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COLD METAL PRODUCTS INC
Form 10-Q
August 14, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

[T] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2001

or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES

For the transition period from _____ to _____

Commission file number 1-12870

COLD METAL PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

NEW YORK
(State or other jurisdiction of incorporation or organization)

16-1144965
(I.R.S. Employer Identifi

2200 GEORGETOWN DRIVE, SUITE 301, SEWICKLEY, PENNSYLVANIA
(Address of principal executive offices)

15143
(Zip Code)

(724) 933-3445
(Registrant's telephone number, including area code)

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 [T] No []

Number of shares of Common Stock outstanding as of July 31, 2001: 6,384,491

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COLD METAL PRODUCTS, INC.

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SEC FORM 10-Q
Quarter Ended June 30, 2001

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COLD METAL PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

| | Three Months Ended June 30, | |
|-----------|--------------------------------|-----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net sales | \$ 44,820 | \$ 60,300 |

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| | | |
|---|-----------|-----------|
| Cost of sales | 40,882 | 53,862 |
| | ----- | ----- |
| Gross profit | 3,938 | 6,438 |
| Selling, general, and administrative expenses | 3,730 | 4,050 |
| Interest expense | 980 | 1,203 |
| | ----- | ----- |
| (Loss) income before income taxes | (772) | 1,185 |
| Income tax (benefit) expense | (290) | 420 |
| | ----- | ----- |
| Net (loss) income | \$ (482) | \$ 765 |
| | ===== | ===== |
| Basic and diluted net (loss) income per share | \$ (0.08) | \$ 0.12 |
| | ===== | ===== |
| Weighted average shares outstanding: | | |
| Basic | 6,398,440 | 6,391,006 |
| | ===== | ===== |
| Diluted | 6,398,440 | 6,453,665 |
| | ===== | ===== |

See notes to condensed consolidated financial statements

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COLD METAL PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

| | June 30, 2001 | March 31, 2001 |
|---|------------------|-------------------|
| | ----- | ----- |
| Assets: | | |
| Cash | \$ 1,642 | \$ 1,547 |
| Receivables | 26,330 | 25,239 |
| Inventories | 30,287 | 34,436 |
| Prepaid and other current assets | 2,902 | 3,297 |
| | ----- | ----- |
| Total current assets | 61,161 | 64,519 |
| Property, plant and equipment - at cost | 80,223 | 79,387 |
| Less accumulated depreciation | (40,179) | (38,963) |

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| | | |
|---|-----------|-----------|
| Property, plant and equipment - net | 40,044 | 40,424 |
| Other assets | 18,436 | 18,308 |
| | ----- | ----- |
| Total assets | \$119,641 | \$123,251 |
| | ===== | ===== |
| Liabilities and shareholders' equity: | | |
| Short-term debt | \$ 2,677 | \$ 4,818 |
| Accounts payable | 15,566 | 15,756 |
| Other current liabilities | 7,502 | 8,365 |
| | ----- | ----- |
| Total current liabilities | 25,745 | 28,939 |
| Long-term debt | 58,875 | 59,383 |
| Postretirement benefits | 18,315 | 18,432 |
| Shareholders' equity: | | |
| Common stock, \$.01 par value; 15,000,000 shares authorized; 7,532,250 shares issued | 75 | 75 |
| Additional paid-in capital | 25,310 | 25,302 |
| Retained earnings | 3,647 | 4,129 |
| Accumulated other comprehensive loss | (6,763) | (7,446) |
| Less treasury stock, 1,147,759 shares, at cost | (5,563) | (5,563) |
| | ----- | ----- |
| Total shareholders' equity | 16,706 | 16,497 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$119,641 | \$123,251 |
| | ===== | ===== |

See notes to condensed consolidated financial statements

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COLD METAL PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

| | Three Months Ended June 30, | |
|--|--------------------------------|--------|
| | 2001 | 2000 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (482) | \$ 765 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 973 | 1,053 |
| Other items | (40) | 10 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (792) | 3,038 |

