JORGENSEN EARLE M CO /DE/
Form 10-Q
July 31, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL QUARTER ENDED JUNE 28, 2001

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 1-7537

EARLE M. JORGENSEN COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	95-0886610
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
3050 EAST BIRCH STREET, BREA, CALIFORNIA	92821
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

Registrant's telephone number: (714) 579-8823

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

State the aggregate market value of the voting stock held by non-affiliates of the registrant. NONE

Outstanding common stock, par value $.01 per share, at July 31, 2001
- 128 SHARES

EARLE M. JORGENSEN COMPANY

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PART I - FINANCIAL INFORMATION

EARLE M. JORGENSEN COMPANY
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	JUNE 28, 2001 (UNAUDITED)
ASSETS	
Current assets:	
Cash	$ 13,491
Accounts receivable, less allowance for doubtful accounts of $474 and $427 at June 28, 2001 and March 31, 2001, respectively	109,349
Inventories	229,939
Other current assets	7,751
Total current assets	360,530
Property, plant and equipment, net of accumulated depreciation of $68,325 and $65,438 at June 28, 2001 and March 31, 2001, respectively	98,280
Net cash surrender value of life insurance policies	29,946
Debt issue costs, net of accumulated amortization	2,921
Other assets	1,033
Total assets	$492,710
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current liabilities:	
Accounts payable	$121,574
Accrued employee compensation and related taxes	8,541
Accrued employee benefits	7,987
Accrued interest	13,536

Other accrued liabilities	9,075
Deferred income taxes	18,904
Current portion of long-term debt	3,993
Total current liabilities	183,610
Long term debt	287,800
Deferred income taxes	16,636
Other long-term liabilities	5,709
Stockholder's equity:	
Preferred stock, $.01 par value; 200 shares authorized and unissued	---
Common stock, $.01 par value; 2,800 shares authorized;128 shares issued and outstanding	---
Capital in excess of par value	89,030
Accumulated other comprehensive loss	(3,415)
Accumulated deficit	(86,660)
Total stockholder's equity	(1,045)
Total liabilities and stockholder's equity	$492,710

See accompanying notes.

PART I - FINANCIAL INFORMATION (CONTINUED)

EARLE M. JORGENSEN COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)

	THREE MONTH
	JUNE 28, 2001
	(UNAUDIT
Revenues	$238,672
Cost of sales	170,963
Gross profit	67,709
Expenses:	
Warehouse and delivery	32,942
Selling	8,808
General and administrative	12,536
Total expenses	54,286
Income from operations	13,423

Interest expense, net	10,752
Income before excise tax and income taxes	2,671
Excise tax imposed under IRS settlement agreement	1,919
Income before income taxes	752
Income tax expense	260
Net income	492
Other comprehensive loss, net of income tax	1,582
Comprehensive income (loss)	$ (1,090)

See accompanying notes.

PART I - FINANCIAL INFORMATION (CONTINUED)

EARLE M. JORGENSEN COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	THREE MONTHS
	JUNE 28, 2001
	(UNAUDI
OPERATING ACTIVITIES	
Net income	$ 492
Adjustments to reconcile net income to net cash used for operating activities:	
Depreciation and amortization	2,893
Amortization of debt issue costs	370
Accrued postretirement benefits	62
ESOP contribution	999
Deferred income taxes	154
(Gain) loss on sale of property, plant and equipment	(21)
Provision for bad debts	347
Increase in cash surrender value of life insurance over premiums paid	(3,834)
Changes in operating assets and liabilities:	
Accounts receivable	(2,473)
Inventories	(11,359)
Other current assets	(78)
Accounts payable and accrued liabilities and expenses	(15,333)

Non-trade receivable	(133)
Other	(107)
Net cash used in operating activities	(28,021)
INVESTING ACTIVITIES	
Additions to property, plant and equipment	(2,902)
Proceeds from the sale of property, plant and equipment	35
Premiums paid on life insurance policies	(1,198)
Proceeds from redemption of life insurance policies	200
Net cash used in investing activities	(3,865)
FINANCING ACTIVITIES	
Net borrowings under revolving loan agreements	22,359
Payments on other debt	(750)
Net cash provided by financing activities	21,609
Effect of exchange rate changes on cash	10
NET DECREASE IN CASH	(10,267)
Cash at beginning of period	23,758
CASH AT END OF PERIOD	$ 13,491

See accompanying notes.

