

CASTLE A M & CO  
Form 10-Q  
August 03, 2007

**Table of Contents**

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

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

For Quarterly Period Ended June 30, 2007 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  X  No \_\_\_\_\_

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

Large Accelerated Filer \_\_\_\_\_ Accelerated Filer  X  Non-Accelerated Filer \_\_\_\_\_

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes \_\_\_\_\_ No  X

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 July 31, 2007

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Common Stock, \$0.01 Par Value

22,037,535 shares

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

	Page Number
<b>Part I. Financial Information</b>	
Item 1. Condensed Consolidated Financial Statements (unaudited):	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6-14
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14-19
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	20
<b>Part II. Other Information</b>	
Item 1. <u>Legal Proceedings</u>	21
Item 1A. <u>Risk Factors</u>	21
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 6. <u>Exhibits</u>	21
<u>Section 302 Certification of CEO</u>	
<u>Section 302 Certification of CFO</u>	
<u>Section 906 Certification of CEO and CFO</u>	

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**Table of Contents**

Page 3 of 25

**CONDENSED CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except per share data)**Unaudited*

	June 30, 2007	As of Dec 31, 2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 13,064	\$ 9,526
Accounts receivable, less allowances of \$3,184 at June 30, 2007 and \$3,112 at December 31, 2006	187,397	160,999
Inventories (principally on last-in, first-out basis) (latest cost higher by \$161,591 at June 30, 2007 and \$128,404 at December 31, 2006)	247,313	202,394
Other current assets	16,940	18,743
Total current assets	464,714	391,662
Investment in joint venture	15,223	13,577
Goodwill	101,848	101,783
Intangible assets	62,881	66,169
Prepaid pension cost	5,632	5,681
Other assets	5,564	5,850
Property, plant and equipment, at cost		
Land	5,226	5,221
Building	48,944	49,017
Machinery and equipment	147,767	141,090
	201,937	195,328
Less accumulated depreciation	(131,249)	(124,930)
	70,688	70,398
Total assets	\$ 726,550	\$ 655,120
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 123,726	\$ 117,561
Accrued liabilities	29,689	30,152
Income taxes payable		931
Deferred income taxes current	18,516	16,339
Short-term debt	83,840	123,261
Current portion of long-term debt	6,823	12,834
Total current liabilities	262,594	301,078
Long-term debt, less current portion	67,185	90,051
Deferred income taxes	30,809	31,782
Other non-current liabilities	17,570	16,302

## Commitments and contingencies

## Stockholders' equity

Preferred stock, \$0.01 par value - 10,000,000 shares authorized; 0 shares outstanding at June 30, 2007 and 12,000 shares issued and outstanding at December 31, 2006		11,239
Common stock, \$0.01 par value authorized 30,000,000 shares; 22,270,612 shares issued and 22,037,535 shares outstanding at June 30, 2007; and 17,447,205 shares issued and 17,085,091 shares outstanding at December 31, 2006	218	170
Additional paid-in capital	177,666	69,775
Retained earnings	190,173	160,625
Accumulated other comprehensive loss	(14,845)	(18,504)
Deferred unearned compensation	(1,333)	(1,392)
Treasury stock, at cost - 233,077 shares at June 30, 2007 and 362,114 shares at December 31, 2006	(3,487)	(6,006)
Total stockholders' equity	348,392	215,907
Total liabilities and stockholders' equity	\$ 726,550	\$ 655,120

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

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**Table of Contents**

Page 4 of 25

**CONDENSED 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,	
	2007	2006	2007	2006
Net sales	\$ 372,608	\$ 275,607	\$ 747,959	\$ 554,800
Costs and expenses:				
Cost of materials (exclusive of depreciation)	270,263	195,244	539,713	391,343
Warehouse, processing and delivery expense	34,293	28,981	69,863	58,605
Sales, general, and administrative expense	33,947	25,071	70,341	49,957
Depreciation and amortization expense	4,977	2,654	9,873	5,097
Operating income	29,128	23,657	58,169	49,798
Interest expense, net	(4,163)	(958)	(8,424)	(2,046)
Income before income taxes and equity earnings of joint venture	24,965	22,699	49,745	47,752
Income taxes	(9,994)	(9,397)	(19,871)	(19,639)
Net income before equity in earnings of joint venture	14,971	13,302	29,874	28,113
Equity in earnings of joint venture	1,391	1,056	2,323	2,295
Net income	16,362	14,358	32,197	30,408
Preferred stock dividends	(350)	(243)	(593)	(485)
Net income applicable to common stock	\$ 16,012	\$ 14,115	\$ 31,604	\$ 29,923
Basic earnings per share	\$ 0.81	\$ 0.83	\$ 1.65	\$ 1.78
Diluted earnings per share	\$ 0.78	\$ 0.76	\$ 1.59	\$ 1.62
Dividends per common share paid	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

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

**Table of Contents****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(Dollars in thousands)**Unaudited*For the Six Month  
Ended June 30,  
2007                      2006

