

CASTLE A M & CO
Form 10-Q
November 05, 2010

Table of Contents

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

**☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended September 30, 2010**

or,

**☐ 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 ☒ No ☐

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

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

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

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 October 29, 2010

Common Stock, \$0.01 Par Value

22,954,459 shares

A. M. CASTLE & CO.
Table of Contents

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6-17
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18-25
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	26
<u>Part II. Other Information</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 6. Exhibits</u>	27
<u>Signatures</u>	27
<u>Exhibit Index</u>	28
<u>Exhibit 3.2</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)***Amounts in thousands, except par value and per share data***CONDENSED CONSOLIDATED BALANCE SHEETS**

	As of	
	September 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 28,175	\$ 28,311
Accounts receivable, less allowances of \$4,500 and \$4,195	139,771	105,832
Inventories, principally on last-in, first-out basis (replacement cost higher by \$122,144 and \$116,816)	161,780	170,960
Other current assets	8,060	5,241
Income tax receivable	9,980	18,970
Total current assets	347,766	329,314
Investment in joint venture	26,724	23,468
Goodwill	50,084	50,072
Intangible assets	43,214	48,575
Prepaid pension cost	21,050	19,913
Other assets	3,436	3,906
Property, plant and equipment, at cost		
Land	5,193	5,192
Building	52,047	51,945
Machinery and equipment	182,742	178,545
	239,982	235,682
Less accumulated depreciation	(162,366)	(152,929)
	77,616	82,753
Total assets	\$ 569,890	\$ 558,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 89,256	\$ 71,295
Accrued liabilities	30,332	22,419
Income taxes payable	1,221	1,848
Deferred income taxes	4,409	9,706
Current portion of long-term debt	7,647	7,778
Short-term debt	11,500	13,720
Total current liabilities	144,365	126,766

Edgar Filing: CASTLE A M & CO - Form 10-Q

Long-term debt, less current portion	68,437	67,686
Deferred income taxes	29,362	32,032
Other non-current liabilities	3,200	5,281
Pension and post retirement benefit obligations	8,366	8,028
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value - 10,000 shares authorized; no shares issued and outstanding at September 30, 2010 and December 31, 2009		
Common stock, \$0.01 par value - 30,000 shares authorized; 23,124 shares issued and 22,954 outstanding at September 30, 2010 and 23,115 shares issued and 22,906 outstanding at December 31, 2009	231	230
Additional paid-in capital	179,569	178,129
Retained earnings	152,245	156,387
Accumulated other comprehensive loss	(13,577)	(13,528)
Treasury stock, at cost - 170 shares at September 30, 2010 and 209 shares at December 31, 2009	(2,308)	(3,010)
Total stockholders' equity	316,160	318,208
Total liabilities and stockholders' equity	\$ 569,890	\$ 558,001

The accompanying notes are an integral part of these statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 244,938	\$ 183,960	\$ 708,066	\$ 631,307
Costs and expenses:				
Cost of materials (exclusive of depreciation and amortization)	181,911	137,671	529,469	464,917
Warehouse, processing and delivery expense	30,923	26,160	90,003	83,305
Sales, general, and administrative expense	27,276	23,625	80,026	81,474
Depreciation and amortization expense	4,993	5,149	15,494	16,107
Operating loss	(165)	(8,645)	(6,926)	(14,496)
Interest expense, net	(1,379)	(1,539)	(3,924)	(4,797)
Loss before income taxes and equity in earnings of joint venture	(1,544)	(10,184)	(10,850)	(19,293)
Income taxes	(43)	3,607	2,735	7,834
Loss before equity in earnings of joint venture	(1,587)	(6,577)	(8,115)	(11,459)
Equity in earnings of joint venture	1,659	240	3,973	81
Net income (loss)	\$ 72	\$ (6,337)	\$ (4,142)	\$ (11,378)
Basic earnings (loss) per share	\$	\$ (0.28)	\$ (0.18)	\$ (0.50)
Diluted earnings (loss) per share	\$	\$ (0.28)	\$ (0.18)	\$ (0.50)
Dividends per common share	\$	\$	\$	\$ 0.06

The accompanying notes are an integral part of these statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Nine Months Ended September 30,	
	2010	2009
Operating activities:		
Net loss	\$ (4,142)	\$ (11,378)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	15,494	16,107
Amortization of deferred gain	(664)	(670)
Loss on sale of fixed assets	108	
Equity in earnings of joint venture	(3,973)	(81)
Dividends from joint venture	804	485
Deferred tax (benefit) provision	(7,963)	9,248
Share-based compensation expense	1,714	1,079
Excess tax (benefits) deficiencies from share-based payment arrangements	(172)	95
Increase (decrease) from changes, net of acquisitions, in:		
Accounts receivable	(34,021)	52,552
Inventories	8,806	49,624
Other current assets	(2,603)	180
Other assets	2,428	(2,440)
Prepaid pension costs	(786)	(562)
Accounts payable	15,290	(47,917)
Accrued liabilities	6,432	(4,772)
Income taxes payable and receivable	8,475	(29,576)
Postretirement benefit obligations and other liabilities	376	(865)
Net cash from operating activities	5,603	31,109
Investing activities:		
Capital expenditures	(5,061)	(6,202)
Proceeds from sale of fixed assets		19
Insurance proceeds		1,093
Net cash used in investing activities	(5,061)	(5,090)
Financing activities:		
Short-term (repayments) borrowings, net	(2,220)	(19,276)
Net borrowings on long-term revolving lines of credit	1,746	
Repayments of long-term debt	(607)	(1,755)
Common stock dividends		(1,361)
Excess tax benefits (deficiencies) from share-based payment arrangements	172	(95)
Exercise of stock options and other	279	
Net cash used in financing activities	(630)	(22,487)
Effect of exchange rate changes on cash and cash equivalents	(48)	1,301

Edgar Filing: CASTLE A M & CO - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(136)	4,833
Cash and cash equivalents beginning of year	28,311	15,277
Cash and cash equivalents end of period	\$ 28,175	\$ 20,110

The accompanying notes are an integral part of these statements.

Table of Contents

A. M. Castle & Co.

Notes to Condensed Consolidated Financial Statements

(Unaudited Amounts in thousands except per share data)

(1) Condensed Consolidated Financial Statements

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

Non-cash investing activities for the nine months ended September 30, 2010 and 2009 consisted of \$140 and \$93 of capital expenditures financed by accounts payable, respectively.

