

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

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FILER

**STEEL CITY PRODUCTS INC**

CIK: **46535** | IRS No.: **550437067** | State of Incorporation: **DE** | Fiscal Year End: **0303**  
Type: **10-Q/A** | Act: **34** | File No.: **001-06096** | Film No.: **96502917**  
SIC: **5013** Motor vehicle supplies & new parts

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PITTSBURGH PA 15238  
4129637271

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended August 31, 1995

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: 0-2572

STEEL CITY PRODUCTS, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

55-0437067

-----  
(State of Incorporation)

-----  
(I.R.S. Employer  
Identification No.)

1001 SANTERRE DRIVE, GRAND PRAIRIE, TEXAS  
75050

-----  
(Address of principal executive offices)  
(Zip Code)

(214) 660-4499

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

-----  
(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 filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No   
--- ---

As of September 1, 1995, 3,238,061 shares of the Registrant's Common Stock, \$0.01 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE  
None

EXPLANATORY NOTE

This Form 10-Q/A amends Part One, Items 1 and 7; Part Two, Item 6; and the Company's accompanying financial data schedule of the Company's Form 10-Q for

the quarterly period ended August 31, 1995 that was filed on October 16, 1995.

This Form 10-Q/A reflects changes in the Company's and the Company's parent's bank financing which occurred on January 8, 1996.

Accordingly, this Form 10-Q/A contains a revised Balance Sheet at August 13, 1995, and a revised Financial Data Schedule, both of which reflect reclassifications of long-term assets and long-term obligations to current assets and current liabilities, respectively. The Form 10-Q/A also includes revised footnotes to the financial statements, and Management's Discussion and Analysis of Financial Condition, with changes to the Liquidity and Capital Resources section and to the Financing and Line of Credit Section.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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STEEL CITY PRODUCTS, INC.  
BALANCE SHEETS  
(Dollar amounts in thousands)

<TABLE>			
<CAPTION>			
ASSETS	August 31, 1995	February 28, 1995	
	-----	-----	
	(Unaudited)		
<S>	<C>	<C>	
Current assets:			
Cash and cash equivalents.....	\$ 4	\$ 29	
Trade accounts receivable, less allowance of \$421 and \$194, respectively.....	3,339	4,030	
Advances to Oakhurst Company, Inc.....	1,558	1,066	
Notes receivable - Oakhurst Company, Inc.....	1,869	675	

Inventories.....	5,579	6,371
Deferred tax asset.....	177	348
Other.....	141	162
	-----	-----
Total current assets.....	12,667	12,681
	-----	-----
Property and equipment, at cost.....	1,948	2,096
Less accumulated depreciation.....	(676)	(807)
	-----	-----
	1,272	1,289
	-----	-----
Deferred tax asset.....	3,287	3,267
Notes receivable - Oakhurst Company, Inc., long-term portion.....	-	1,531
Other assets.....	290	272
	-----	-----
	3,557	5,070
	-----	-----
	\$ 17,516	\$ 19,040
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 4,540	\$ 5,677
Accrued compensation.....	368	550
Term loan, current.....	1,962	585
Current maturities of long-term obligations.....	22	6
Net obligation of discontinued business segment-current portion.....	536	505
Other.....	79	76
	-----	-----
Total current liabilities.....	7,507	7,399
	-----	-----
Long-term obligations:		
Net obligation of discontinued business segment.....	680	985
Long-term debt.....	-	1,660
Other long-term obligations.....	109	73
	-----	-----
	789	2,718
	-----	-----
Commitments and contingencies.....		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; authorized 5,000,000 shares, issued 1,938,526 shares; liquidation preference \$5.2282 per share.....	19	19
Common stock, par value \$0.01 per share; authorized 5,000,000 shares; issued 3,238,061 shares.....	32	32
Additional paid-in capital.....	43,824	43,824
Deficit (Reorganized on August 26, 1989).....	(34,654)	(34,951)
Treasury stock, at cost, 207 common shares.....	(1)	(1)
	-----	-----
Total stockholders' equity.....	9,220	8,923
	-----	-----
	\$ 17,516	\$ 19,040
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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STEEL CITY PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollar amounts in thousands, except per share data)  
(Unaudited)

<TABLE>

<CAPTION>

	Three Months Ended August 31, 1995	Thirteen Weeks Ended August 27, 1994
	-----	-----
<S>	<C>	<C>
Sales.....	\$ 7,078	\$ 7,330
Other income.....	138	239
	-----	-----
	7,216	7,569
	-----	-----