Cash flows from operating activities:		
Net income	\$ 32,197	\$ 30,408
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	9,873	5,097
Amortization of deferred gain	(447)	(295)
Loss on disposal of fixed assets	1,327	
Impairment of long-lived asset	589	
Equity in earnings from joint venture	(2,323)	(2,295)
Dividends from joint venture	715	825
Stock compensation expense	2,515	1,945
Deferred tax provision	1,498	(1)
Excess tax benefits from stock-based payment arrangements	(148)	(811)
Increase (decrease) from changes, net of acquisitions, in:		
Accounts receivable	(25,153)	(21,644)
Inventories	(43,611)	(20,089)
Prepaid pension costs	49	1,909
Other current assets	2,762	(1,118)
Other assets	2,035	(755)
Accounts payable	5,741	20,210
Accrued liabilities	2,454	1,471
Income tax payable	(1,861)	(6,588)
Postretirement benefit obligations and other liabilities	626	482
Net cash (used in) provided by operating activities	(11,162)	8,751
Cash flows from investing activities:		
Capital expenditures	(8,371)	(7,804)
Proceeds from sale of equipment	23	
Net cash used in investing activities	(8,348)	(7,804)
Cash flows from financing activities:		
Net repayments of short-term debt	(39,560)	
Repayments of long-term debt	(28,899)	(258)
Payment of debt issuance fees	(21)	
Preferred stock dividend	(345)	(485)
Dividends paid	(2,056)	(2,018)
Net proceeds from issuance of common stock	93,196	
Exercise of stock options and other	210	6,174
Excess tax benefits from stock-based payment arrangements	148	811
Net cash provided by financing activities	22,673	4,224
Effect of exchange rate changes on cash and cash equivalents	375	419
Net increase in cash and cash equivalents	3,538	5,590



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Cash and cash equivalents	beginning of year	\$ 9,526	\$ 37,392
Cash and cash equivalents	end of period	\$ 13,064	\$ 42,982
Supplemental disclosure of cash flow information	cash paid during period:		
Interest		\$ 8,413	\$ 2,953
Income taxes		\$ 21,050	\$ 25,093

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

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**Table of Contents**

A. M. Castle & Co.  
Notes to Condensed Consolidated Financial Statements  
June 30, 2007  
(Unaudited)

**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, 2006 is derived from the audited financial statements at that date. The Company believes that the disclosures are adequate and make the information not misleading; however, 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 to present fairly the financial position, the cash flows and the results of operations for the periods then ended. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K. The 2007 interim results reported herein may not necessarily be indicative of the results of the Company's operations for the full year.

The amounts presented on the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2006 have been corrected to report dividends from joint venture as a cash flow from operating activities to conform to the 2007 presentation. The dividends from joint venture were previously reported as a cash flow from investing activities.

The Company had non-cash investing activities for the six months ended June 30, 2007 consisting of \$3.0 million in profit sharing contributions made in treasury shares and \$0.3 million in preferred share dividends paid in shares of common stock.

**2. New Accounting Standards Issued Not Yet Adopted**

In September 2006 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurement and in February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 157 was issued to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance in applying these definitions. SFAS No. 157 encourages entities to combine fair value information disclosed under SFAS No. 157 with other accounting pronouncements, including SFAS No. 107, Disclosures about Fair Value of Financial Instruments, where applicable. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company does not expect the adoption of these statements to materially affect its consolidated financial results of operations, cash flows or its financial position.

**Table of Contents**3. Earnings per share

For the period through the conversion of the preferred stock in connection with the secondary offering on May 24, 2007, the Company's preferred stockholders participated in dividends paid on the Company's common stock on an if converted basis. In accordance with Emerging Issues Task Force Issue No. 03-6, Participating Securities and the Two-Class Method under SFAS No. 128, Earnings per Share, basic earnings per share is computed by applying the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared and participation rights in undistributed earnings as if all such earnings had been distributed during the period. 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, restricted stock awards and convertible preferred stock shares, which have been included in the calculation of weighted average shares outstanding using the treasury stock method. In accordance with SFAS No. 128, the following table is a reconciliation of the basic and diluted earnings per share calculations for the six months ended June 30, 2007 and 2006 (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Numerator:				
Net income	\$ 16,362	\$ 14,358	\$ 32,197	\$ 30,408
Preferred dividends distributed	(350)	(243)	(593)	(485)
Undistributed earnings	\$ 16,012	\$ 14,115	\$ 31,604	\$ 29,923
Undistributed earnings attributable to:				
Common stockholders	\$ 15,392	\$ 14,115	\$ 29,730	\$ 29,923
Preferred stockholders, as if converted	620		1,874	
Total undistributed earnings	\$ 16,012	\$ 14,115	\$ 31,604	\$ 29,923
Denominator:				
Weighted average common shares outstanding	18,985	16,653	18,016	16,657
Effect of dilutive securities:				
Outstanding employee and director common stock options	780	360	786	305
Convertible preferred stock	1,196	1,794	1,495	1,794
Denominator for diluted earnings per share	20,961	18,807	20,277	18,756
Basis earnings per common share	\$ 0.81	\$ 0.83	\$ 1.65	\$ 1.78
Diluted earnings per common share	\$ 0.78	\$ 0.76	\$ 1.59	\$ 1.62
Outstanding employee and director common stock options and restricted and convertible preferred stock shares having no dilutive effect				4



**Table of Contents**

Page 8 of 25

4. Debt

Short-term and long-term debt consisted of the following at June 30, 2007 and December 31, 2006 (dollars in thousands):