(2) New Accounting Standards

Standards Adopted

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

Table of Contents**(3) Earnings Per Share**

Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock plus common stock equivalents. Common stock equivalents consist of stock options, non-vested shares, restricted stock units, and other share-based payment awards, which have been included in the calculation of weighted average shares outstanding using the treasury stock method. The following table is a reconciliation of the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2010 and 2009:

	For the Three Months Ended September 30, 2010		For the Nine Months Ended September 30, 2010	
		2009		2009
Numerator:				
Net income (loss)	\$	72	\$	(6,337)
			\$	(4,142)
			\$	(11,378)
Denominator:				
Denominator for basic income (loss) per share:				
Weighted average common shares outstanding		22,731		22,908
Effect of dilutive securities:				
Outstanding common stock equivalents		405		22,707
				22,846
Denominator for diluted earnings per share		23,136		22,908
				22,707
				22,846
Basic earnings (loss) per share	\$		\$	(0.28)
			\$	(0.18)
			\$	(0.50)
Diluted earnings (loss) per share	\$		\$	(0.28)
			\$	(0.18)
			\$	(0.50)

Excluded outstanding shared-based awards having an anti-dilutive effect

70 239 499 239

For the three and nine months ended September 30, 2010 and 2009, the undistributed losses attributed to participating securities, which represent certain non-vested shares granted by the Company, were approximately one percent of total income (loss).

(4) Debt

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

	September 30, 2010	December 31, 2009
SHORT-TERM DEBT		
U.S. Revolver A (a)	\$ 4,000	\$ 5,000
Trade acceptances (b)	7,500	8,720
Total short-term debt	11,500	13,720
LONG-TERM DEBT		
6.76% insurance company loan due in scheduled installments from 2007 through 2015	50,026	50,026

Edgar Filing: CASTLE A M & CO - Form 10-Q

U.S. Revolver B (a)	25,291	24,246
Other, primarily capital leases	767	1,192
Total long-term debt	76,084	75,464
Less current portion	(7,647)	(7,778)
Total long-term portion	68,437	67,686
 TOTAL SHORT-TERM AND LONG-TERM DEBT	 \$ 87,584	 \$ 89,184

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

and U.S. dollar).
The maturity
date of the 2008
Senior Credit
Facility is
January 2, 2013.

Table of Contents

The Company has classified U.S. Revolver A as short-term based on its ability and intent to repay amounts outstanding under this instrument within the next 12 months. U.S. Revolver B is classified as long-term as the Company's cash projections indicate that amounts outstanding (which are denominated in British pounds) under this instrument are not expected to be repaid within the next 12 months. The Company had availability of \$80,247 under its U.S. Revolver A and \$24,709 under its U.S. Revolver B as of September 30, 2010. The Company's Canadian subsidiary had availability of approximately \$9,499 in U.S. dollars. The

weighted average interest rate for borrowings under the U.S. Revolver A and U.S. Revolver B for the nine months ended September 30, 2010 was 2.70% and 1.57%, respectively. The weighted average interest rate under the Canadian Revolver for the nine months ended September 30, 2010 was 0.22% and primarily represents unused credit line fees.

- (b) The trade acceptance purchase agreement which was a 364-day facility expired by its terms on August 27, 2010. At September 30, 2010, the Company had \$7,500 in outstanding trade acceptances with varying maturity dates ranging up to 120 days. The outstanding trade acceptances will

be paid on their
respective
maturity dates.
The weighted
average interest
rate was 1.14%
for the nine
months ended
September 30,
2010.

The fair value of the Company's fixed rate debt as of September 30, 2010, including current maturities, was estimated to be between \$49,300 and \$50,700 compared to a carrying value of \$50,026. The fair value of the fixed rate debt was determined using a market approach, which estimates fair value based on companies with similar credit quality and size of debt issuances. As of September 30, 2010, the estimated fair value of the Company's debt outstanding under its revolving credit facility is \$26,336, assuming the total amount of debt outstanding at the end of the period was outstanding until the maturity of the Company's facility in January 2013. Although borrowings could be materially greater or less than the current amount of borrowings outstanding at the end of the period, it is not practical to estimate the amounts that may be outstanding during future periods since there is no predetermined borrowing or repayment schedule. The estimated fair value of the Company's debt outstanding under its revolving credit facility is lower than the carrying value of \$29,291 since the terms of this facility are more favorable than those that might be expected to be available in the current lending environment.

As of September 30, 2010, the Company remained in compliance with the covenants of its financing agreements, which require it to maintain certain funded debt-to-capital and working capital-to-debt ratios and a minimum adjusted consolidated net worth as defined within the agreements.

(5) Segment Reporting

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

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

Table of Contents

The Company's Plastics segment consists exclusively of a wholly-owned subsidiary that operates as Total Plastics, Inc. (TPI) headquartered in Kalamazoo, Michigan. The Plastics segment stocks and distributes a wide variety of plastics in forms that include plate, rod, tube, clear sheet, tape, gaskets and fittings. Processing activities within this segment include cut to length, cut to shape, bending and forming according to customer specifications. The Plastics segment's diverse customer base consists of companies in the retail (point-of-purchase), marine, office furniture and fixtures, transportation and general manufacturing industries. TPI has locations throughout the upper northeast and midwest regions of the U.S. and one facility in Florida from which it services a wide variety of users of industrial plastics. The accounting policies of all segments are the same as described in *Note 1, Basis of Presentation and Significant Accounting Policies* in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Management evaluates the performance of its business segments based on operating income. Segment information for the three months ended September 30, 2010 and 2009 is as follows:

	Net	Operating	Capital	Depreciation &
	Sales	Income (Loss)	Expenditures	Amortization
2010				
Metals segment	\$ 218,057	\$ 1,119	\$ 1,528	\$ 4,702
Plastics segment	26,881	1,097	279	291
Other		(2,381)		
Consolidated	\$ 244,938	\$ (165)	\$ 1,807	\$ 4,993
2009				
Metals segment	\$ 161,772	\$ (7,963)	\$ 1,190	\$ 4,818
Plastics segment	22,188	710	90	331
Other		(1,392)		
Consolidated	\$ 183,960	\$ (8,645)	\$ 1,280	\$ 5,149

Other Operating loss includes the costs of executive, legal and finance departments, which are shared by both the Metals and Plastics segments.