Cost of goods sold, including occupancy and buying expenses.....	5,655	5,774
Operating, selling and administrative expenses.....	1,218	1,188
Provision for doubtful accounts.....	201	-
Interest expense.....	72	44
	-----	-----
	7,146	7,006
	-----	-----
Income from continuing operations before income taxes.....	70	563
Income taxes.....	(16)	149
	-----	-----
Income from continuing operations.....	86	414
Income from discontinued operations (net of \$34 income tax expense).....	-	66
	-----	-----
Net income.....	86	480
	-----	-----
Effect of Series A Preferred Stock dividends.....	(253)	(253)
	-----	-----
Net income (loss) attributable to common stockholders.....	\$ (167)	\$ 227
	=====	=====
Per share amounts:		
Income (loss) from continuing operations after preferred stock dividends.....	\$ (0.05)	\$ 0.05
Income from discontinued operations.....	-	0.02
	-----	-----
Net income (loss) attributable to common stockholders after preferred stock dividends.....	\$ (0.05)	\$ 0.07
	=====	=====
Weighted average number of common shares outstanding used in computing per share amounts.....	3,238,061	3,170,375
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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STEEL CITY PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollar amounts in thousands, except per share data)  
(Unaudited)

<TABLE>  
<CAPTION>

	Six Months Ended August 31, 1995	Twenty-six Weeks Ended August 27, 1994
	-----	-----
<S>	<C>	<C>
Sales.....	\$ 14,914	\$ 15,804
Other income.....	219	271
	-----	-----
	15,133	16,075
	-----	-----
Cost of goods sold, including occupancy and buying expenses.....	11,919	12,587
Operating, selling and administrative expenses.....	2,385	2,388
Provision for doubtful accounts.....	257	-
Interest expense.....	147	75
	-----	-----
	14,708	15,050
	-----	-----
Income from continuing operations before income taxes.....	425	1,025
Income taxes.....	128	344
	-----	-----
Income from continuing operations.....	297	681
Income from discontinued operations (net of \$34 income tax expense).....	-	66
	-----	-----
Net income.....	297	747
	-----	-----
Effect of Series A Preferred Stock dividends.....	(506)	(506)
	-----	-----

Net income (loss) attributable to common stockholders.....	\$	(209)	\$	241
=====				
Per share amounts:				
Income (loss) from continuing operations				
after preferred stock dividends.....	\$	(0.06)	\$	0.06
Income from discontinued operations.....		-		0.02
-----				
Net income (loss) attributable to common stockholders				
after preferred stock dividends.....	\$	(0.06)	\$	0.08
=====				
Weighted average number of common shares outstanding				
used in computing per share amounts.....		3,238,061		3,170,216
=====				

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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STEEL CITY PRODUCTS, INC.  
STATEMENT OF STOCKHOLDERS' EQUITY  
SIX MONTHS ENDED AUGUST 31, 1995  
(Dollars in thousands)  
(Unaudited)

<TABLE>  
<CAPTION>

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury	
	shares	par value	shares	par value			shares	cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, February 28, 1995.....	1,938,526	\$19	3,238,061	\$32	\$43,824	(\$34,951)	207	(\$1)
Net income for the period.....						297		
Balances, August 31, 1995.....	1,938,526	\$19	3,238,061	\$32	\$43,824	(\$34,654)	207	(\$1)

</TABLE>

The accompanying notes are an integral part of these financial statements.

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STEEL CITY PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollar amounts in thousands)

<TABLE>  
<CAPTION>

	Six Months Ended August 31, 1995	Twenty-six Weeks Ended August 27, 1994
<S>	<C>	<C>
Cash flows from operating activities:		
Income from continuing operations.....	\$ 297	\$ 681
Adjustments to reconcile income from continuing operations		
to net cash provided by operating activities:		
Depreciation.....	96	85
Loss on retirement of asset.....	10	-
Deferred tax expense.....	151	308
Other changes in operating assets and liabilities:		
Accounts receivable.....	691	(69)