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| | | |
|---|----------|----------|
| Inventory | 4,449 | (6,463) |
| Prepaid expenses and other assets | 355 | (110) |
| Accounts payable | (401) | 2,011 |
| Accrued expense and other | (1,068) | (2,251) |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 2,994 | (1,947) |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (309) | (1,510) |
| Acquisition of Alkar | -- | (137) |
| | ----- | ----- |
| Net cash (used in) investing activities | (309) | (1,647) |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit and term loan facility | 31,595 | 47,224 |
| Payments of revolving credit and term loan facility | (33,775) | (42,234) |
| Payments of other debt | (469) | (730) |
| Payment of dividends | -- | (318) |
| | ----- | ----- |
| Net cash (used in) provided by financing activities | (2,649) | 3,942 |
| Net increase in cash | 36 | 348 |
| Effect of translation adjustment | 59 | (22) |
| Cash at beginning of period | 1,547 | 1,559 |
| | ----- | ----- |
| Cash at end of period | \$ 1,642 | \$ 1,885 |
| | ===== | ===== |

See notes to condensed consolidated financial statements

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COLD METAL PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. OPINION OF MANAGEMENT

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Cold Metal Products, Inc. and Subsidiaries (the Company) as of June 30, 2001 and March 31, 2001, and the results of its operations and cash flows for the three month periods ended June 30, 2001 and 2000. The results of operations for the periods ended June 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated financial statements do not include footnotes and certain financial information normally presented annually under accounting principles generally accepted in the United States of America and,

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therefore, should be read in conjunction with the audited consolidated financial statements contained in the Company's annual report on Form 10-K for the year ended March 31, 2001.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") issued EITF 00-10, Accounting for Shipping and Handling Fees and Costs, which the Company adopted in the fourth quarter of fiscal 2001. EITF 00-10 provides that all amounts billed to a customer in a sale transaction related to shipping and handling represent revenues earned for the goods sold and should be classified as revenue. The Company previously offset freight revenues against freight expenses within cost of sales. Accordingly, \$933,000 of freight amounts billed to customers in the quarter ended June 30, 2000 has been reclassified to revenues to conform to the presentation for the quarter ended June 30, 2001. This reclassification had no effect on the dollar amount of the Company's gross profit or net income.

The FASB issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The adoption of this standard by the Company on April 1, 2001 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations and proscribes that all business combinations are to be accounted for using one method, the purchase method. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, "Intangible Assets". It changes the accounting for goodwill from an amortization method to an impairment only approach. The Company is still evaluating the effect of adopting these pronouncements on its financial statements. Amortization expense associated with goodwill was \$73,000, or \$0.01 per share, during each of the quarters ended June 30, 2001 and 2000, respectively.

NOTE 3. RESULTS OF FOREIGN OPERATIONS

The Company operates in one business segment, intermediate steel processing. The Company derived \$32.3 million and \$43.4 million of revenues from customers in the United States during the three months ended June 30, 2001 and 2000, respectively. The Company had long-lived assets in the United States of \$52.2 million

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and \$49.3 million at June 30, 2001 and 2000, respectively. The remainder of the Company's revenues and long-lived assets are related principally to customers and operations in Canada.

NOTE 4. INVENTORIES

| June 30, 2001 | March 31, 2001 |
|---------------|----------------|
| ----- | ----- |

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(In thousands)

| | | |
|-----------------------|--------------|--------------|
| Raw Materials | \$13,227 | \$16,228 |
| Work-in-process | 11,104 | 10,174 |
| Finished goods | 5,956 | 8,034 |
| | ----- | ----- |
| Total inventories | \$30,287 | \$34,436 |
| | ===== | ===== |

NOTE 5. COMPREHENSIVE INCOME

Comprehensive income (loss) is comprised of net income (loss) and foreign currency translation adjustment for the period. Translation adjustments were \$683,000 and (\$400,000) for the three months ended June 30, 2001 and 2000, respectively. Total comprehensive income (loss) for the three months ended June 30, 2001 and 2000 was \$.2 million and \$.4 million, respectively.

NOTE 6. DEBT

As of June 30, 2001, the Company's short and long-term debt includes \$44.4 million of borrowings under a committed revolving credit and term-loan facility that extends to April 2004, and \$15.3 million of borrowings under a term loan. In May 2001, the Company reached agreements with its senior secured creditors that amend certain financial covenants related to the Company's net worth and financial leverage to take into consideration prevailing market conditions. Management anticipates that it will be able to comply with the terms of its borrowing agreements, as amended.