	June 30, 2007	December 31, 2006
<b>SHORT-TERM DEBT</b>		
U.S. Revolver	\$ 65,700	\$ 108,000
Canadian facility	700	
Mexico	2,350	1,863
Transtar	1,135	1,383
Trade acceptances	13,955	12,015
<b>Total short-term debt</b>	<b>83,840</b>	<b>123,261</b>
<b>LONG-TERM DEBT</b>		
U.S. Term Loan due in scheduled installments from 2007 through 2011		28,500
6.76% insurance company loan due in scheduled installments from 2007 through 2015	69,283	69,283
Industrial development revenue bonds due in varying amounts through 2009	3,600	3,600
Other, primarily capital leases	1,125	1,502
<b>Total long-term debt</b>	<b>74,008</b>	<b>102,885</b>
Less-current portion	(6,823)	(12,834)
<b>Total long-term portion</b>	<b>67,185</b>	<b>90,051</b>
<b>TOTAL SHORT-TERM AND LONG-TERM DEBT</b>	<b>\$ 157,848</b>	<b>\$ 226,146</b>

In September 2006, the Company entered into a \$210 million amended senior credit facility with its lending syndicate. This facility replaced the Company's \$82.0 million revolving credit facility entered into in July 2005. The amended senior credit facility provides for (i) a \$170 million revolving loan to be drawn on by the company from time to time, (ii) a \$30 million term loan and (iii) a Cdn. \$11.1 million revolving loan (approximately \$9.9 million in U.S. dollars) to be drawn on by the Company's Canadian subsidiary from time to time. The revolving loans and term loan mature in 2011.

In late May, 2007, the Company completed a public offering of 5,000,000 shares of its common stock at \$33.00 per share. Of these shares, the Company sold 2,347,826 plus an additional 652,174 to cover over-allotments. Selling stockholders sold 2,000,000 shares.

The Company realized net proceeds from the equity offering of \$93.2 million. The proceeds were used to repay the \$27.0 million outstanding balance on the U.S. Term Loan and reduce outstanding borrowings and accrued interest under its U.S. Revolver by \$66.2 million. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

Available revolving credit capacity is primarily used to fund working capital needs. As of June 30, 2007, the Company had outstanding borrowings of \$65.7 million under its U.S. Revolver and had availability of \$96.5 million. The Company's Canadian subsidiary had \$0.7 million in outstanding borrowings under the Canadian Revolver and

availability of \$9.2 million at June 30, 2007.

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**Table of Contents****6. Goodwill and Intangible Assets***Acquisition of Transtar*

On September 5, 2006, the Company acquired all of the issued and outstanding capital stock of Transtar Intermediate Holdings #2, Inc. (Transtar), a wholly owned subsidiary of H.I.G. Transtar Inc. The results of Transtar's operations have been included in the consolidated financial statements since that date. These results and the assets of Transtar are included in the Company's Metals segment. In accordance with the purchase agreement, the determination of the final purchase price is subject to a working capital adjustment. The final determination and agreement on the adjustment has not yet been completed but the Company expects that it will be finalized by the end of the calendar year. The purchase price adjustment will impact the final allocation of purchase price to the acquired assets and liabilities. For more information regarding the acquisition of Transtar, refer to our 2006 Annual Report on Form 10-K.

The changes in carrying amounts of goodwill were as follows (*dollars in thousands*):

	<b>Metals Segment</b>	<b>Plastics Segment</b>	<b>Total</b>
Balance as of December 31, 2006	\$88,810	\$12,973	\$101,783
Currency translation	65		65
Balance as of June 30, 2007	\$88,875	\$12,973	\$101,848

The Company performs an annual impairment test on goodwill during the first quarter of each fiscal year. Based on the test performed during the first quarter of 2007, the Company has determined that there is no impairment of goodwill.

The following summarizes the components of intangible assets at June 30, 2007 and December 31, 2006 (*dollars in thousands*):

	<b>June 30, 2007</b>		<b>December 31, 2006</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Customer Relationships	\$66,851	\$ 5,096	\$66,851	\$ 2,061
Non-Compete Agreements	1,557	431	1,557	178
Total	\$68,408	\$ 5,527	\$68,408	\$ 2,239

The weighted-average amortization period is 10.8 years, 11 years for customer contracts and 3 years for non-competite agreements. Substantially all of the Company's intangible assets were acquired as part of the acquisition of Transtar on September 5, 2006.

For the six-month period ended June 30, 2007, the aggregate amortization expense was \$3.3 million. For the six-month period ended June 30, 2006, the aggregate amortization expense was immaterial.

The following is a summary of the estimated aggregate amortization expense for each of the next five years (*dollars in thousands*):

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**Table of Contents**

Page 10 of 25

2007 (July 1 through December 31, 2007)	\$ 3,302
2008	6,604
2009	6,441
2010	6,081
2011	6,070
2012	6,070
6. <u>Inventories</u>	

Final inventory determination under the last-in,first-out (LIFO) method can only be made at the end of each fiscal year based on the actual inventory levels and costs at that time. Accordingly, interim LIFO determinations, including those at June 30, 2007, are based solely on management's estimates of inventory levels and costs. Since future estimates of inventory levels and costs are subject to certain forces beyond the control of management, interim financial results are subject to fiscal year-end LIFO inventory valuations.

Current replacement cost of inventories exceeded book value by \$161.6 million and \$128.4 million at June 30, 2007 and December 31, 2006, respectively. Income taxes would become payable on any realization of this excess from reductions in the level of inventories.