Table of Contents

Segment information for the nine months ended September 30, 2010 and 2009 is as follows:

	Net Sales	Operating (Loss) Income	Capital Expenditures	Depreciation & Amortization
2010				
Metals segment	\$ 631,020	\$ (4,239)	\$ 4,553	\$ 14,540
Plastics segment	77,046	2,700	508	954
Other		(5,387)		
Consolidated	\$ 708,066	\$ (6,926)	\$ 5,061	\$ 15,494
2009				
Metals segment	\$ 566,930	\$ (11,008)	\$ 5,974	\$ 15,089
Plastics segment	64,377	84	228	1,018
Other		(3,572)		
Consolidated	\$ 631,307	\$ (14,496)	\$ 6,202	\$ 16,107

Other Operating loss includes the costs of executive, legal and finance departments, which are shared by both the Metals and Plastics segments. For the nine months ended September 30, 2009, an insurance settlement gain of \$1,308 was included in the operating loss.

Segment information for total assets is as follows:

	September 30, 2010	December 31, 2009
Metals segment	\$ 493,424	\$ 488,090
Plastics segment	49,742	46,443
Other	26,724	23,468
Consolidated	\$ 569,890	\$ 558,001

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

(6) Goodwill and Intangible Assets

The changes in carrying amounts of goodwill during the nine months ended September 30, 2010 were as follows:

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

Edgar Filing: CASTLE A M & CO - Form 10-Q

Balance as of September 30, 2010			
Goodwill	97,328	12,973	110,301
Accumulated impairment losses	(60,217)		(60,217)
Balance as of September 30, 2010	\$ 37,111	\$ 12,973	\$ 50,084

Table of Contents

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

	September 30, 2010		December 31, 2009	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Customer relationships	\$ 69,490	\$ 26,388	\$ 69,549	\$ 21,435
Non-compete agreements	2,907	2,795	2,938	2,477
Trade name	378	378	378	378
Total	\$ 72,775	\$ 29,561	\$ 72,865	\$ 24,290

The weighted-average amortization period for the intangible assets is 10.5 years, 10.8 years for customer relationships and 3 years for non-compete agreements. Substantially all of the Company's intangible assets were acquired as part of the acquisitions of Transtar on September 5, 2006 and Metals U.K. on January 3, 2008, respectively. For the three-month periods ended September 30, 2010 and 2009, amortization expense was \$1,769 and \$1,869, respectively. For the nine-month periods ended September 30, 2010 and 2009, amortization expense was \$5,300 and \$5,662, respectively.

The following is a summary of the estimated annual amortization expense for 2010 and each of the next 4 years:

2010	\$ 7,092
2011	6,622
2012	6,143
2013	6,143
2014	6,143

(7) Inventories

Over eighty percent of the Company's inventories are stated at the lower of LIFO cost or market. Final inventory determination under the LIFO method is made at the end of each fiscal year based on the actual inventory levels and costs at that time. Interim LIFO determinations, including those at September 30, 2010, are based on management's estimates of future inventory levels and costs. The Company values its LIFO increments using the cost of its latest purchases during the periods reported.

Current replacement cost of inventories exceeded book value by \$122,144 and \$116,816 at September 30, 2010 and December 31, 2009, respectively. Income taxes would become payable on any realization of this excess from reductions in the level of inventories.

Table of Contents**(8) Share-based Compensation**

The Company accounts for its share-based compensation arrangements by recognizing compensation expense for the fair value of the share awards granted ratably over their vesting period. The consolidated compensation cost recorded for the Company's share-based compensation arrangements was \$694 and \$369 for the three months ended September 30, 2010 and 2009, respectively, and \$1,714 and \$1,079 for the nine months ended September 30, 2010 and 2009, respectively. The total income tax benefit recognized in the condensed consolidated statements of operations for share-based compensation arrangements was \$236 and \$144 for the three months ended September 30, 2010 and 2009, respectively and \$593 and \$421 for the nine months ended September 30, 2010 and 2009, respectively. All compensation expense related to share-based compensation arrangements is recorded in sales, general and administrative expense. The unrecognized compensation cost as of September 30, 2010 associated with all share-based payment arrangements is \$4,622 and the weighted average period over which it is to be expensed is 1.5 years.

Long-Term Compensation and Incentive Plans

On March 18, 2010, the Human Resources Committee (the Committee) of the Board of Directors of the Company approved equity awards under the Company's 2010 Long-Term Compensation Plan (2010 LTC Plan) for executive officers and other select personnel. The 2010 LTC Plan awards included restricted stock units (RSUs), performance share units, and stock options. All 2010 LTC Plan awards are subject to the terms of the Company's 2008 Restricted Stock, Stock Option and Equity Compensation Plan, amended and restated as of March 5, 2009. In addition to the 2010 LTC Plan, the Company maintains 2008 and 2009 Long-term Incentive Plans (LTI Plans) for executive officers and other select personnel under which they may receive share-based awards.

Unless covered by a specific change-in-control or severance agreement, participants to whom RSUs, performance shares and other non-vested shares have been granted must be employed by the Company on the vesting date or at the end of the performance period, respectively, or the award will be forfeited. However, for stock option awards, unless a participant is covered by a specific change-in-control or severance agreement options are forfeited in the event of the termination of employment other than by reason of disability or a retirement.

Compensation expense is recognized based on management's estimate of the total number of share-based awards expected to vest at the end of the service period.

Restricted Share Units and Non-Vested Shares

The RSUs granted under the 2010 LTC Plan will cliff vest on December 31, 2012. Each RSU that becomes vested entitles the participant to receive one share of the Company's common stock. The number of shares delivered may be reduced by the number of shares required to be withheld for federal and state withholding tax requirements (determined at the market price of Company shares at the time of payout). The Company's 2009 LTI Plan also included issuance of approximately 187 non-vested share awards which cliff vest on December 31, 2011.

Approximately 157 shares associated with the 2009 LTI Plan are outstanding as of September 30, 2010. The remaining outstanding non-vested share balance primarily consists of shares issued to the Board of Directors during the second quarter of 2010. The Director shares vest during the second quarter of 2011.

The fair value of the RSUs and non-vested shares is established using the market price of the Company's stock on the date of grant.

Table of Contents

A summary of the RSU and non-vested share activity is as follows:

	Shares		Units	
		Weighted-Average Grant Date Fair Value		Weighted-Average Grant Date Fair Value
	Shares	Value	Units	Value
Outstanding at January 1, 2010	262	\$ 10.76		
Granted	39	\$ 18.06	150	\$ 12.07
Forfeited	(20)	\$ 6.37	(7)	\$ 12.07
Vested	(54)	\$ 11.19		
Outstanding at September 30, 2010	227	\$ 13.24	143	\$ 12.07
Expected to vest at September 30, 2010	215	\$ 13.49	126	\$ 12.07

The unrecognized compensation cost as of September 30, 2010 associated with RSU and non-vested share awards is \$2,115.