Inventories.....	792	314
Accounts payable.....	(1,137)	(59)
Other.....	(178)	223
	-----	-----
Net cash provided by operating activities of:		
Continuing operations.....	722	1,483
Discontinued operations.....	(274)	(286)
	-----	-----
Net cash provided by operating activities.....	448	1,197
	-----	-----
Cash flows from investing activities:		
Advances to Oakhurst Company, Inc.....	(492)	(1,456)
Collection of note receivable, Oakhurst Company, Inc.....	337	-
Additions to property and equipment.....	(27)	(238)
Other.....	2	3
	-----	-----
Net cash used in investing activities.....	(180)	(1,691)
	-----	-----
Cash flows from financing activities:		
Exercise of warrants.....	-	6
Proceeds from long-term borrowings.....	-	2,560
Principal payments on long-term obligations.....	(293)	(75)
Series A Preferred Stock dividends paid to Oakhurst Company, Inc.....	-	(2,765)
	-----	-----
Net cash used in financing activities.....	(293)	(274)
	-----	-----
Net decrease in cash and cash equivalents.....	(25)	(768)
Cash and cash equivalents at beginning of period.....	29	775
	-----	-----
Cash and cash equivalents at end of period.....	\$ 4	\$ 7
	=====	=====

</TABLE>

Supplemental schedule of noncash investing and financing activities:

Capital lease obligations of \$62 were incurred when the Company entered into three leases for new computer and warehouse equipment.

The accompanying notes are an integral part of these consolidated financial statements.

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STEEL CITY PRODUCTS, INC.  
SIX MONTHS ENDED AUGUST 31, 1995  
NOTES TO FINANCIAL STATEMENTS

1. INTERIM FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. All adjustments made are of a normal recurring nature.

While the Company believes that the disclosures presented herein are adequate to make the information not misleading, it is suggested that these unaudited financial statements be read in conjunction with the audited financial statements for the fiscal year ended February 28, 1995 ("fiscal 1995") as filed in the Company's Annual Report on Form 10-K.

2. CORPORATE REORGANIZATION

In accordance with a merger transaction in July 1991, Steel City Products, Inc. ("SCPI") issued to Oakhurst Company, Inc. ("Oakhurst") (formerly Oakhurst Capital, Inc.) shares of its common stock and Series A Preferred Stock so that the aggregate fair market value of such stock owned by Oakhurst totaled approximately 90% of the aggregate fair market value of SCPI. Accordingly, Oakhurst controls approximately 90% of the outstanding voting power of SCPI.

Under the merger transaction, SCPI is required for a period of five years following the merger to issue to Oakhurst (or cancel) such number of shares of Series A Preferred Stock and/or common stock as shall be necessary, in accordance with periodic determinations, to maintain Oakhurst's aggregate stock ownership of SCPI at 90%. In accordance with a revaluation of the Company as of February 27, 1994 completed in May 1994 reflecting a decrease in the valuation to \$10.1 million, the number of Series A Preferred shares outstanding were reduced to 1,938,526. A revaluation of the Company as of February 28, 1995 has not yet been completed.

The Series A Preferred Stock carries a dividend rate of \$0.5228 per share and has a redemption price and liquidation preference of \$5.2282 per

share plus any accumulated dividends in arrears. Approximately \$1.1 million of undeclared dividends in arrears were outstanding as of August 31, 1995.

### 3. PROVISION FOR DOUBTFUL ACCOUNTS

During the second quarter of the current fiscal year, management curtailed the level of credit allowed to Jamesway Corporation ("Jamesway"), one of SCPI's largest customers, after becoming aware that Jamesway was experiencing new financial difficulties. Although Jamesway had emerged from bankruptcy as recently as January 1995, in October, 1995 it again filed for protection under the U. S. Bankruptcy Code. SCPI included a provision of \$150,000 in its second quarter results in relation to the balances due from Jamesway.

### 4. LONG-TERM DEBT AND LINE OF CREDIT

In August 1994, SCPI obtained a term loan in the amount of \$2,560,000 (the "Term Loan"), issued in connection with an acquisition by Oakhurst. The Term Loan is secured by a mortgage on SCPI's real estate, is guaranteed by Oakhurst and its subsidiaries, supported by a pledge of the capital stock of Oakhurst's subsidiaries. The Term Loan provides for monthly repayments beginning in September 1994 and bears interest at a fixed rate of 9.25%.

In August 1994, Oakhurst entered into a two year revolving credit agreement (the "Oakhurst Credit Agreement") that, until its amendment, carried a floating interest rate of prime plus 1% and provided for maximum borrowings of \$3 million. The Oakhurst Credit Agreement allows Oakhurst to make advances to its subsidiaries, including SCPI. The Term Loan and the Oakhurst Credit Agreement are cross-collateralized, and contain various financial covenants.

