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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended SEPTEMBER 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	16-1144965
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2200 GEORGETOWN DRIVE, SUITE 301, SEWICKLEY, PENNSYLVANIA	15143
(Address of principal executive offices)	(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 [X] No [ ]

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

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COLD METAL PRODUCTS, INC.
SEC FORM 10-Q
Quarter Ended September 30, 2001

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COLD METAL PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

Three Months Ended September 30,		Six Mo Sept
2001	2000	2001

Net sales	$40,190	$58,057	$85,01
Cost of sales	38,100	52,597	78,98
Gross profit	2,090	5,460	6,02
Selling, general and administrative expenses	3,703	4,446	7,43
Special charges	340	0	34
Interest expense	917	1,263	1,89
(Loss) income before income taxes	(2,870)	(249)	(3,64
Income tax (benefit) expense	(1,087)	(76)	(1,37
Net (loss) income	$(1,783)	$ (173)	$(2,26
Basic and diluted net (loss) income per share	$(0.28)	$(0.03)	$(0.3
Weighted average shares outstanding:			
Basic	6,404,962	6,391,471	6,401,71
Diluted	6,404,962	6,393,017	6,401,71

See notes to condensed consolidated financial statements.

COLD METAL PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)
(Unaudited)

	September 30, 2001	March 200
Assets:		
Cash	$ 1,442	
Accounts receivable	24,779	
Inventories	28,128	
Prepaid and other current assets	2,786	
Total current assets	57,135	
Property, plant and equipment - at cost	79,932	
Less accumulated depreciation	(40,799)	(

Property, plant and equipment - net	39,133	
Other assets	19,421	
Total assets	$115,689	$1
Liabilities and shareholders' equity:		
Short-term debt	$ 4,156	$
Accounts payable	16,301	
Other current liabilities	7,712	
Total current liabilities	28,169	
Long-term debt	55,144	
Postretirement benefits	18,148	
Shareholders' equity:		
Common stock. $.01 par value; 15,000,000 shares authorized; 7,532,250 shares issued	75	
Additional paid-in capital	25,318	
Retained earnings	1,864	
Accumulated other comprehensive loss	(7,466)	
Less treasury stock, 1,147,759 shares, at cost	(5,563)	
Total shareholders' equity	14,228	
Total liabilities and shareholders' equity	$115,689	$1

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)

	Six Months En September 3
	2001
Cash flows from operating activities:	
Net (loss) income	$ (2,265)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:	
Depreciation and amortization	1,993

Special charges	340
Deferred taxes	(1,334)
Other items	90
Changes in operating assets and liabilities:	
Accounts receivable	435
Inventories	6,323
Prepaid and other assets	468
Accounts payable	550
Other liabilities	(1,203)
Net cash provided by (used in) operating activities	5,397
Cash flows from investing activities:	
Additions to property, plant and equipment	(514)
Acquisition of Alkar	0
Net cash used in investing activities	(514)
Cash flows from financing activities:	
Proceeds from revolving credit and term loan facility	59,832
Payments of revolving credit and term loan facility	(63,784)
Payment of other debt	(948)
Payment of dividends	0
Net cash (used in) provided by financing activities	(4,900)
Net decrease in cash	(17)
Effect of translation adjustment	(88)
Cash at beginning of period	1,547
Cash at end of period	$ 1,442

See notes to condensed consolidated financial statements.

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 September 30, 2001 and March 31, 2001, and the results of its operations and cash flows for the three and six month periods ended September 30, 2001 and 2000. The results of operations for the periods ended September 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, 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, $934,000 and $1,867,000 of freight billed to customers in the quarter and six months ended September 30, 2000 has been reclassified to revenues to conform to the presentations for the quarter and six months ended September 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, and is required to be adopted for all business combinations initiated after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, "Intangible Assets," and is effective for all fiscal years beginning after December 15, 2001. It changes the accounting for goodwill from an amortization method to an impairment only approach. The Company has not completed its assessment of 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 September 30, 2001 and 2000, and $146,000 during the six months ended September 30, 2001 and 2000, respectively.

The FASB also issued Statement No. 143 Accounting for Asset Retirement Obligations ("SFAS 143") in June 2001. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, with subsequent adjustments occurring as changes to estimates of the settlement obligation become known. A corresponding increase in the carrying amount of the related long-lived asset is recognized and is subject to depreciation over the remaining useful life of the asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is required to be adopted for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company has not completed its assessment of the effect of adopting this pronouncement on its financial statements.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). The statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets to be Disposed of. SFAS 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed by sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to have a material effect on the Company's financial statements.