Performance Shares

Under the 2010 LTC Plan, the potential award for the performance shares granted is dependent on the Company's relative total shareholder return (RTSR), which represents a market condition, over a three-year performance period, beginning January 1, 2010 and ending December 31, 2012. RTSR is measured against a group of peer companies either in the metals industry or in the industrial products distribution industry (the RTSR Peer Group). The 2010 LTC Plan provides with respect to performance shares for (1) a threshold level up to which the threshold level of performance shares will vest, a target performance level at which the target number of performance shares will vest, a maximum performance level at or above which the maximum number of performance shares will vest, and pro rata vesting between the threshold and maximum performance levels and (2) minimum and maximum vesting opportunities ranging from one-half up to two times the target number. The threshold, target and maximum performance levels for RTSR are the 25th, 50th and 75th percentile, respectively, relative to RTSR Peer Group performance. The number of performance shares, if any, that vest based on the performance achieved during the three-year performance period, will vest at the end of the three-year performance period. Compensation expense for performance awards containing a market condition is recognized regardless of whether the market condition is achieved to the extent the requisite service period condition is met. Each performance share that becomes vested entitles the participant to receive one share of the Company's common stock. The number of shares delivered may be reduced by the number of shares required to be withheld for federal and state withholding tax requirements (determined at the market price of Company shares at the time of payout).

The grant date fair value of \$12.26 for each performance share awarded under the 2010 LTC Plan was estimated using a Monte Carlo simulation with the following assumptions:

	2010
Expected volatility	61.6%
Risk-free interest rate	1.45%
Expected life (in years)	2.80
Expected dividend yield	

Table of Contents

Final award vesting and distribution of performance awards granted under the 2009 and 2008 LTI Plans are determined based on the Company's actual performance versus the target goals for a three-year consecutive period (as defined in the 2008 and 2009 Plans). Partial performance awards can be earned for performance less than the target goal, but in excess of minimum goals; and award distributions twice the target can be achieved if the maximum goals are met or exceeded. The performance goals are three-year cumulative net income and average return on total capital for the same three-year period. Compensation expense recognized is based on management's expectation of future performance compared to the pre-established performance goals. If the performance goals are not expected to be met, no compensation expense is recognized and any previously recognized compensation expense is reversed. The grant date fair-value of performance awards under the 2008 and 2009 LTI Plans was established using the market price of the Company's stock on the date of grant.

The status of performance shares that have been awarded as part of the active LTC and LTI Plans is summarized below as of September 30, 2010:

Plan Year	Grant Date Fair Value	Estimated Number of Performance Shares to be Issued	Maximum Number of Performance Shares that could Potentially be Issued
2010 LTC Plan	\$12.26	149	286
2009 LTI Plan	\$5.66		627
	\$22.90 -		
2008 LTI Plan	\$28.17		320

As of September 30, 2010, the Company exceeded the threshold level at which shares would vest for the 2010 LTC Plan.

The unrecognized compensation cost as of September 30, 2010 associated with the 2010 LTC Plan performance shares is \$1,247.

Stock Options

The stock options issued under the 2010 LTC Plan vest and become exercisable three years from the date of the grant. The term of the options is eight years. The exercise price of the options is \$12.79 per share (which is based on the average closing price of the Company's common stock for the 10 trading days preceding the date on which the options were granted).

The grant date fair value of \$5.71 per share was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2010
Expected volatility	58.5%
Risk-free interest rate	2.3%
Expected life (in years)	5.5
Expected dividend yield	1.2%

Table of Contents

A summary of the stock option activity is as follows:

	Shares	Weighted Average Exercise Price
Stock options outstanding at January 1, 2010	239	\$ 11.37
Granted	303	\$ 12.79
Exercised	(27)	\$ 10.52
Forfeited	(14)	\$ 12.79
Expired	(2)	\$ 10.00
Stock options outstanding at September 30, 2010	499	\$ 12.24
Stock options vested or expected to vest as of September 30, 2010	465	\$ 12.20

The total intrinsic value of options outstanding at September 30, 2010 is \$875. As of September 30, 2010, stock options outstanding had a weighted average remaining contractual life of 5.8 years. The unrecognized compensation cost as of September 30, 2010 associated with stock options is \$1,260.

Deferred Compensation Plan

As of September 30, 2010, a total of 31 common share equivalent units are included in the director stock equivalent unit accounts.

(9) Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and all other non-owner changes to equity that are not reported in net income (loss). The Company's comprehensive income for the three months ended September 30, 2010 and 2009 is as follows:

	September 30,	
	2010	2009
Net income (loss)	\$ 72	\$ (6,337)
Foreign currency translation gain	1,176	1,200
Pension cost amortization, net of tax	72	60
Total comprehensive income (loss)	\$ 1,320	\$ (5,077)

The Company's comprehensive loss for the nine months ended September 30, 2010 and 2009 is as follows:

	September 30,	
	2010	2009
Net loss	\$ (4,142)	\$ (11,378)
Foreign currency translation (loss) gain	(263)	3,401
Pension cost amortization, net of tax	214	179
Total comprehensive loss	\$ (4,191)	\$ (7,798)

Table of Contents

The components of accumulated other comprehensive loss is as follows:

	September 30, 2010	December 31, 2009
Foreign currency translation losses	\$ (3,477)	\$ (3,214)
Unrecognized pension and postretirement benefit costs, net of tax	(10,100)	(10,314)
Total accumulated other comprehensive loss	\$ (13,577)	\$ (13,528)

(10) Employee Benefit Plans

Components of the net periodic pension and postretirement benefit cost for the three months ended are as follows:

	For the Three Months Ended September 30, 2010	2009
Service cost	\$ 200	\$ 197
Interest cost	1,919	1,934
Expected return on assets	(2,335)	(2,253)
Amortization of prior service cost	65	72
Amortization of actuarial loss	55	34
Net periodic pension and postretirement benefit	\$ (96)	\$ (16)

Components of the net periodic pension and postretirement benefit cost for the nine months ended are as follows:

	For the Nine Months Ended September 30, 2010	2009
Service cost	\$ 600	\$ 590
Interest cost	5,757	5,801
Expected return on assets	(7,005)	(6,758)
Amortization of prior service cost	195	215
Amortization of actuarial loss	165	102
Net periodic pension and postretirement benefit	\$ (288)	\$ (50)

As of September 30, 2010, the Company had not made any cash contributions to its pension plans for this fiscal year and does not anticipate making any significant cash contributions to its pension plans in 2010.