NOTE 7. SPECIAL CHARGES

As part of its efforts to rationalize capacity with current market conditions, in fiscal 2001 the Company restructured its manufacturing operations by adopting a plan to discontinue manufacturing at its New Britain, Connecticut facility and reduce the size of its Hamilton, Ontario facility workforce. These actions resulted in special charges totaling \$2.2 million being recognized in the second half of fiscal 2001, including a \$1.3 million charge for equipment impairment and reduction in force costs of \$.9 million. Subsequent to June 30, 2001 additional employee termination benefits approximating .4 million were negotiated and will be recognized in the second quarter of fiscal 2002. Payments made in the first quarter of fiscal year 2002 in connection with reduction in force efforts approximated \$.2 million. Management estimates that substantially all remaining reduction in force costs will be paid in the current fiscal year.

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ITEM 2.

COLD METAL PRODUCTS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of financial condition and results of operations during the periods included in the accompanying condensed consolidated financial statements and should be read in conjunction with the annual financial statements.

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Results of Operations

The following table presents the Company's results of operations as a percentage of net sales:

| | JUNE 30, | |
|---|----------|--------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net sales | 100.0% | 100.0% |
| Cost of sales | 91.2 | 89.3 |
| | ----- | ----- |
| Gross profit | 8.8 | 10.7 |
| Selling, general, and administrative expenses | 8.3 | 6.7 |
| Interest expense | 2.2 | 2.0 |
| | ----- | ----- |
| (Loss) income before income taxes | (1.7) | 2.0 |
| Income tax (benefit) expense | (0.6) | 0.7 |
| | ----- | ----- |
| Net income (loss) | (1.1)% | 1.3% |
| | ===== | ===== |

Net sales for the three months ended June 30, 2001 were \$44.8 million, a decrease of \$15.5 million or 25.7% less than the Company's net sales for the corresponding period ended June 30, 2000. Volume of tons shipped decreased 19.5% that accounted for \$11.8 million of revenue decline, while the effect of lower priced product mix contributed to a \$3.7 million decline in revenues.

Gross profit for the three months ended June 30, 2001 was \$3.9 million or 8.8% of net sales, a \$2.5 million decrease over the three months ended June 30, 2000. The primary factor contributing to the gross margin decreases for the three months ended June 30, 2001 was the effect of low activity levels, especially in relation to the high fixed cost operating structure.

Selling, general and administrative costs of \$3.7 million for the three months ended June 30, 2001 represented 8.3% of net sales compared to \$4.1 million selling and administrative costs, or 6.7% of net sales for the three months ended June 30, 2000. The decrease relates primarily to cost reduction initiatives reducing personnel and other costs.

Interest expense was \$1.0 million, or 2.2% of net sales for the three months ended June 30, 2001 compared to \$1.2 million or 2.0% of net sales for the three months ended June 30, 2000. The reduction in expense was principally attributable to the reduction in interest rates.

Loss before income taxes was \$(0.8) million, or 1.7% of net sales for the three months ended June 30, 2001, compared to \$1.2 million of income before income taxes, or 2.0% of sales for the three months ended June 30, 2000 for the reasons described above.

The Company has recognized an income tax (benefit) of \$(.3) million, or (0.6)% of net sales for the three months ended June 30, 2001 compared to income tax expense of \$.4 million, or 0.7% of net sales for the

three months ended June 30, 2000. The effective tax rate was 37.6% for the three

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months ended June 30, 2001, compared to 35.4% for the three months ended June 30, 2000.

Net (loss) for the three months ended June 30, 2001 was \$(.5) million, or \$(.08) per share as compared to net income of \$.8 million, or \$.12 per share for the three months ended June 30, 2000.