NOTE 3. RESULTS OF FOREIGN OPERATIONS

The Company operates in one business segment, intermediate steel processing. The Company derived revenues from customers in the United States of approximately $28 million and $43 million for the quarters ended September 30, 2001 and 2000 and $60 million and $86 million during the six months ended September 30, 2001 and 2000. The Company had long-lived assets in the United States totaling approximately $53 million. The remainder of the Company's revenues and long-lived assets are principally related to customers and operations in Canada.

NOTE 4. INVENTORIES

	September 30, 2001	March 31, 2001
Raw materials	$11,023,000	$16,228,000
Work-in-process	11,558,000	10,174,000
Finished goods	5,547,000	8,034,000
Total inventories	$28,128,000	$34,436,000

NOTE 5. COMPREHENSIVE INCOME

Comprehensive income (loss) is comprised of net income (loss) and foreign currency translation adjustment for the period. Translation adjustments were ($704,000) and ($257,000) during the quarter ended September 30, 2001 and 2000, and ($21,000) and ($655,000) for the six months ended September 30, 2001 and 2000, respectively. Total comprehensive income (loss) was ($2.5 million) and ($.4 million) for the quarter ended September 30, 2001 and 2000, and ($2.3 million) and ($.1 million) for the six months ended September 30, 2001 and 2000, respectively.

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NOTE 6. DEBT

As of September 30, 2001, the Company's short and long-term debt includes $42.6 million of borrowings under a committed revolving credit and term-loan facility that extends to April 2004, and $14.8 million of borrowings under a term loan. On September 30, 2001 the Company was not in compliance with certain financial ratios contained in the loan agreements, as amended, that pertain to minimum net worth and financial leverage measurements. In November 2001 the Company reached agreements with its senior secured creditors that further amend these financial covenants to take into consideration prevailing market conditions. Management of the Company anticipates that it will be able to comply with the terms of its borrowing agreements, as amended.

NOTE 7. SPECIAL CHARGES

During the last quarter of fiscal 2001, the Company adopted a plan to permanently idle its New Britain, Connecticut facility and reduce production at its Hamilton, Ontario facility as part of the efforts to rationalize operating capacity. The costs associated with reductions in force approximated $900,000. During the quarter ended September 30, 2001 the Company incurred an additional $340,0000 charge relating to negotiated severance costs for hourly employees covered by a collective bargaining agreement. As of September 30, 2001 approximately $450,000 of such costs had been paid, with the remaining amounts owed expected to be settled during the remainder of this fiscal year.

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.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Six Months September	
	2001	2000	2001	20

Net sales	100.0%	100.0%	100.0%	100
Cost of sales	94.8	90.6	92.9	89
Gross profit	5.2	9.4	7.1	10
Selling, general, and administrative expenses	9.2	7.7	8.7	7
Special charge	0.8	0.0	0.4	0
Interest expense	2.3	2.1	2.2	2
(Loss) income before income taxes	(7.1)	(0.4)	(4.3)	0
Income tax (benefit) expense	(2.7)	(0.1)	(1.6)	0
Net (loss) income	(4.4)%	(0.3)%	(2.7)%	0

Net sales for the three months ended September 30, 2001 were $40.2 million, a decrease of $17.9 million or 30.8% less than the Company's net sales for the corresponding period ended September 30, 2000. Volume of tons shipped decreased 22.6%, which accounted for $13.1 million of revenue decline, while the effect of lower priced product mix contributed to a $4.8 million decline in revenues. For the six months ended September 30, 2001 net sales were $85.0 million, a decrease of $33.3 million or 28.2% less than the Company's net sales for the corresponding period ended September 30, 2000. Volume of tons shipped decreased 21.5%, which accounted for $25.4 million of revenue decline, while the effect of lower priced product mix contributed to a $7.9 million decline in revenues.

Gross profit for the three months ended September 30, 2001 was $2.1 million or 5.2% of net sales, a $3.4million decrease over the three months ended September 30, 2000. For the six months ended September 30, 2001, gross profit was $6.0 million or 7.1% of net sales, which represents a $5.9 million decrease over the comparable period in the previous fiscal year. The primary factor contributing to the gross margin decreases for the three month and six month periods ended September 30, 2001 was the inability to obtain material cost reductions sufficient to offset selling price reductions in the Company's market place, as well as the effect of low volume levels on the Company's capacity utilization and fixed cost operating structure.

Selling, general and administrative costs of $3.7 million for the three months ended September 30, 2001 represented 9.2% of net sales compared to $4.4 million selling and administrative costs, or 7.7% of net sales for the three months ended September 30, 2000. For the six months ended September 30, 2001, selling, general and administrative costs were $7.4 million or 8.7% of net sales,

reflecting a $1.1 million decrease in selling, general and administrative costs compared to the six months ended September 30, 2000. The decrease in these costs relates primarily to cost reduction initiatives that centralized certain activities and reduced personnel. During the quarter ended September 30, 2001, the Company recognized special charges totaling $340,000, or 0.8% of sales, associated with the final stages of the idling of its manufacturing facility in New Britain, Connecticut. These costs related principally to negotiated severance costs for employees working under the terms of a collective bargaining agreement.