During April 2010, the Company's 401(k) matching contribution on eligible employee contributions that was previously suspended during April 2009 was reinstated.

(11) Joint Venture

Kreher Steel Co., LLC is a 50% owned joint venture of the Company. It is a metals distributor of bulk quantities of alloy, special bar quality and stainless steel bars, headquartered in Melrose Park, Illinois.

Table of Contents

The following information summarizes financial data for this joint venture for the three months ended September 30, 2010 and 2009:

	For the Three Months Ended September 30,	
	2010	2009
Net sales	\$ 50,233	\$ 25,310
Cost of materials	41,605	21,909
Income before taxes	3,901	110
Net income	3,318	480

The following information summarizes financial data for this joint venture for the nine months ended September 30, 2010 and 2009:

	For the Nine Months Ended September 30,	
	2010	2009
Net sales	\$ 135,840	\$ 78,871
Cost of materials	112,891	68,483
Income (loss) before taxes	9,249	(288)
Net income	7,946	162

(12) Commitments and Contingent Liabilities

At September 30, 2010, the Company had \$3,098 of irrevocable letters of credit outstanding which primarily consisted of \$2,448 for compliance with the insurance reserve requirements of its workers' compensation insurance carriers.

The Company is a defendant in several lawsuits arising from the operation of its business. These lawsuits are incidental and occur in the normal course of the Company's business affairs. It is the opinion of management, 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.

(13) Income Taxes

The Company or its subsidiaries files income tax returns in the U.S., 30 states and seven foreign jurisdictions. The tax years 2007 through 2009 remain open to examination by the major taxing jurisdictions to which the Company or its subsidiaries is subject.

During 2009, the Company filed changes of accounting for its 2008 and 2009 federal income tax returns related to its LIFO inventory accounting method for tax. As a result of these changes, there was a net change of \$8,200 in the Company's income tax receivable / payable accounts and a corresponding net change in the deferred income tax asset / liability accounts.

During the nine months ended September 30, 2009, the Internal Revenue Service (IRS) completed the examination of the Company's 2005 and 2006 U.S. federal income tax returns. The Company settled with the IRS on various tax matters. As a result of the settlement, the Company's tax benefit for the nine-month period ended September 30, 2009 included a \$368 discrete benefit.

Table of Contents

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

Amounts in millions except per share data

Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and the Company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as believe, expect, anticipate, intend, predict, plan, or similar expressions. These statements are not guarantees of performance or results, and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements, including those risk factors identified in Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's condensed consolidated financial statements and related notes thereto in ITEM 1 Condensed Consolidated Financial Statements (unaudited) .

Executive Overview

Economic Trends and Current Business Conditions

A. M. Castle & Co. and subsidiaries (the "Company") experienced higher demand from its customer base in the third quarter of 2010 in both the Metals and Plastics segments, reflecting the increases in the overall global economy compared to the third quarter of 2009.

Metals segment sales increased 34.7% from the third quarter of 2009. Average tons sold per day increased 30.5%, which was primarily driven by alloy bar, carbon bar and tubing volume increases. Key end-use markets that experienced increased demand in the third quarter include oil and gas, general equipment and heavy industrial equipment.

The Company's Plastics segment reported a sales increase of 21.2% compared to the third quarter of 2009, due to increased pricing and higher sales volume reflecting continued strength in virtually all end-use markets.

Effective October 1, 2010, a four-year contract was ratified by warehouse employees in Chicago, Cleveland and Kansas City represented by the United Steelworker's Union. The impact of the new contract is not expected to have a material impact on the Company's results of operations.

Table of Contents

Management uses the Purchaser's Managers Index (PMI) provided by the Institute of Supply Management (website is www.ism.ws) as an external indicator for tracking the demand outlook and possible trends in its general manufacturing markets. The table below shows PMI trends from the first quarter of 2008 through the third quarter of 2010. Generally speaking, an index above 50.0 indicates growth in the manufacturing sector of the U.S. economy, while readings under 50.0 indicate contraction. Based on the data below, the index rose above 50.0 during the third quarter of 2009.

YEAR	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2008	49.2	49.5	47.8	36.1
2009	35.9	42.6	51.5	54.6
2010	58.2	58.8	55.4	

Material pricing and demand in both the Metals and Plastics segments of the Company's business have historically proven to be difficult to predict with any degree of accuracy. A favorable PMI trend suggests that demand for some of the Company's products and services, in particular those that are sold to the general manufacturing customer base in the U.S., could potentially be at a higher level in the near-term. The Company believes that its revenue trends typically correlate to the changes in PMI on a six to twelve month lag basis.

Results of Operations: Third Quarter 2010 Comparisons to Third Quarter 2009

Consolidated results by business segment are summarized in the following table for the quarter ended September 30, 2010 and 2009.

	2010	2009	Fav/(Unfav)	
			\$ Change	% Change
Net Sales				
Metals	\$ 218.0	\$ 161.8	\$ 56.2	34.7%
Plastics	26.9	22.2	4.7	21.2%
Total Net Sales	\$ 244.9	\$ 184.0	\$ 60.9	33.1%
Cost of Materials				
Metals	\$ 163.6	\$ 122.5	\$ (41.1)	(33.6)%
<i>% of Metals Sales</i>	<i>75.0%</i>	<i>75.7%</i>		
Plastics	18.3	15.2	(3.1)	(20.4)%
<i>% of Plastics Sales</i>	<i>68.0%</i>	<i>68.5%</i>		
Total Cost of Materials	\$ 181.9	\$ 137.7	\$ (44.2)	(32.1)%
<i>% of Total Sales</i>	<i>74.3%</i>	<i>74.8%</i>		
Operating Costs and Expenses				
Metals	\$ 53.3	\$ 47.3	\$ (6.0)	(12.7)%
Plastics	7.5	6.3	(1.2)	(19.0)%
Other	2.4	1.4	(1.0)	(71.4)%
Total Operating Costs & Expenses	\$ 63.2	\$ 55.0	\$ (8.2)	(14.9)%
<i>% of Total Sales</i>	<i>25.8%</i>	<i>30.0%</i>		
Operating Income (Loss)				
Metals	\$ 1.1	\$ (8.0)	\$ 9.1	113.8%
<i>% of Metals Sales</i>	<i>0.5%</i>	<i>(4.9)%</i>		
Plastics	1.1	0.7	0.4	57.1%

Edgar Filing: CASTLE A M & CO - Form 10-Q

<i>% of Plastics Sales</i>		4.1%		3.2%			
Other		(2.4)		(1.4)		(1.0)	(71.4)%
Total Operating Loss	\$	(0.2)	\$	(8.7)	\$	8.5	97.7%
<i>% of Total Sales</i>		(0.1)%		(4.7)%			

Other includes the costs of executive, legal and finance departments which are shared by both segments of the Company.