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PART I - FINANCIAL INFORMATION (CONTINUED)

EARLE M. JORGENSEN COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 28, 2001

1. BASIS OF PRESENTATION

The Earle M. Jorgensen Company (the "Company") is a wholly owned subsidiary of the Earle M. Jorgensen Holding Company, Inc. ("Holding").

The accompanying uaudited consolidated condensed financial statements include the accounts of the Company and its wholly owned subsidiaries including Earle M. Jorgensen (Canada) Inc. and Stainless Insurance Ltd., a captive insurance subsidiary. All significant intercompany accounts and transactions have been eliminated.

In the opinion of management, the accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and include all adjustments (consisting of normally recurring accruals) and disclosures considered necessary for a fair presentation of the consolidated financial position of the Earle M.

Jorgensen Company at June 28, 2001 and the consolidated results of operations and comprehensive income and cash flows for the three months ended June 28, 2001 and June 29, 2000. The consolidated results of operations and comprehensive income for the three months ended June 28, 2001 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended March 31, 2001.

Certain prior year amounts have been reclassified to conform with the current year presentation.

2. OTHER COMPREHENSIVE INCOME

For the three months ended June 28, 2001 and June 29, 2000, other comprehensive income included foreign currency translation gain (loss) of $483,000 and $(299,000), respectively. In addition, the three months ended June 28, 2001 included a loss of $2,065,000 representing the fair value of the Company's interest rate swap agreement recognized in connection with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The Company determined that the interest rate swap agreement is a highly effective cash flow hedge under the provisions of SFAS No. 133, as amended. Accordingly, the effective portion of gain or loss resulting from future changes in the fair value of the interest rate swap agreement will be reported in other comprehensive income while the ineffective portion will be recognized in net income.

3. EXCISE TAX IMPOSED UNDER AN IRS SETTLEMENT AGREEMENT

In June 2001, the Company recorded an excise tax of $1.9 million, representing the amount agreed to be paid by Holding to the IRS as a settlement of issues raised during an audit of the ESOP. Such amount will be funded by the Company during fiscal 2002.

PART I - FINANCIAL INFORMATION (CONTINUED)

EARLE M. JORGENSEN COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS: THREE MONTHS ENDED JUNE 28, 2001 COMPARED TO THREE MONTHS ENDED JUNE 29, 2000.

REVENUES. Revenues for the first quarter of fiscal 2002 were $238.7 million, compared to $268.4 million for the same period in fiscal 2001. Revenues from our domestic operations decreased $30.5 million (11.8%) to $227.0 million in the first quarter of fiscal 2002 when compared to $257.5 million for the same period in fiscal 2001. This decrease was attributable to a 12% decrease in tonnage shipped and impacted most core commodities and key industries served. Revenues from our Canadian operations increased 7.3% to $11.7 million in the first quarter of fiscal 2002 when compared to $10.9 million in the same period in fiscal 2001 due to the opening of our Edmonton operations in September 2000.

GROSS PROFIT. Gross profit for the first quarter of fiscal 2002 was $67.7 million, compared to $74.5 million for the same period in fiscal 2001, while consolidated gross margins were 28.4% and 27.8%, respectively. Gross profit for the fiscal 2002 period included a LIFO credit of $0.7 million versus no LIFO adjustment recorded in the fiscal 2001 period. Gross profit from our Canadian operations was $2.5 million and gross margin was 21.4% during the first quarter of fiscal 2002, compared to $2.6 million and 23.9%, respectively, for the same period in fiscal 2001. Exclusive of our Canadian operations and LIFO adjustments, gross margin was 28.4% for the first quarter of fiscal 2002 compared to 27.9% for the same period in fiscal 2001. The increase of 0.5% was the result of changes in customer and product mixes.

EXPENSES. Total operating expenses for the first quarter of fiscal 2002 were $54.3 million (22.7% of revenues), compared to $56.1 million (20.9% of revenues) for the same period in fiscal 2001. The changes in operating expenses generally reflect the impact on variable expenses from changes in tonnage shipped.