Liquidity and Capital Resources

During the three months ended June 30, 2001, operating activities provided \$3.0 million in cash, compared to cash used of \$1.9 million for the three months ended June 30, 2000. Net loss for the first three months of fiscal 2002, adjusted for depreciation and amortization, provided approximately \$.5 million compared to \$1.8 million in the corresponding quarter of the prior year. The remaining \$2.5 million increase in cash from operations during the current quarter was caused largely by the Company's reducing its investment in inventory by \$4.4 million, offset by increases in trade accounts receivable and reductions in accounts payable and accrued expenses that used cash of \$.8 million and \$1.5 million respectively. This compares to \$3.8 million of cash used to fund working capital investments in the first quarter of fiscal 2001, comprised principally of a \$6.5 million increase in inventory offset by reductions in trade accounts receivable.

Cash consumed by investing activities, principally reflecting the acquisition of capital assets, was \$.3 million in the quarter ended June 30, 2001, compared to an investment of \$1.5 million in the corresponding quarter of the prior year, reflecting steps taken by the Company to limit capital investment during the current weak market environment to capital maintenance levels.

Net cash flows used by financing activities of \$2.6 million for the three months ended June 30, 2001 were the result of cash provided by operations being used to principally reduce bank indebtedness. This compares to an increase in borrowing activity during the first quarter of the prior year, primarily to finance inventory growth.

Following a period of significant growth through the first half of the prior fiscal year, the Company continues to experience significant weakness in market conditions. Operating results have been affected by price declines necessary to maintain market share in a weak and highly competitive market, partially offset by the Company's ability to obtain favorable material pricing from its suppliers. At the present time, management believes that current market conditions will prevail well into the second half of calendar 2001 and the Company will continue to take steps to improve its operating cost structure by matching production capacity with prevailing market demand. In addition, the Company expects to continue to reduce its overall investment in working capital and limit capital expenditures, but plans to selectively invest in certain inventory grades to be better positioned to capture additional market share. Accordingly, during this time the Company will continue to be dependent upon its credit facilities to support operating and capital asset financing needs. The Company's primary lending arrangement provides up to a maximum of \$70 million of borrowing availability, of which \$44.4 million was outstanding and \$9.8 million of borrowing availability existed at June 30, 2001.

Forward-Looking Information

This document contains various forward-looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking statements. Factors that could cause actual results to differ materially from those expressed or implied by

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such forward-looking statements include, but are not limited to, general business and economic conditions, competitive factors such as availability and pricing of steel, changes in customer demand, work stoppages by customers, potential equipment malfunctions, changes in borrowing terms, or other risks and uncertainties discussed in the Company's 10K report.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's major market risk exposure is in the areas of possible fluctuations in interest rates as they relate to its variable rate debt and Canadian dollar currency rate fluctuations as they relate to U.S. dollar debt carried on the books of the Canadian subsidiary. The Company generally does not enter into derivative financial investments for trading or speculation purposes. The Company would be sensitive to a 10% market rate change in interest rate in the approximate annual after-tax amount of \$.2 million. The Company would be sensitive to a 10% change in Canadian currency exchange rate in the approximate after-tax amount of \$.2 million. As a result, the Company believes that its market risk exposure is not material to the company's financial position, liquidity or results of operations.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any legal proceedings that are material to its financial position.

ITEM 2. CHANGE IN SECURITIES

There have been no changes in securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Note 6 to the Financial Statements included as Item 1 of Part I of this Report is incorporated by reference as Item 3 of this Part II.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no submissions of matters to a vote of security holders.

ITEM 5. OTHER INFORMATION

There is no other information to report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

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- (a) Exhibit Number and Description -
- 10(a)(i) Amendment No. 1 and Waiver Agreement among Cold Metal Products, Inc, Alkar Steel Corporation and GMAC Commercial Credit, LLC entered into as of May 16,2001.
- 10(p)(i) Letter dated May 16, 2001 from CIT Group/Equipment Financing to Cold Metal Products, Inc. waiving and amending certain financial covenants.
- (b) Reports on Form 8-K - None

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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 thereunto duly authorized.

Cold Metal Products, Inc.
(Registrant)

/s/ Raymond P. Torok

Raymond P. Torok
President, Chief Executive Officer

/s/ Joseph C. Horvath

Joseph C. Horvath
Vice-President, Chief Financial Officer
(Principal Financial and Accounting Officer)

August 14, 2001

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