Table of Contents

Net Sales:

Consolidated net sales were \$244.9 million, an increase of \$60.9 million, or 33.1%, compared to the third quarter of 2009. Higher net sales in the third quarter of 2010 were primarily the result of higher shipping volumes in the metals and plastics markets. Metals segment sales during the third quarter of 2010 of \$218.0 million were \$56.2 million, or 34.7%, higher than the same period last year. Average tons sold per day increased 30.5% compared to the prior year quarter. The increase in sales volume was driven primarily by alloy bar, carbon bar and tubing products. Key end-use markets that experienced increased demand in the third quarter include oil and gas, general equipment and heavy industrial equipment. Carbon and alloy plate volumes were unchanged from prior year as demand from the crane and mining industries has been flat. Aluminum sales volume was slightly higher compared to the same period last year as the aerospace market has shown some improvement in certain commercial platforms offset by weakness in business jets and regional jets.

Plastics segment sales during the third quarter of 2010 of \$26.9 million were \$4.7 million, or 21.2% higher than the third quarter of 2009 due to increased pricing and higher sales volume reflecting continued strength in virtually all end-use markets.

Cost of Materials:

Cost of materials (exclusive of depreciation and amortization) during the third quarter of 2010 were \$181.9 million, an increase of \$44.2 million, or 32.1%, compared to the third quarter of 2009. Material costs for the Metals segment for the third quarter of 2010 were \$163.6 million or 75.0% as a percent of net sales compared to \$122.5 million or 75.7% as a percent of sales for the third quarter of 2009. Material costs as a percentage of net sales were lower in the third quarter of 2010 than 2009 as the improved demand environment has firmed pricing levels. Cost of materials in the Metals segment increased in the third quarter of 2010 compared to 2009 by \$41.1 million primarily due to the increase in sales volume. The Metals segment recorded LIFO expense of \$2.0 million in third quarter of 2010 compared to a LIFO credit of \$0.5 million during the same prior year period. Material costs for the Plastics segment were 68.0% as a percent of net sales for the third quarter of 2010 as compared to 68.5% for the same period last year, primarily due to pricing pressures easing during the third quarter of 2010.

Operating Expenses and Operating Loss:

On a consolidated basis, operating costs and expenses increased \$8.2 million, or 14.9%, compared to the third quarter of 2009. Operating costs and expenses were \$63.2 million, or 25.8% of net sales, compared to \$55.0 million, or 30.0% of net sales during the third quarter of 2009. Compared to the third quarter of 2009, warehouse, processing and delivery costs increased \$4.8 million, sales, general and administrative costs increased by \$3.6 million and depreciation and amortization expense decreased by \$0.2 million. The cost increases primarily relate to higher shipping volumes, as third quarter 2010 tons sold per day increased 30.5% compared to the same period last year. Other factors contributing to higher costs in 2010 include 401(k) benefit reinstatement and the elimination of furloughs and work restrictions that existed in the third quarter of 2009.

Table of Contents

Consolidated operating loss for the third quarter of 2010 was \$0.2 million compared to operating loss of \$8.7 million for the same period last year. The Company's third quarter 2010 operating loss as a percent of net sales decreased to (0.1)% from (4.7)% in the third quarter of 2009.

Other Income and Expense, Income Taxes and Net Income (Loss):

Interest expense was \$1.4 million in the third quarter of 2010, a decrease of \$0.1 million versus the same period in 2009 as a result of reduced borrowings.

For the quarters ended September 30, 2010 and 2009, the Company recorded a de minimis tax expense and a \$3.6 million tax benefit, respectively. The effective tax rate for the quarters ended September 30, 2010 and 2009 were (2.8%) and 35.4%, respectively. The decrease in the effective tax rate compared to the third quarter of 2009 was primarily the result of higher earnings of the Company's joint venture.

Equity in earnings of the Company's joint venture was \$1.7 million in the third quarter of 2010, compared to \$0.2 million for the same period last year. The increase is a result of higher demand in virtually all end-use markets, most notably the automotive and energy sectors, and higher pricing for Kreher's products compared to the same period last year.

Consolidated net income for the third quarter of 2010 was \$0.1 million, or \$0.00 per diluted share, versus net loss of \$6.3 million, or \$0.28 per diluted share, for the same period in 2009.

Results of Operations: Nine Months 2010 Comparisons to Nine Months 2009

Consolidated results by business segment are summarized in the following table for the nine months ended September 30, 2010 and 2009.

	2010	2009	Fav/(Unfav)	
			\$ Change	% Change
Net Sales				
Metals	\$ 631.0	\$ 566.9	\$ 64.1	11.3%
Plastics	77.1	64.4	12.7	19.7%
Total Net Sales	\$ 708.1	\$ 631.3	\$ 76.8	12.2%
Cost of Materials				
Metals	\$ 477.0	\$ 420.8	\$ (56.2)	(13.4)%
<i>% of Metals Sales</i>	<i>75.6%</i>	<i>74.2%</i>		
Plastics	52.5	44.1	(8.4)	(19.0)%
<i>% of Plastics Sales</i>	<i>68.1%</i>	<i>68.5%</i>		
Total Cost of Materials	\$ 529.5	\$ 464.9	\$ (64.6)	(13.9)%
<i>% of Total Net Sales</i>	<i>74.8%</i>	<i>73.6%</i>		
Operating Costs and Expenses				
Metals	\$ 158.2	\$ 157.1	\$ (1.1)	(0.7)%
Plastics	21.9	20.2	(1.7)	(8.4)%
Other	5.4	3.6	(1.8)	(50.0)%
Total Operating Costs & Expenses	\$ 185.5	\$ 180.9	\$ (4.6)	(2.5)%
<i>% of Total Net Sales</i>	<i>26.2%</i>	<i>28.7%</i>		
Operating (Loss) Income				
Metals	\$ (4.2)	\$ (11.0)	\$ 6.8	61.8%
<i>% of Metals Sales</i>	<i>(0.7)%</i>	<i>(1.9)%</i>		
Plastics	2.7	0.1	2.6	2600%
<i>% of Plastics Sales</i>	<i>3.5%</i>	<i>0.2%</i>		

Edgar Filing: CASTLE A M & CO - Form 10-Q

Other	(5.4)	(3.6)	(1.8)	(50.0)%
Total Operating Loss	\$ (6.9)	\$ (14.5)	\$ 7.6	52.4%
% of Total Net Sales	(1.0)%	(2.3)%		

Other includes the costs of executive, legal and finance departments which are shared by both segments of the Company.