Warehouse and delivery expenses for the first quarter of fiscal 2002 were $32.9 million (13.8% of revenues), compared to $34.0 million (12.7% of revenues) for the same period in fiscal 2001. The fiscal 2002 period included lower freight costs and compensation expense resulting from the decrease in tonnage shipped, offset by higher lease costs associated primarily with new or expanded facilities. As of June 28, 2001, 1,159 employees were involved in warehouse and delivery activities, compared to 1,220 as of June 29, 2000.

Selling expenses for the first quarter of fiscal 2002 were $8.8 million (3.7% of revenues), compared to $9.7 million (3.6% of revenues) for the same period in fiscal 2001. The decrease resulted from lower accruals for incentive compensation based on sales and gross profit levels.

General and administrative expenses were $12.5 million (5.2% of revenues) during the first quarter of 2002 compared to $12.4 million (4.6% of revenues) for the same period in fiscal 2001. The fiscal 2002 period included higher reserves for workers compensation and lower proceeds received on life insurance policies offset by incremental growth in cash surrender value of life insurance policies, lower marketing expense and lower accruals for incentive compensation.

NET INTEREST EXPENSE. Net interest expense was $10.8 million for the first quarter of fiscal 2002 and fiscal 2001. Such amounts include interest and amortization of debt issue costs related to our revolving credit facility ("Revolving Credit Facility"), our 9-1/2% senior notes ("Senior Notes"), our variable rate term loan ("Term Loan") and interest on borrowings against the cash surrender value of certain life insurance policies we maintain.

RESULTS OF OPERATIONS: THREE MONTHS ENDED JUNE 28, 2001 COMPARED TO THREE MONTHS ENDED JUNE 29, 2000. (CONTINUED)

Interest expense and amortization of debt issue costs related to the our outstanding indebtedness (excluding those borrowings against the cash surrender value of certain life insurance policies) totaled $6.9 million for the first quarter of fiscal 2002 compared to $7.3 million for the same period in fiscal 2001. The average outstanding indebtedness during the first quarter of fiscal 2002 was $305.4 million, compared to $310.7 million for the same period in fiscal 2001. The weighted average interest rate on such indebtedness was 8.23% during the first quarter of fiscal 2002 versus 9.04% during the same period in fiscal 2001. During the three months ended June 28, 2001 and June 29, 2000, borrowings under the Revolving Credit Facility averaged $93.2 million and $96.0 million and the average interest rate on such borrowings was 6.81% and 8.33%, respectively.

Interest expense associated with borrowings against the cash surrender value of certain life insurance policies maintained was $3.9 million during the first quarter of fiscal 2002 period compared to $3.4 million for the same period in fiscal 2001.

The interest rates on our 9 1/2% Senior Notes and on the borrowings under the life insurance policies are fixed at 9.50% and 11.76%, respectively. The interest rates on our Revolving Credit Facility and Term Loan are floating (6.20% and 8.19%, respectively, as of June 28, 2001).

Pursuant to our interest rate swap agreement with Bankers Trust Company covering a notional amount of $95.0 million under the Term Loan, we paid $0.2 million during the first quarter of fiscal 2002 versus receiving $0.1 million during the same period in fiscal 2001.

INCOME TAXES. Income tax expense for the first quarter of fiscal 2002 and 2001 included provisions for state franchise and foreign income taxes. Federal tax provisions for the first quarter of fiscal 2002 and 2001 were offset by recognition of tax benefits associated with our loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased to $176.9 million at June 28, 2001 when compared to $159.5 million at March 31, 2001 primarily as the result of higher inventories and lower accounts payable. During the first quarter of fiscal 2002 our primary sources of cash consisted of funds provided by borrowings under our Revolving Credit Facility of $22.4 million. Our primary uses of cash included operating actvities, $28.0 million, and capital expenditures, $2.9 million.

Cash used in operating activities was $28.0 million (11.7% of revenues) in the first quarter of fiscal 2002 compared to $24.0 million (8.9% of revenues) in the same period of fiscal 2001. The increase generally reflects the impact from lower sales volumes and the timing of payments to vendors.