As of the end of the second quarter of the current fiscal year, August 31, 1995, SCPI and Oakhurst were in the process of finalizing replacement covenants with the bank, to reflect an acquisition by Oakhurst that was completed in the latter part of fiscal 1995, and received waivers in respect of the existing covenants as to which the companies were not in compliance at the end of the second quarter.

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The Oakhurst Credit Agreement was amended during the third quarter of the current fiscal year to provide for maximum borrowings of \$4 million, subject to the borrowing base that is calculated according to the level of the subsidiaries' accounts receivable, and to eliminate of all of the financial covenants, except for certain amended subsidiary and consolidated net worth requirements. The Term Loan was also amended to reflect such revised covenants. Borrowings under the Oakhurst Credit Agreement bear interest at prime plus 1.5%, and are secured by the accounts receivable, inventory and capital stock of Oakhurst's subsidiaries, including SCPI.

At the end of the third quarter of the current fiscal year, November 30, 1995, Oakhurst did not meet the consolidated net worth covenant, as amended, and requested a modification of such covenant. The modification was granted by the bank on January 3, 1996, in exchange for Oakhurst's and SCPI's agreement to accelerate the maturity date of the Term Loan to July 31, 1996, and to increase the interest rates on borrowings under the Oakhurst Credit Agreement and the Term Loan by 1% and 1.25%, respectively, effective February 28, 1996. Accordingly, the Term Loan has been presented as a current liability until replacement financing is finalized.

In December 1995, Oakhurst initiated negotiations with several lenders to obtain replacement financing and on January 8, 1996 accepted a letter of intent from an institutional lender which is expected to provide a significant



increase in the level of financing available to Oakhurst and its subsidiaries based upon essentially similar collateral as provided under the existing bank financing. Management expects that Oakhurst and SCPI will obtain a letter of commitment on and close such refinancing prior to February 29, 1996.

#### 5. Notes Receivable - Oakhurst Company, Inc.

Prior to fiscal 1996, SCPI advanced to Oakhurst \$2,700,000 (the "Oakhurst Notes") from its available funds to facilitate acquisitions by Oakhurst of all the capital stock of H&H Distributors, d/b/a Harry Survis ("H&H") and of Dowling's Fleet Service, Co., Inc. ("Dowling's"). The Oakhurst Notes bear interest at 9.25% and were repayable quarterly through 1998. In consideration for SCPI's agreement to the acceleration of the maturity of the Term Loan, Oakhurst agreed in January 1996 to accelerate the maturity dates of the Oakhurst Notes to July 31, 1996, or until such time that a refinancing of the Term Loan occurs, when the agreement allows a similar refinancing of the Oakhurst Notes with essentially like terms as the refinanced Term Loan. Accordingly, the long-term portion of the Oakhurst Notes has been presented as a current asset until the Term Loan is refinanced.

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's analysis of the significant factors that have influenced Steel City Products Inc.'s ("SCPI") financial position and results of operations during the periods included in the accompanying consolidated financial statements.

##### Liquidity and Capital Resources

SCPI is a special, limited purpose, majority-owned subsidiary of Oakhurst Company, Inc. ("Oakhurst") (formerly Oakhurst Capital, Inc.). SCPI is expected to concentrate on its historical line of business, while any future growth and expansion opportunities are expected to be pursued by one or more subsidiaries of Oakhurst. Through Oakhurst's ownership of SCPI, primarily in the form of preferred stock, Oakhurst retains substantially all the value of SCPI, and receives substantially all of the benefit of operations through dividends on the preferred stock. Oakhurst's ownership of SCPI is designed to facilitate the preservation and utilization of SCPI's net operating loss carryforwards which at December 31, 1994 amounted to approximately \$148 million.

##### Financing and Line of Credit

Prior to fiscal 1996, SCPI advanced to Oakhurst \$2,700,000 (the "Oakhurst Notes") from its available funds to facilitate acquisitions by Oakhurst of all the capital stock of H&H Distributors, d/b/a Harry Survis ("H&H") and of Dowling's Fleet Service, Co., Inc. ("Dowling's"). The Oakhurst Notes bear interest at 9.25% and were repayable quarterly through 1998.