Table of Contents

Net Sales:

Consolidated net sales were \$708.1 million, an increase of \$76.8 million, or 12.2%, compared to the same period last year. Higher net sales were primarily the result of higher shipping volumes in the metals and plastics markets. Metals segment sales during the first nine months of 2010 of \$631.0 million were \$64.1 million, or 11.3%, higher than the same period last year. Average tons sold per day increased 11.0% compared to the prior year period. The increase in demand experienced in the first nine months of 2010 was driven primarily by alloy and carbon bar, and tubing products. Key end-use markets that experienced increased demand in the first nine months of 2010 include oil and gas, general equipment and heavy industrial equipment.

Plastics segment sales during the first nine months of 2010 of \$77.1 million were \$12.7 million, or 19.7% higher than the same period last year. The Plastics business also experienced increased sales volume during the nine months ended September 30, 2010 reflecting strength in the office furniture, safety products, life sciences applications and automotive end-use markets.

Cost of Materials:

Cost of materials (exclusive of depreciation and amortization) during the first nine months of 2010 were \$529.5 million, an increase of \$64.6 million, or 13.9%, compared to the same period last year. Material costs for the Metals segment for the first nine months of 2010 were \$477.0 million or 75.6% as a percent of net sales compared to \$420.8 million or 74.2% as a percent of net sales for the first nine months of 2009. The increase in cost of materials as a percentage of net sales in the first nine months of 2010 over 2009 relates primarily to higher LIFO expenses in 2010 due to inventory mix. The Metals segment recorded LIFO expense of \$7.0 million in 2010 compared to a LIFO credit of \$25.7 million during the prior year period. Material costs for the Plastics segment were 68.1% and 68.5% as a percent of net sales for the first nine months of 2010 and 2009, respectively.

Operating Expenses and Operating Loss:

On a consolidated basis, year-to-date operating costs and expenses increased \$4.6 million, or 2.5%, compared to the same period last year. Operating costs and expenses were \$185.5 million, or 26.2% as a percent of sales, compared to \$180.9 million, or 28.7% as a percent of sales last year. In response to the declining demand for its products resulting from continued challenges in the global economy and the metals and plastics markets, the Company implemented numerous initiatives during the first nine months of 2009 to align its cost structure with activity levels. The cost reduction actions primarily focused on payroll related costs, the Company's largest operating expense category, resulting in reduced work weeks and furloughs, suspension of the Company's 401(k) matching contributions and executive salary reductions of at least 10 percent. Full workweeks and 401(k) matching contributions were reinstated in January and April 2010, respectively.

Table of Contents

The increase in operating expenses for the first nine months of 2010 compared to 2009 primarily relates to an increase of \$6.7 million in warehouse, processing and delivery costs, which was partially offset by a decrease of \$1.5 million in sales, general and administrative costs and a \$0.6 million decrease in depreciation and amortization expense. The warehouse, processing and delivery cost increases primarily relate to higher shipping volumes as tons sold per day increased 11.0% compared to the same period last year. The decrease in sales, general and administrative costs reflect the impacts of the lower payroll costs associated with the cost reduction initiatives implemented in 2009.

Consolidated operating loss for the nine months ended September 30, 2010 was \$6.9 million compared to operating loss of \$14.5 million for the same period last year.

Other Income and Expense, Income Taxes and Net Loss:

Interest expense was \$3.9 million for the nine months ended September 30, 2010, a decrease of \$0.9 million versus the same period in 2009 as a result of reduced borrowings.

For the nine-month periods ended September 30, 2010 and 2009, the Company recorded a \$2.7 million tax benefit and a \$7.8 million tax benefit, respectively. The \$2.7 million tax benefit for the nine-month period ended September 30, 2010 included a \$0.1 million benefit from favorable discrete items and a \$2.6 million tax benefit from operations due to pre-tax losses incurred for the first nine months of 2010. The effective tax rate for the nine months ended September 30, 2010 and 2009 were 25.2% and 40.6%, respectively. The decrease in the 2010 effective tax rate was primarily the result of the impact of increased earnings of the Company's joint venture and by the increased benefit due to the higher effective tax rate on U.S. source losses than on the Company's foreign source income. During the nine months ended September 30, 2009, the Internal Revenue Service (IRS) completed the examination of the Company's 2005 and 2006 U.S. federal income tax returns. The Company settled with the IRS on various tax matters. The Company paid \$4.1 million in tax due to the IRS which was primarily related to temporary differences associated with the Company's inventory costing methodology. As a result of the settlement, the Company recorded a \$0.4 million discrete benefit during the nine months ended September 30, 2009.

Equity in earnings of the Company's joint venture was \$4.0 million for the nine months ended 2010, compared to \$0.1 million for the same period last year. The increase is a result of higher demand in virtually all end-use markets, most notably the automotive and energy sectors, and higher pricing for Kreher's products compared to the same period last year.

Consolidated net loss for the first nine months of 2010 was \$4.1 million, or \$0.18 per diluted share, versus net loss of \$11.4 million, or \$0.50 per diluted share, for the same period in 2009.

Table of Contents

Accounting Policies:

Effective January 1, 2010, the Company adopted new consolidation guidance that applies to variable interest entities. See *Note 2* to the condensed consolidated financial statements for more information regarding the Company's adoption of standards updates. There have been no changes in critical accounting policies from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Liquidity and Capital Resources

The Company's principal sources of liquidity are earnings from operations, management of working capital and available borrowing capacity to fund working capital needs and growth initiatives.

In the first nine months of 2009, the Company focused on reducing working capital, primarily inventory levels, in response to decreased demand for the Company's products, which resulted in net cash flow from operations of \$31.1 million. During the first nine months of 2010, the Company increased working capital levels to support increased sales activity, which resulted in net cash flow from operations of \$5.6 million.

