Stock Exchange under the ticker symbol "CAS".

This release contains a non-GAAP disclosure, EBITDA, which consists of income before provision for income taxes plus depreciation and amortization, and interest expense (including discount on accounts receivable sold), less interest income. EBITDA is presented as a supplemental disclosure to provide the reader with additional information in analyzing the Company's operating results. A reconciliation of EBITDA to net income is provided per SEC requirements.

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.

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**COMPARATIVE STATEMENTS OF  
OPERATIONS**

(Amounts in thousands, except per  
share data)

(Unaudited)

|   | For the Three<br>Months Ended<br>June 30, |            | For the Six<br>Months Ended<br>June 30, |             |
|---|---|------------|---|-------------|
|   | 2004                                      | 2003       | 2004                                    | 2003        |
| Net sales   | \$ 188,221                                | \$ 133,947 | \$ 363,854                              | \$ 275,593  |
| Cost of material sold   | (131,865)                                 | (93,539)   | (256,346)                               | (191,983)   |
| Special charges   | -   | (1,524)    | -                                       | (1,524)     |
| Gross material margin   | 56,356                                    | 38,884     | 107,508                                 | 82,086      |
| Plant and delivery expense                                    | (23,405)                                  | (22,263)   | (47,001)                                | (44,613)    |
| Sales, general, and administrative<br>expense                 | (19,315)                                  | (17,643)   | (38,771)                                | (35,679)    |
| Depreciation and amortization expense                         | (2,244)                                   | (2,313)    | (4,491)                                 | (4,617)     |
| Impairment and other operating<br>expenses                    | -   | (5,924)    | -                                       | (5,924)     |
| Total other operating expense                                 | (44,964)                                  | (48,143)   | (90,263)                                | (90,833)    |
| Operating income (loss)                                       | 11,392                                    | (9,259)    | 17,245                                  | (8,747)     |
| Equity earnings (loss) of joint ventures                      | 1,104                                     | (44)       | 1,739                                   | (81)        |
| Impairment to joint venture investment<br>and advances        | -   | (2,830)    | -                                       | (2,830)     |
| Interest expense, net   | (2,218)                                   | (2,452)    | (4,532)                                 | (4,895)     |
| Discount on sale of accounts receivable                       | (234)                                     | (250)      | (517)                                   | (579)       |
| Income (loss) from continuing<br>operations before income tax | 10,044                                    | (14,835)   | 13,935                                  | (17,132)    |
| Income tax (provision) benefit                                |   |            |   |             |
| Federal   | (3,238)                                   | 4,761      | (4,470)                                 | 5,524       |
| State   | (808)                                     | 1,043      | (1,162)                                 | 1,170       |
|   | (4,046)                                   | 5,804      | (5,632)                                 | 6,694       |
| Net income (loss) from continuing<br>operations               | 5,998                                     | (9,031)    | 8,303                                   | (10,438)    |
| Preferred dividends   | (240)                                     | (240)      | (480)                                   | (477)       |
| Net income (loss) applicable to common<br>stock               | \$ 5,758                                  | \$ (9,271) | \$ 7,823                                | \$ (10,915) |



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|                                   |         |           |         |           |
|-----------------------------------|---------|-----------|---------|-----------|
| Basic earnings (loss) per share   | \$ 0.36 | \$ (0.59) | \$ 0.50 | \$ (0.69) |
| Diluted earnings (loss) per share | \$ 0.35 | \$ (0.59) | \$ 0.47 | \$ (0.69) |

|         |           |            |           |            |
|---------|-----------|------------|-----------|------------|
| EBITDA* | \$ 14,740 | \$ (9,820) | \$ 23,475 | \$ (7,041) |
|---------|-----------|------------|-----------|------------|

\*Earnings before interest, discount on sale of accounts receivable, taxes, depreciation and amortization

Reconciliation of EBITDA to Net Income:

|                                       | For the Three<br>Months Ended<br>June 30, |            | For the Six<br>Months Ended<br>June 30, |             |
|---------------------------------------|---|------------|---|-------------|
|                                       | 2004                                      | 2003       | 2004                                    | 2003        |
| Net income (loss) from operations     | \$ 5,998                                  | \$ (9,031) | \$ 8,303                                | \$ (10,438) |
| Depreciation and amortization         | 2,244                                     | 2,313      | 4,491                                   | 4,617       |
| Interest, net                         | 2,218                                     | 2,452      | 4,532                                   | 4,895       |
| Discount on accounts receivable sold  | 234                                       | 250        | 517                                     | 579         |
| Provision (benefit) from income taxes | 4,046                                     | (5,804)    | 5,632                                   | (6,694)     |
| EBITDA                                | \$ 14,740                                 | \$ (9,820) | \$ 23,475                               | \$ (7,041)  |

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**COMPARATIVE BALANCE SHEETS**

(Amounts in thousands except per share data)