For fiscal 2002, we have planned approximately $26.2 million of capital expenditures to be financed from internally generated funds. Approximately $24.1 million is for facility expansions and improvements and routine replacement of machinery and equipment, and $2.1 million is for further additions to our management information systems. During the first three months of fiscal 2002, we spent $2.9 million for planned capital expenditures.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Our cash requirements for debt service and related obligations through the end of fiscal 2002 are expected to consist primarily of interest payments under the Revolving Credit Facility, interest and principal payments on the Term Loan, interest payments on the 9 1/2% Senior Notes, dividend payments to Holding in connection with the required repurchase of its capital stock from departing stockholders pursuant to Holding's Stockholders' Agreement and the ESOP, capital expenditures and principal and interest payments on our industrial revenue bonds. As of June 28, 2001, principal payments required by our outstanding industrial revenue bond indebtedness amount to $0.9 million in fiscal 2002, $1.4 million in fiscal years 2003 and 2004 and $6.2 million in the aggregate thereafter through 2011. We will not be required to make any principal payments on our 9 1/2% Senior Notes until 2005. Our Revolving Credit Facility will mature in 2003 and our Term Loan will mature in 2004. The Term Loan requires principal payments to be made in equal quarterly installments of $250,000. The final installment due at maturity will repay in full all outstanding principal. As of June 28, 2001, we were in compliance with all covenants under the Revolving Credit Facility, the Term Loan and the 9 1/2% Senior Notes. Although compliance with such covenants in the future is largely dependent on our future performance and general economic conditions, for which there can be no assurance, we expect to be in compliance with all of our debt covenants for the foreseeable future.

At June 28, 2001, our primary sources of liquidity were available borrowings of $119.4 million under the Revolving Credit Facility, available borrowings of approximately $11.7 million against certain life insurance policies and internally generated funds. Borrowings under our Revolving Credit Facility are secured by domestic inventory and accounts receivable, and future availability is determined by prevailing levels of those assets. Our Term Loan is secured by a first priority lien on a substantial portion of current and future acquired unencumbered property, plant and equipment. The life insurance policy loans are secured by the cash surrender value of the policies, are non- recourse, and bear interest at a rate 0.5% greater than the dividend income rate on the policies. For the first quarter of fiscal 2002, dividend income earned under the policies totaled $3.7 million, compared to $3.1 million for the same period in fiscal 2001 and is reported as an offset to general and administrative expenses in the accompanying statements of operations. As of June 28, 2001, there was approximately $29.9 million of cash surrender value in all life insurance policies we maintained, net of borrowings.

We believe our sources of liquidity and capital resources are sufficient to meet all currently anticipated operating cash requirements, including debt service payments on the Revolving Credit Facility, the Term Loan and the 9 1/2% Senior Notes prior to their maturities in 2003, 2004 and 2005, respectively; however, we anticipate that it will be necessary to replace or to refinance all or a portion of the Revolving Credit Facility, the Term Loan and the 9 1/2% Senior Notes prior to their respective maturities, although there can be no assurance on what terms, if any, we would be able to obtain such refinancing or additional financing. Our ability to make interest payments on the Revolving Credit Facility and the 9 1/2% Senior Notes and principal and interest payments on the Term Loan will be dependent on maintaining the level of performance reflected in the last twelve months, which will be dependent on a number of factors, many of which are beyond our control, and the continued availability of revolving credit borrowings.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) On July 19, 2001, our sole stockholder executed and delivered a written consent of stockholder.

(b) The consent provided for the re-election of our Board of Directors, including the re-election of Mr. G. Robert Durham to our Board of Directors pursuant to the rights of the holders of Holding's Series A 13% Cumulative Preferred Stock. The consent also provided for the appointment of Ernst & Young LLP as our auditors for the fiscal year ending March 31, 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

None.

(b) REPORTS ON FORM 8-K

The Registrant was not required to file a Form 8-K during the quarter ended June 28, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EARLE M. JORGENSEN COMPANY

Date: July 31, 2001

/s/ Maurice S. Nelson, Jr.

Maurice S. Nelson, Jr.
President, Chief Executive Officer

Date: July 31, 2001

/s/ William S. Johnson

William S. Johnson
Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)