During the nine months ended September 30, 2010, net sales exceeded cash receipts from customers, resulting in a cash outflow of \$34.0 million for the nine months ended September 30, 2010 compared to a \$52.6 million cash inflow for the nine months ended September 30, 2009. Net sales increased 12.2% from the first nine months of 2010.

Average receivable days outstanding was 49.2 days for the nine months ended September 30, 2010 as compared to 55.1 days for first nine months of 2009, reflecting faster collections.

During the nine months ended September 30, 2010, sales of inventory exceeded inventory purchases, resulting in a cash inflow of \$8.8 million for the nine months ended September 30, 2010 compared to a \$49.6 million cash inflow for the nine months ended September 30, 2009. Average days sales in inventory was 144.8 days for the nine months ended September 30, 2010 versus 191.2 days for the first nine months of 2009. Average inventory days outstanding stayed consistent during the third quarter 2010 as compared to the second quarter of 2010.

During the nine months ended September 30, 2010, purchases exceeded cash paid for inventories and other goods and services, resulting in a cash inflow of \$21.7 million during the nine months ended September 30, 2010 compared to a cash outflow of \$52.7 million for the same period last year.

On November 5, 2009 the Company filed a universal shelf registration statement with the Securities and Exchange Commission, which was declared effective on November 23, 2009. The registration statement gives the Company the flexibility to offer and sell from time to time in the future up to \$100 million of equity, debt or other types of securities as described in the registration statement, or any combination of such securities. If securities are issued, the Company may use the proceeds for general corporate purposes, including acquisitions, capital expenditures, working capital and repayment of debt.

Table of Contents

Available revolving credit capacity is primarily used to fund working capital needs. Taking into consideration the most recent borrowing base calculation as of September 30, 2010, which reflects trade receivables, inventory, letters of credit and other outstanding secured indebtedness, available credit capacity consisted of the following:

Debt type	Outstanding Borrowings as of September 30, 2010	Availability as of September 30, 2010	Weighted Average Interest Rate for the nine months ended September 30, 2010
U.S. Revolver A	\$ 4.0	\$ 80.2	2.70%
U.S. Revolver B	25.3	24.7	1.57%
Canadian facility		9.5	0.22%
Trade acceptances (a)	7.5	n/a	1.14%

(a) The trade acceptance purchase agreement which was a 364-day facility expired by its terms on August 27, 2010. The outstanding trade acceptances will be paid on their respective maturity dates. Liquidity will not be materially impacted as the Company has sufficient borrowing availability under its revolver as noted above.

As of September 30, 2010, the Company had \$11.5 million of short-term debt which includes trade acceptances of \$7.5 million and \$4.0 million related to the U.S. Revolver A. The Company has classified U.S. Revolver A as short-term based on its ability and intent to repay amounts outstanding under this instrument within the next 12 months.

Management believes the Company will be able to generate sufficient cash from operations and planned working capital improvements (principally from reduced inventories) to fund its ongoing capital expenditure programs and meet its debt obligations. In addition, the Company has available borrowing capacity, as discussed above.

Capital expenditures for the nine months ended September 30, 2010 were \$5.1 million, a decrease of \$1.1 million compared to the same period last year. Management believes that annual capital expenditures will approximate \$8.0 to 10.0 million in 2010.

The Company's principal payments on long-term debt, including the current portion of long-term debt, required during the next five years and thereafter are summarized below:

2010	\$	7.6
2011		7.7
2012		8.2
2013		33.9
2014		9.1
2015 and beyond		9.6
Total debt	\$	76.1

As of September 30, 2010 the Company remained in compliance with the covenants of its credit agreements, which require it to maintain certain funded debt-to-capital and working capital-to-debt ratios, and a minimum adjusted consolidated net worth, as defined in the Company's credit agreements and outlined in the table below:

Covenant Description	Requirement per Credit Agreement	Actual at September 30, 2010
Funded debt-to-capital ratio	less than 0.55	0.18
Working capital-to-debt ratio	greater than 1.0	3.59
Minimum adjusted consolidated net worth	\$261.6	\$ 326.3

As of September 30, 2010, the Company had \$3.1 million of irrevocable letters of credit outstanding, which primarily consisted of \$2.4 million for compliance with the insurance reserve requirements of its workers' compensation insurance carriers.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures 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, 2009. Refer to Item 7a in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2009 for further discussion of such risks.

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 and Chief Financial Officer, 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 Securities 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, 2009, the Company reported that, based upon their review and evaluation, the Company's disclosure controls and procedures were effective as of December 31, 2009.

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 Control over Financial Reporting

There were no significant changes in the Company's internal controls over financial reporting during the three months ended September 30, 2010 that were identified in connection with the evaluation referred to in paragraph (a) above that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**Part II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Directors of the Company who are not employees may elect to defer receipt of up to 100% of his or her cash retainer and meeting fees. A director who defers board compensation may select either an interest or a stock equivalent investment option for amounts in the director's deferred compensation account. Disbursement of the stock equivalent unit account may be in shares of Company common stock or in cash as designated by the director. If payment from the stock equivalent unit account is made in shares of the Company's common stock, the number of shares to be distributed will equal the number of full stock equivalent units held in the director's account. On July 26, 2010, receipt of approximately 486 shares was deferred as payment for the board compensation. The shares were acquired at a price of \$15.43 per share, which represented the closing price of the Company's common stock on the day as of which such fees would otherwise have been paid to the director. Exemption from registration of the shares is claimed by the company under Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

Exhibit No.	Description
3.2	By-Laws of the Company, as amended on October 28, 2010
10.24*	Form of amended and restated Change in Control Agreement for executive officers other than the CEO. Filed as Exhibit 10.24 to Form 8-K filed September 21, 2010. Commission File No. 1-5415
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	CEO and CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

* This agreement is considered a compensatory plan or arrangement.

SIGNATURE

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: November 5, 2010

By: /s/ Patrick R. Anderson
Patrick R. Anderson
Vice President Controller and Chief
Accounting Officer
(Mr. Anderson has been authorized to
sign on behalf of the Registrant.)

Table of Contents

Exhibit Index

The following exhibits are filed herewith or incorporated herein by reference:

Exhibit No.	Description	Page
3.2	By-Laws of the Company, as amended on October 28, 2010	E-1
10.24*	Form of amended and restated Change in Control Agreement for executive officers other than the CEO. Filed as Exhibit 10.24 to Form 8-K filed September 21, 2010. Commission File No. 1-5415	
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002	E-16
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002	E-17
32.1	CEO and CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002	E-18

* This agreement is considered a compensatory plan or arrangement.