UNAUDITED

|  | Jun. 30<br>2004   | Dec. 31<br>2003   | Jun. 30<br>2003   |
|--|-------------------|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |                   |
| Current assets                                       |                   |                   |                   |
| Cash and equivalents                                 | \$ 4,503          | \$ 2,455          | \$ 1,672          |
| Accounts receivable, net                             | 91,714            | 54,232            | 42,219            |
| Inventories (principally on last-in first-out basis) | 105,224           | 117,270           | 127,658           |
| Income tax receivable                                | 408               | 660               | -                 |
| Assets held for sale                                 | 1,059             | 1,067             | -                 |
| Other current assets                                 | 8,658             | 7,184             | 7,800             |
| <b>Total current assets</b>                          | <b>211,566</b>    | <b>182,868</b>    | <b>179,349</b>    |
| Investment in joint ventures                         | 5,973             | 5,492             | 7,224             |
| Goodwill   | 31,925            | 31,643            | 31,720            |
| Pension assets                                       | 42,169            | 42,075            | 41,109            |
| Advances to joint ventures and other assets          | 7,464             | 8,688             | 5,534             |
| Property, plant and equipment, at cost               |                   |                   |                   |
| Land   | 4,767             | 4,767             | 6,031             |
| Building   | 47,130            | 45,346            | 51,826            |
| Machinery and equipment                              | 119,883           | 118,447           | 119,302           |
|  | 171,780           | 168,560           | 177,159           |
| Less - accumulated depreciation                      | (105,133)         | (100,386)         | (102,062)         |
|  | 66,647            | 68,174            | 75,097            |
| <b>Total assets</b>                                  | <b>\$ 365,744</b> | <b>\$ 338,940</b> | <b>\$ 340,033</b> |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>          |                   |                   |                   |
| Current liabilities                                  |                   |                   |                   |
| Accounts payable                                     | \$ 87,299         | \$ 67,601         | \$ 61,722         |
| Accrued liabilities and deferred gains               | 21,652            | 19,145            | 19,810            |
| Current and deferred income taxes                    | 2,377             | 4,852             | 4,037             |
| Current portion of long-term debt                    | 13,057            | 8,248             | 11,230            |
| <b>Total current liabilities</b>                     | <b>124,385</b>    | <b>99,846</b>     | <b>96,799</b>     |
| Long-term debt, less current portion                 | 89,187            | 100,034           | 100,358           |
| Deferred income taxes                                | 20,147            | 13,963            | 17,753            |
| Deferred gain on sale of assets                      | 6,902             | 7,304             | -                 |

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|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Minority interest                             | 1,262             | 1,456             | 1,404             |
| Post retirement benefits obligations          | 2,758             | 2,683             | 2,292             |
| Stockholders' equity                          |                   |                   |                   |
| Preferred stock                               | 11,239            | 11,239            | 11,239            |
| Common stock                                  | 159               | 159               | 159               |
| Additional paid in capital                    | 35,009            | 35,009            | 35,017            |
| Earnings reinvested in the business           | 74,300            | 66,480            | 74,581            |
| Accumulated other comprehensive income (loss) | 663               | 1,042             | 732               |
| Other - deferred compensation                 | (22)              | (30)              | (71)              |
| Treasury stock, at cost                       | (245)             | (245)             | (230)             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total stockholders' equity                    | 121,103           | 113,654           | 121,427           |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total liabilities and stockholders' equity    | \$ 365,744        | \$ 338,940        | \$ 340,033        |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

The accompanying notes are an integral part of these financial statements.

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**CONDENSED STATEMENT OF CASH FLOWS***(Dollars in thousands)**(Unaudited)*

|  | For the Six Months<br>June 30, |                |
|--|--------------------------------|----------------|
|  | 2004                           | 2003           |
| <b>Cash flows from operating activities:</b>                         |                                |                |
| Net income/(loss)  | \$ 8,303                       | \$ (10,438)    |
| Depreciation and amortization  | 4,491                          | 4,617          |
| Amortization of deferred gain on sale of assets                      | (402)                          | -              |
| Equity loss (earnings) from joint ventures                           | (1,739)                        | 81             |
| Deferred taxes and income tax receivable                             | 6,454                          | 6,466          |
| Non-cash pension income and post-retirement benefits                 | 105                            | (480)          |
| Other  | 1,010                          | (1,694)        |
| <b>Cash from operating activities before working capital changes</b> | <b>18,222</b>                  | <b>(1,448)</b> |
| Asset impairment and special charges                                 | -                              | 10,278         |
| Net change in accounts receivable sold                               | (5,000)                        | 1,800          |
| Other; Increase in working capital                                   | (688)                          | (5,822)        |
| <b>Net cash from operating activities</b>                            | <b>12,534</b>                  | <b>4,808</b>   |
| <b>Cash flows from investing activities:</b>                         |                                |                |
| Investments and acquisitions   | (1,744)                        | -              |
| Advances to joint ventures   | -                              | (233)          |
| Capital expenditures   | (2,372)                        | (1,727)        |
| <b>Net cash from investing activities</b>                            | <b>(4,116)</b>                 | <b>(1,960)</b> |
| <b>Cash flows from financing activities</b>                          |                                |                |
| Long-term debt reductions  | (5,826)                        | (1,737)        |
| Preferred dividends paid   | (480)                          | (477)          |
| Other  | (94)                           | -              |
| <b>Net cash from financing activities</b>                            | <b>(6,400)</b>                 | <b>(2,214)</b> |
| <b>Effect of exchange rate changes on cash</b>                       | <b>30</b>                      | <b>120</b>     |
| <b>Net increase in cash</b>  | <b>2,048</b>                   | <b>754</b>     |
| Cash - beginning of year   | \$ 2,455                       | \$ 918         |

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|  |           |           |
|--|-----------|-----------|
| Cash - end of period   | \$ 4,503  | \$ 1,672  |
| Supplemental cash disclosure - cash (paid) received during the period: |           |           |
| Interest   | (\$4,569) | (\$4,634) |
| Income taxes   | (\$1,448) | \$ 12,813 |

*The accompanying notes are an integral part of these statements.*