Interest expense was $0.9 million, or 2.3% of net sales for the three months ended September 30, 2001 compared to $1.3 million or 2.2% of net sales for the three months ended September 30, 2000. For the six months ended September 30, 2001, interest costs declined approximately $0.6 million to $1.9 million or 2.2% of net sales, compared to the corresponding period in the prior year when such costs totaled $2.5 million, or 2.1% of sales. The reduction in interest expense is largely attributable to the decline in interest rates taking effect since early 2001.

Loss before income taxes was $2.9 million, or 7.1% of net sales for the three months ended September 30, 2001, compared to $0.2 million of loss before income taxes, or 0.4% of sales for the three months ended September 30, 2000. For the six months ended September 30, 2001, loss before income taxes totaled $3.6 million, or 4.3% of net sales, compared to income before taxes of $900,000 for the six months ended September 30, 2000. This performance directly relates to the significant decline in demand experienced in the weak 2001 economy, and the impact of the resulting substantial decline in sales volumes.

The Company has recognized an income tax benefit of $1.1 million, or 2.7% of net sales for the three months ended September 30, 2001 compared to an income tax benefit of $0.1 million, or .1% of net sales for the three months ended September 30, 2000. For the six months ended September 30, 2001, the income tax benefit was $1.4 million, or 1.6% of sales, compared to income tax expense of $0.3 million, or 0.3% of sales for the corresponding period in the prior fiscal year.

Net loss for the three months ended September 30, 2001 was $1.8 million, or $0.28 per share as compared to net loss of $0.2 million, or $.03 per share for the three months ended September 30, 2000. For the six months ended September 30, 2001, net loss was $2.3 million, or $0.35 per share as compared to net income of $0.6 million, or $.09 per share for the six months ended September 30, 2000.

Operating results continue to be affected by significant weakness in market conditions that began in the second quarter of the previous fiscal year. This continued market weakness has led to pricing declines necessary to maintain market share that have not been fully offset with favorable material pricing from its suppliers; however management believes that this situation is temporary as it evaluates new sources of supply.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended September 30, 2001, operating activities provided $5.4 million in cash compared to cash used of $5.7 million for the six months ended September 30, 2000. Net loss for the first six months of fiscal 2002, adjusted for depreciation and other non-cash charges, used approximately $1.2 million of cash compared to $2.7 million of cash provided in the corresponding period of the prior year. However, as a result of working capital management, including the Company's reduction of inventory by $6.3 million, the Company was able to generate cash from operations. This compares to the comparable period in the prior year when an inventory build of $3.7 million and other working capital changes using $4.7 million contributed to the $5.7 million net use of cash from operations. The Company also limited its capital investment to maintenance levels, spending only

$0.5 million in the first half of fiscal 2002 compared to capital spending of

$2.9 million in the first half of the prior year.

Net cash flows used by financing activities of $4.9 million for the six months ended September 30, 2001 were the result of using cash provided by operations to reduce bank indebtedness. This compares to an increase in borrowing activity during the first half of the prior year, primarily to finance inventory growth, prior to the significant downturn in business conditions.

The recent events associated with the terrorist attacks have sent enough uncertainty through the marketplace that management anticipates will prevail through the end of calendar 2001. The Company continues 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. 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 $42.6 million was outstanding and $9.2 million of borrowing availability existed at September 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 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.

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 $100,000. The Company would be sensitive to a 10% change in Canadian currency exchange rate in the approximate after-tax amount of $100,000. 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.

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

(a) The Company's Annual Meeting of Shareholders for 2000 was held on July 19, 2001.

(b) See Item (c) below

(c) At the Annual Meeting of Shareholders the following matters were voted:

1. Seven directors were elected to serve for a term of one year by the following vote:

	Share Voted "For"	Share Voted "Withheld"
R. Quintus Anderson	6,237,247	5,008
Wilbur J. Berner	6,237,247	5,008
Claude F. Kronk	6,237,247	5,008
Heidi A. Nauleau	6,237,247	5,008
Robert D. Neary	6,237,247	5,008
Peter B. Sullivan	6,237,247	5,008
Raymond P. Torok	6,236,997	5,258

2. The selection of Deloitte & Touche LLP as independent auditors for the Company was confirmed, ratified, and approved by a vote of 6, 235,907 shares for 4,648 shares against and 1,700 shares abstaining.

ITEM 5. OTHER INFORMATION

There is no other information to report.

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

(a) Exhibit Number and Description - None

(b) Reports on Form 8-K - None

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)

November 14, 2001