The Company has entered into consignment inventory agreements with a few select customers whereby revenue is not recorded until the customer has consumed product from the consigned inventory and title has passed. Net sales derived from consigned inventories at customer locations for 2007 was \$10.2 million, or 1.4% of sales. Inventory on consignment at customers as of June 30, 2007 was \$5.2 million, or 2.0%, of consolidated net inventory as reported on the Company's consolidated balance sheets.

## 7. Share-Based Compensation

The Company maintains long-term stock incentive and stock option plans for the benefit of officers, directors and key management employees. The fair value of stock options granted has been estimated using the Black-Scholes option pricing model. There were no stock options granted in the first or second quarters of 2007. Other forms of share-based compensation have generally used the market price of the Company's stock on the date of grant to estimate fair value.

In 2005, the Company established the 2005 Performance Stock Equity Plan (the Performance Plan). Under the Performance Plan, 438,448 stock awards have been granted, of which 79,902 have been forfeited. In the second quarter of 2007, no awards were granted and 3,833 were forfeited in this plan. The number of shares that could potentially be issued is 717,092.

In 2007, the Company established the 2007 Long-Term Incentive Plan (the 2007 Performance Plan), which is similar in form to the Performance Plan. Under this Plan, 82,400 restricted stock awards were granted in January 2007 and 38,100 restricted stock awards were granted in April 2007. None have been forfeited. The number of shares that could potentially be issued under this plan is 241,000. The grant date fair values range from \$25.45 to \$34.33. Under the 2007 Performance Plan, the shares related to the awards will be distributed in 2010, contingent upon meeting company-wide performance goals over the 2007-2009 performance periods.

Additionally, 13,014 shares of restricted stock awards were granted in April 2007 to the non-employee members of the board of directors at a grant date fair value of \$34.58 per share.

The consolidated expense for all share based compensation plans was \$1.1 million and \$0.9 million for the three months ended June 30, 2007 and 2006, respectively and \$2.5 million and \$1.9 million for the six months ended June 30, 2007 and 2006, respectively. The unrecognized compensation cost as of June 30, 2007 associated with all plans is \$5.8 million and the weighted average period over which it is to be expensed is 1.8 years.

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**Table of Contents**

Page 11 of 25

**8. Comprehensive Income**

Comprehensive income includes net income and all other non-owner changes to equity that are not reported in net income. Below is the Company's comprehensive income for the three months ended June 30, 2007 and 2006 (*dollars in millions*).

	2007	2006
Net income	\$ 16.4	\$ 14.4
Foreign currency translation	2.6	1.4
Pension cost amortization, net of tax	0.5	
<b>Total Comprehensive Income</b>	<b>\$ 19.5</b>	<b>\$ 15.8</b>

Below is the Company's comprehensive income for the six months ended June 30, 2007 and 2006 (*dollars in millions*).

	2007	2006
Net income	\$ 32.2	\$ 30.4
Foreign currency translation	2.7	1.1
Pension cost amortization, net of tax	1.0	
<b>Total Comprehensive Income</b>	<b>\$ 35.9</b>	<b>\$ 31.5</b>

The total accumulated other comprehensive losses at June 30, 2007 and December 31, 2006 comprised (*dollars in millions*):

	June 30, 2007	December 31, 2006
Foreign currency valuation	\$ 6.3	\$ 3.6
Unrecognized pension and postretirement benefit costs, net of cash	(21.1)	(22.1)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$(14.8)</b>	<b>\$( 18.5)</b>

**9. Segment Reporting**

The Company distributes and performs processing on both metals and plastics. Although the distribution processes are similar, different customer markets, supplier bases and types of products exist. Additionally, our Chief Executive Officer reviews and manages these two businesses separately. As such, these businesses are considered segments according to SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information* and are reported accordingly in the Company's consolidated financial statements.

The accounting policies for all segments are described in Note 3 *Segment Reporting* in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Management evaluates performance of its business segments based on operating income. The Company does not maintain separate standalone financial statements prepared in accordance with GAAP for each of its operating segments.

The following is the segment information for the quarters ended June 30, 2007 and 2006:

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**Table of Contents**

Page 12 of 25

<i>(dollars in millions)</i>	<b>Net Sales</b>	<b>Operating Income</b>	<b>Capital Expenditures</b>	<b>Depreciation &amp; Amortization</b>
2007				
Metals Segment	\$343.3	\$29.4	\$ 5.6	\$ 4.7
Plastics Segment	29.3	1.7	0.6	0.3
Other		(2.0)		
Consolidated	\$372.6	\$29.1	\$ 6.2	\$ 5.0
2006				
Metals Segment	\$244.8	\$23.3	\$ 5.1	\$ 2.5
Plastics Segment	30.8	2.8	0.3	0.2
Other		(2.4)		
Consolidated	\$275.6	\$23.7	\$ 5.4	\$ 2.7

Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments of the Company.

The following is the segment information for the six months ended June 30, 2007 and 2006:

<i>(dollars in millions)</i>	<b>Net Sales</b>	<b>Operating Income</b>	<b>Capital Expenditures</b>	<b>Depreciation &amp; Amortization</b>
2007				
Metals Segment	\$690.0	\$59.8	\$ 7.4	\$ 9.3
Plastics Segment	58.0	3.2	1.0	0.6
Other		(4.8)		
Consolidated	\$748.0	\$58.2	\$ 8.4	\$ 9.9
2006				
Metals Segment	\$495.4	\$49.9	\$ 7.2	\$ 4.5
Plastics Segment	59.4	4.5	0.6	0.6
Other		(4.6)		
Consolidated	\$554.8	\$49.8	\$ 7.8	\$ 5.1

Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments of the Company.