In August 1994, SCPI obtained a four year new term loan in the amount of \$2,560,000 (the "Term Loan") secured by a mortgage on its real estate and by pledges of the Oakhurst Notes and by the capital stock of Oakhurst's subsidiaries, including SCPI. The Term Loan provides for monthly repayments beginning in September 1995 and bears interest at a fixed rate of 9.25%. The proceeds of the Term Loan together with SCPI's available funds were used to fund part of the aforementioned advance to Oakhurst and to satisfy outstanding preferred dividends to Oakhurst of approximately \$2.8 million.

Repayments of the Term Loan are expected to be made from SCPI's operating cash flow and from loan repayments by Oakhurst on the Oakhurst Notes. Through August 31, 1995, Oakhurst had made all payments required under the note agreements.

Pursuant to a two-year Bank Revolving Oakhurst Credit Agreement dated

August 1, 1994 (the "Oakhurst Credit Agreement"), Oakhurst is permitted to make advances to its subsidiaries, including SCPI, for working capital purposes and other requirements. During the six months ended August 31, 1995, no advances were made by Oakhurst to SCPI.

The Term Loan and the Oakhurst Credit Agreement are cross-collateralized, and contain various financial covenants. At the end of the current year second quarter, August 31, 1995, SCPI and Oakhurst were in the process of finalizing replacement covenants with the bank, to reflect a further acquisition by Oakhurst that was completed in the latter part of fiscal 1995, and received waivers in respect of the existing covenants as to which the companies were not in compliance at the end of the second quarter.

The Oakhurst Credit Agreement was amended during the current year third quarter to provide for maximum borrowings of \$4 million, subject to a borrowing base that is calculated according to the level of the subsidiaries' accounts receivable, and to eliminate all of the financial covenants except for certain amended subsidiary and consolidated net worth requirements. The Term Loan was also amended to reflect such revised covenants. Borrowings under the amended Oakhurst Credit Agreement bear interest at prime plus 1.5%, and are secured by the accounts receivable, inventory and capital stock of Oakhurst's subsidiaries, including SCPI.

At the end of the current year third quarter, November 30, 1995, Oakhurst did not meet the consolidated net worth covenant, as amended, and requested a modification of such covenant. The modification was granted by the bank on January 3, 1996 in exchange for Oakhurst's and SCPI's agreement to accelerate the maturity date of the Term Loan to July 31, 1996, and to increase the interest rates on the Oakhurst Credit Agreement and on the Term Loan by 1% and 1.25%, respectively, effective February 28, 1996. Accordingly, the Term Loan has been presented as a current liability until replacement financing is finalized.

In consideration for SCPI's agreement to the acceleration of the Term Loan, Oakhurst agreed in January 1996 to accelerate the maturity dates of the Oakhurst Notes to July 31, 1996, or until such time that a refinancing of the Term Loan occurs, when the agreement allows a similar refinancing of the Oakhurst Notes with essentially like terms as the refinanced Term Loan. As a result, the full amount of the Oakhurst Notes has been presented as a current asset until replacement financing of the Term Loan is complete.

In December 1995, Oakhurst initiated negotiations with several lenders to obtain replacement financing and on January 8, 1996 accepted a letter of intent from an institutional lender which is expected to provide a significant increase in the level of financing available to Oakhurst and its subsidiaries based upon essentially similar collateral as provided under the existing bank financing.

The availability of funding to SCPI pursuant to the Oakhurst Credit Agreement replaced SCPI's own bank revolving credit agreement, which expired by its terms in fiscal 1995. Management believes that the availability of borrowings under the Oakhurst Credit Agreement is currently sufficient for SCPI's seasonal working capital needs, and that Oakhurst & SCPI will secure a commitment letter on and close the proposed refinancing before February 29, 1996 to replace the existing bank financing.

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SCPI participates in a cash concentration system together with Oakhurst and its subsidiaries. Available cash that has been transferred to Oakhurst has been reflected as an addition to the advances to Oakhurst and bears interest at prime rate.

In anticipation of higher sales volume in the early spring and summer, Steel City Products carries higher inventories beginning in February. As is customary in the industry, many suppliers allow extended payment terms for such inventory build-ups and, in turn, Steel City Products grants extended payment terms to many of its customers to facilitate their inventory buildup in the

spring.