The segment information for total assets at June 30, 2007 and December 31, 2006 was as follows:

<i>(dollars in millions)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Metals Segment	\$662.8	\$ 593.7
Plastics Segment	48.6	47.8
Other	15.2	13.6
Consolidated	\$726.6	\$ 655.1

Other The segment's total assets consist of the Company's investment in a joint venture.

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**Table of Contents****10. Pension and Postretirement Benefits**

The following are the components of the net pension and postretirement benefit expenses (*in thousands*):

	<b>For the Three Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Service cost	\$ 934.5	\$ 917.8
Interest cost	1,911.1	1,805.8
Expected return on plan assets	(2,520.0)	(2,423.9)
Amortization of prior service cost	26.4	26.4
Amortization of net loss	787.0	945.8
Net periodic cost	\$ 1,139.0	\$ 1,271.9

	<b>For the Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Service cost	\$ 1,869.0	\$ 1,835.6
Interest cost	3,822.2	3,611.6
Expected return on plan assets	(5,040.0)	(4,847.8)
Amortization of prior service cost	52.8	52.8
Amortization of net loss	1,574.0	1,891.6
Net periodic cost	\$ 2,278.0	\$ 2,543.8

As of June 30, 2007, the Company has not made any cash contributions to its pension plans for this fiscal year and does not anticipate making any contributions for the balance of 2007.

**11. Commitments and Contingent Liabilities**

At June 30, 2007, the Company had \$5.3 million of irrevocable letters of credit outstanding, \$1.7 million of which is for compliance with the insurance reserve requirements of its workers' compensation insurance carrier. The remaining \$3.6 million is in support of the outstanding industrial revenue bonds. The Company is the defendant in several lawsuits arising out of the conduct of its business. These lawsuits are incidental and occur in the normal course of the Company's business affairs. It is the opinion of the Company, based on current knowledge that no uninsured liability will result from the outcome of this litigation that would have a material adverse effect on the consolidated results of operations, financial condition or cash flows of the Company.

**12. Income Taxes**

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and





**Table of Contents**

Page 14 of 25

measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return.

The Company adopted FIN 48 on January 1, 2007. No increase in liability for unrecognized tax benefits was recorded as a result of the adoption. As of January 1, 2007, the Company has a \$1.0 million liability recorded for unrecognized tax benefits of which \$0.3 million would impact the effective tax rate if recognized. As of June 30, 2007, the Company has a \$1.1 million liability recorded for unrecognized tax benefits of which \$0.4 million would impact the effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of tax expense.

The Company does not anticipate the amount of unrecognized tax benefits to change in the next twelve months.

The Company or its subsidiaries files income tax returns in the U.S., 28 states and 5 foreign jurisdictions. The Canadian income tax returns for 2002 through 2004 are currently under audit. No material adjustments have been proposed to date. The tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Financial Review**

This discussion should be read in conjunction with the information contained in the Condensed Consolidated Financial Statements and Notes.

### **Executive Overview**

#### ***Economic Trends and Current Business Conditions***

A. M. Castle & Co. and subsidiaries (the Company) continued to enjoy higher pricing for its products through the second quarter and the first half of 2007, which resulted in favorable revenue growth compared to both the second quarter and first six months of last year. The acquisition of Transtar Metals in the fall of 2006 was also a key contributor to revenue and income growth comparisons. Excluding this acquisition, volume levels in the balance of the business were softer when compared to the second quarter and first six months of 2006. Metal products sold to the aerospace industry continued to exhibit higher demand through the second quarter of 2007, but other products sold to the general North American manufacturing sector were not as robust as the record levels achieved in early 2006. The outlook for the aerospace and oil and gas markets remains favorable, and current general economic indicators do not lead management to believe any significant prolonged downturn in the Metals business is on the near-term horizon.

Historically, the Company has used the Purchaser's Managers Index (PMI) provided by the Institute of Supply Managers to track general demand trends in its customer markets. The table below shows recent PMI trends from the first quarter of 2005 through the second quarter of 2007. Generally speaking, an index above 50.0 indicates growth in the manufacturing sector of the U.S. economy. As the table indicates, the demand trend still reflected a favorable growth rate for the second quarter of 2007. The Company's revenue growth has historically improved over these same quarters.

<b>YEAR</b>	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>
2005	55.7	53.2	55.8	57.2
2006	55.6	55.2	53.8	50.9
2007	50.8	55.2		

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**Table of Contents****Results of Operations: Second Quarter 2007 Comparisons to Second Quarter 2006**

Consolidated results by business segment are summarized in the following table for the quarter ended June 30, 2007 and 2006

<i>(dollars in millions)</i>	<i>Quarter Ended June 30,</i>		<i>Fav/(Unfav)</i>	
	<i>2007</i>	<i>2006</i>	<i>\$ Change</i>	<i>% Change</i>
Net Sales				
Metals	\$ 343.3	\$ 244.8	\$ 98.5	40.2%
Plastics	29.3	30.8	(1.5)	(4.9)%
Total Net Sales	\$ 372.6	275.6	\$ 97.0	35.2%
Cost of Materials				
Metals	\$ 250.7	\$ 174.8	\$ 75.9	43.4%
<i>% of Metals Sales</i>	<i>73.0%</i>	<i>71.4%</i>		<i>(1.6)%</i>
Plastics	19.6	20.4	(0.8)	(3.9)%
<i>% of Plastics Sales</i>	<i>66.9%</i>	<i>66.2%</i>		<i>(0.7)%</i>
Total Cost of Materials	\$ 270.3	\$ 195.2	\$ 75.1	38.5%
<i>% of Total Net Sales</i>	<i>72.5%</i>	<i>70.8%</i>		<i>(1.7)%</i>
Other Operating Costs and Expenses				
Metals	\$ 63.2	\$ 46.7	\$ 16.5	35.3%
Plastics	8.0	7.6	0.4	5.3%
Other	2.0	2.4	(0.4)	(16.7)%
Total Other Operating Costs & Expense	\$ 73.2	\$ 56.7	\$ 16.5	29.1%
<i>% of Total Net Sales</i>	<i>19.6%</i>	<i>20.6%</i>		<i>0.9%</i>
Operating Income				
Metals	\$ 29.4	\$ 23.3	\$ 6.1	26.2%
<i>% of Metals Sales</i>	<i>8.6%</i>	<i>9.5%</i>		<i>(0.9)%</i>
Plastics	1.7	2.8	(1.1)	(39.3)%
<i>% of Plastics Sales</i>	<i>5.8%</i>	<i>9.1%</i>		<i>(3.3)%</i>
Other	(2.0)	(2.4)	0.4	16.7%
Total Operating Income	\$ 29.1	\$ 23.7	\$ 5.4	22.8%
<i>% of Total Net Sales</i>	<i>7.8%</i>	<i>8.6%</i>		<i>(0.8)%</i>

Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the Metals and Plastics segments of the Company.

**Acquisition of Transtar**

On September 5, 2006, the Company acquired all of the issued and outstanding capital stock of Transtar Intermediate Holdings #2, Inc. (Transtar), a wholly owned subsidiary of H.I.G. Transtar Inc. The results of Transtar's operations have been included in the consolidated financial statements since that date. These results and the assets of Transtar are included in the Company's Metals segment. For more information regarding the acquisition of Transtar, refer to our 2006 Annual Report on Form 10-K. In order to present a consistent quarter-over-quarter analysis of financial

condition and results of operation, the Company is herein disclosing the incremental impact of its recent acquisition.

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**Table of Contents**

Page 16 of 25

***Net Sales:***

Consolidated net sales of \$372.6 million increased 35.2%, or \$97.0 million, versus the second quarter of 2006. The Transtar acquisition added \$72.6 million of net sales for the quarter and the remaining \$300.0 million of net sales were \$24.4 million, or 8.9%, higher than the same quarter of last year.

Metals segment sales of \$343.3 million were \$98.5 million, or 40.2%, ahead of last year. Of the 40.2% sales increase, 29.6% was attributable to Transtar. Material price increases more than offset lower volume across most of the remaining metals business.

Plastics segment sales of \$29.3 million were \$1.5 million lower than the second quarter of 2006. Plastic material prices were 2.5% higher than last year, but volume was 7.4% lower. During the second quarter of 2006, the Plastics segment enjoyed a significant customer order for a point-of-purchase display program that did not repeat in the current year.

***Cost of Materials***

Consolidated second quarter 2007 costs of materials (exclusive of depreciation) increased \$75.1 million, or 38.5%, to \$270.3 million. The acquisition of Transtar contributed \$52.4 million of the increase. The balance of the increase was primarily due to higher material costs from suppliers, typically in the form of surcharges. Material costs for the second quarter were 72.5% of sales as compared to 70.8% in the second quarter of 2006. Increased material prices from suppliers in the form of surcharges are passed on to larger program customers, or customers purchasing under a contractual agreement, at cost, resulting in higher material costs as a percent of sales.

***Other Operating Expenses and Operating Income:***

Consolidated operating expenses in the second quarter of 2007 were \$73.2 million, or 19.6% of sales compared to \$56.7 million, or 20.6% of sales last year. The \$16.5 million increase was primarily attributable to the Transtar acquisition and a \$0.6 million impairment charge related to long-lived assets.

Consolidated operating income of \$29.1 million was \$5.4 million higher than the first quarter of last year largely due to revenue growth and the maintenance of good operating margins.

***Other Income and Expense, Income Taxes and Net Income:***

Equity in earnings of joint venture was \$1.4 million for the second quarter of 2007, or \$0.3 million higher than the same period last year due to a recent acquisition by the joint venture.

Financing costs, consisting primarily of interest expense, were \$4.2 million in the second quarter of 2007 which was \$3.2 million higher than the same period in 2006. The primary driver of higher interest expense was the Company's increased borrowings related to the acquisition of Transtar in September 2006 and the write-off of \$0.4 million of deferred financing costs related to the retirement of the U.S. Term Loan.

Consolidated net income applicable to common stock was \$16.0 million, or \$0.78 per diluted share, in the second quarter of 2007 versus a consolidated net income applicable to common stock of \$14.1 million, or \$0.76 per diluted share, in the corresponding period of 2006.

**Results of Operations: Six Months 2007 Comparisons to Six Months 2006**

Consolidated results by business segment are summarized in the following table for the six months ended June 30, 2007 and 2006 (*dollars in millions*):

**Table of Contents**

	<i>Six Months Ended</i>		<i>Fav/(Unfav)</i>	
	<i>2007</i>	<i>June 30, 2006</i>	<i>\$ Change</i>	<i>% Change</i>
Net Sales				
Metals	\$690.0	\$495.4	\$194.6	39.3%
Plastics	58.0	59.4	(1.4)	(2.4)%
Total Net Sales	\$748.0	\$554.8	\$193.2	34.8%
Cost of Materials				
Metals	\$500.7	\$351.7	\$149.0	42.4%
<i>% of Metals Sales</i>	<i>72.6%</i>	<i>71.0%</i>		<i>(1.6)%</i>
Plastics	39.0	39.6	(0.6)	(1.5)%
<i>% of Plastics Sales</i>	<i>67.2%</i>	<i>66.7%</i>		<i>(0.5)%</i>
Total Cost of Materials	\$539.7	\$391.3	\$148.4	37.9%
<i>% of Total Net Sales</i>	<i>72.2%</i>	<i>70.5%</i>		<i>(1.7)%</i>
Other Operating Costs and Expenses				
Metals	\$129.5	\$93.8	\$35.7	38.1%
Plastics	15.8	15.3	0.5	3.3%
Other	4.8	4.6	0.2	4.3%
Total Other Operating Costs & Expense	\$150.1	\$113.7	\$36.4	32.0%
<i>% of Total Net Sales</i>	<i>20.1%</i>	<i>20.5%</i>		<i>0.4%</i>
Operating Income				
Metals	\$59.8	\$49.9	\$9.9	19.8%
<i>% of Metals Sales</i>	<i>8.7%</i>	<i>10.1%</i>		<i>(1.4)%</i>
Plastics	3.2	4.5	(1.3)	28.9%
<i>% of Plastics Sales</i>	<i>5.5%</i>	<i>7.6%</i>		<i>(2.1)%</i>
Other	(4.8)	(4.6)	(0.2)	4.3%
Total Operating Income	\$58.2	\$49.8	\$8.4	16.9%
<i>% of Total Net Sales</i>	<i>7.8%</i>	<i>9.0%</i>		<i>(1.2)%</i>

*Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments of the Company.*

**Net Sales:**

Six month 2007 consolidated net sales of \$748.0 million were \$193.2 million, or 34.8%, higher than last year.

Metal segment sales of \$690.0 million were \$194.6 million, or 39.3%, ahead of last year. The Transtar acquisition added \$145.4 million of sales for the first six months of 2007, or 29.3% of the total 39.3% revenue increase compared to last year. Excluding the acquisition, metal price levels were higher than the first six months of 2006, more than offsetting the effects of lower overall volume for the balance of the Metals segment.

Plastic segment sales of \$58.0 million were \$1.4 million lower than the first half of 2006. Plastic material prices increased 2.5%, but volume was 4.7% lower than the corresponding period of last year, largely due to slower demand across the industry.

***Cost of Materials:***

Consolidated first half 2007 costs of materials (exclusive of depreciation) increased \$148.4 million, or 37.9%, to \$539.7 million. The acquisition of Transtar contributed \$103.1 million of the increase. The balance of the increase was primarily due to higher material costs from suppliers,

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**Table of Contents**

Page 18 of 25

typically in the form of surcharges. Material costs for the first six-months of 2007 were 72.2% of sales as compared to 70.5% in 2006. Increased material prices from suppliers in the form of surcharges are passed on to larger program customers, or customers purchasing under a contractual agreement, at cost, resulting in higher material costs as a percent of sales.

**Other Operating Expenses and Operating Income:**

Year-to-date consolidated operating expense of \$150.1 million included a \$1.4 million charge for the write-off of the Company's former business systems. This charge was triggered by the Company's decision to implement the Oracle ERP system. The increase in operating expenses as compared to the first half of 2006 was primarily due to the Transtar acquisition, the \$1.4 million charge mentioned above, and a \$0.6 million impairment charge related to long-lived assets.

Consolidated operating profit of \$58.2 million, or 7.8% of sales, was \$8.4 million higher than last year.

**Other Income and Expense, Income Taxes and Net Income:**

Joint venture equity earnings for the first half of 2007 of \$2.3 million were approximately equal to the first half of 2006.

Financing costs, which consist primarily of interest expense, were \$8.4 million for the first six months of 2007 and \$2.0 million for the same period in 2006. The increase in interest expense reflects the debt funding of the Transtar acquisition in the fall of 2006.

Year-to-date consolidated net income (after preferred dividends of \$0.6 million) was \$31.6 million, or \$1.59 per diluted share, versus \$29.9 million, or \$1.62 per basic share, for the first six-months of 2006.

**Critical Accounting Policies:**

The Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB No. 109. See Note 12 to the consolidated financial statements for more information regarding the Company's adoption of FIN 48. There have been no other changes in critical accounting policies from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**Liquidity and Capital Resources**

The Company's principal sources of liquidity are earnings from operations, management of working capital, and the \$210 million amended senior credit facility.

In late May, 2007, the Company completed a public offering of 5,000,000 shares of its common stock at \$33.00 per share. Of these shares, the Company sold 2,347,826 plus an additional 652,174 to cover over-allotments. Selling stockholders sold 2,000,000 shares.

The Company realized net proceeds from the equity offering of \$93.2 million. The proceeds were used to permanently repay the \$27.0 million outstanding balance on the U.S. Term Loan and reduce current outstanding borrowings and accrued interest under its U.S. Revolver by \$66.2 million. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

Cash used in operating activities for the first six months of 2007 was \$11.2 million, primarily driven by increased working capital requirements. Receivable days outstanding were 44.9 days at the end of the second quarter of 2007 as compared to 47.3 days at the end of the fourth quarter of 2006. Total receivables increased due to higher sales. Inventory DSI (days sales in inventory) was 136.1 days at the end of the second quarter of 2007 versus a DSI of 129.2 days at the end of the fourth quarter of 2006. The increase in inventory levels are primarily in the Company's nickel and aluminum products that support the aerospace and oil and gas markets.

Available revolving credit capacity is primarily used to fund working capital needs. As of June 30, 2007, the Company had outstanding borrowings of \$65.7 million under its U.S. Revolver and had availability of \$96.5 million. The Company's Canadian subsidiary had \$0.7 million in outstanding borrowings under the Canadian Revolver and availability of \$9.2 million at June 30, 2007.

**Table of Contents**

Page 19 of 25

The Company paid cash dividends to its shareholders of \$0.12 per common share, or \$2.0 million, through June of 2007. The Company also paid \$0.6 million in preferred stock dividends up through May of 2007, which is when the preferred stock was converted and sold by the shareholders as part of the secondary equity offering completed at that time. The \$0.6 million preferred stock dividend was comprised of \$0.3 million in cash and \$0.3 million in shares of common stock.

Capital expenditures through June of 2007 were \$8.4 million, including \$3.4 million for the beginning phase of the Company's Oracle ERP implementation.

The Company's principal payments on long-term debt, including the current portion of long-term debt, required over the next few years are summarized below (*dollars in thousands*):

**Year ending December 31,**

2007 ( <i>for the six months July 1, 2007 to December 31, 2007</i> )	\$ 6,426
2008	7,005
2009	10,477
2010	7,221
2011	7,640
2012 and beyond	35,239
 Total debt	 \$ 74,008

As of June 30, 2007, the Company remains in compliance with the covenants of its financial agreements, which require it to maintain certain funded debt-to-capital ratios, working capital-to-debt ratios and a minimum equity value as defined within the agreement.

The Company expects working capital requirements to decline over the balance of 2007, which will facilitate a return to favorable cash flows from operations. Favorable operating cash flow will fund the Company's ongoing capital expenditure programs and debt obligations.

**Commitments and Contingencies**

At June 30, 2007, the Company had \$5.3 million of irrevocable letters of credit outstanding, \$1.7 million of which were for compliance with the insurance reserve requirements of its workers' compensation insurance carrier. The remaining \$3.6 million was in support of the outstanding industrial revenue bonds.

The Company is the defendant in several lawsuits arising out of the conduct of its business. These lawsuits are incidental and occur in the normal course of the Company's business affairs. It is the opinion of the Company, based on current knowledge that no uninsured liability will result from the outcome of this litigation that would have a material adverse effect on the consolidated results of operations, financial condition or cash flows of the Company.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

The Company is exposed to interest rate, commodity price, and foreign exchange rate risks that arise in the normal course of business. There have been no significant or material changes to such risks since December 31, 2006. Refer to Item 7a in our Annual Report on Form 10-K filed for the year ended December 31, 2006 for further discussion of such risks.



**Table of Contents**

Page 20 of 25

## Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

A review and evaluation was performed by the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Security Exchange Act of 1934) as of the end of the period covered by this report.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Securities Exchange Act of 1934 rule 240.13a-15(f). The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

In its Annual Report on Form 10-K for the year ended December 31, 2006, the Company reported that, based upon their review and evaluation, the Company's disclosure controls and procedures were effective as of December 31, 2006.

As part of its evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report, and in accordance with the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, referred to as the *Internal Control - Integrated Framework*, the Company's management has concluded that our internal control over financial reporting was effective as of the end of the period covered by this report.

(b) Changes in Internal Controls

There was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(d) of the Securities Exchange Act of 1934 that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Table of Contents**

**Part II. OTHER INFORMATION**

Item 1. Legal Proceedings

There were no material legal proceedings other than the ordinary routine litigation incidental to the business of the Company.

Item 1A. Risk Factors

During the quarter there were no material changes to the risk factors set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price  Paid per Share (or Unit)	(c) Total Number  of Shares (or Units) Purchased  as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of  Shares (or Units) that May Yet Be Purchased (Under the Plans or Programs)
April 1 - April 30				
May 1 - May 31				
June 1 - June 30				
Total				

**Item 6. Exhibits**

- Exhibit 31.1 Certification Pursuant to Section 302 by CEO
- Exhibit 31.2 Certification Pursuant to Section 302 by CFO
- Exhibit 32.1 Certification Pursuant to Section 906 by CEO & CFO

**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.

A. M. Castle & Co.

(Registrant)

Date: August 2, 2007

By: /s/ Henry J. Veith

Henry J. Veith

Controller

(Mr. Veith is the Chief Accounting Officer and has been authorized to sign on behalf of the Registrant.)