#### SIGNIFICANT EVENTS

During the second quarter of the current fiscal year, management curtailed the level of credit allowed to Jamesway Corporation ("Jamesway"), one of SCPI's largest customers, after becoming aware that Jamesway was experiencing new financial difficulties. Although Jamesway had emerged from bankruptcy as recently as January 1995, on October 6, 1995 it announced that it is again considering filing for bankruptcy protection. Pending a further announcement by Jamesway, SCPI suspended shipments to this customer in October 1995, and included a provision of \$150,000 in its second quarter results, in relation to the balance due from Jamesway. The non-collection of this receivable will not have a significant immediate effect on SCPI's working capital, but if, as expected, Jamesway closes all its stores, SCPI would suffer a significant reduction in its sales levels until replacement business could be developed. In the seven-month period of March through September 1995, SCPI's sales to Jamesway were about \$4 million. Although SCPI recently added two new large customers (NHD and Ames), the level of sales to such customers is currently not sufficient to offset the loss of the Jamesway business.

In expectation of the loss of Jamesway's business, in October 1995 SCPI took steps to reduce its inventory levels and to eliminate certain operating costs and overheads.

#### THE CREDITOR NOTES

The creditor notes that were issued in connection with bankruptcy of Retail Acquisition Corp., (the "Creditor Notes") are payable in six equal annual installments through July 1998, subject to a prepayment provision whereby if defined cash flow exceeds \$900,000, \$1,000,000 and \$1,100,000 in each of fiscal 1995, 1996 and 1997, respectively, holders of the Creditor Notes may tender for prepayment a portion thereof in the amount of the excess defined cash flow, but not to exceed approximately \$400,000 per annum. SCPI did not meet such prepayment criteria in fiscal 1995. The Creditor Notes have been discounted using an imputed interest rate of 7.5% and are included in the net obligation of the discontinued business segment.

#### TAX LOSS CARRYFORWARDS

At December 31, 1994, SCPI had net operating loss carryforwards (the "Tax Benefits") of approximately \$148 million, which expire in the years 2001 through 2005. A change in control of SCPI or Oakhurst in any three-year period exceeding 50% may lead to the loss of the majority of the Tax Benefits. In order to reduce the likelihood of such a change of control occurring, SCPI's and Oakhurst's Certificates of Incorporation include restrictions on the registration of transfers of stock resulting in, or increasing, individual holdings exceeding 4.5% of each company's common stock.

Since the regulations governing the Tax Benefits are highly complex and may be changed from time to time, and since SCPI's and Oakhurst's attempts to reduce the likelihood of a change of control occurring may not be successful, management is unable to determine the likelihood of the continued availability of the Tax Benefits. However, management believes that the Tax Benefits are currently available in full and intends to take all appropriate steps to help ensure that they remain available. Should the Tax Benefits become

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unavailable to SCPI or Oakhurst, most future income of SCPI and any consolidated affiliate would not be shielded from federal taxation, thus reducing funds otherwise available for corporate purposes. In these circumstances, SCPI would be required to record a significant reduction in the book value of its deferred tax asset.

The operations of SCPI, while historically profitable, do not at present enable SCPI to take full advantage of the Tax Benefits. Managements of SCPI and Oakhurst have been actively exploring growth and acquisition opportunities in order to increase the level of profits. During fiscal 1994 and 1995, Oakhurst made three such acquisitions; the new subsidiaries are expected to be profitable and, pursuant to a tax sharing agreement with SCPI, Oakhurst will pay SCPI 20% of any tax savings realized as a result of the use of SCPI's tax loss carryforwards.

#### RESULTS OF OPERATIONS

Continuing operations include the results of SCPI's operating division, Steel City Products, a distributor of automotive parts and

accessories based in Pittsburgh, Pennsylvania. In the current year three-month and six-month periods, there were one and two fewer days than in the prior year periods, respectively; the effect of this on results of operations was not material.

#### SIGNIFICANT TRENDS

SCPI's customers are continually affected by changes in the retail environment, including the recent competitive pressures facing regional mass merchandisers and the growing influence of automotive specialty chains. These have led to fluctuations in the level of business that Steel City Products enjoys with individual customers. In recent years, SCPI has lost some significant customers and has suffered reductions in business as certain customers have closed stores in the face of competition, have been forced into bankruptcy, or have reduced their automotive merchandise selection. Furthermore, some customers have changed their buying practices to acquire certain merchandise direct from manufacturers rather than through distributors such as SCPI.

In July 1993, SCPI's two then-largest customers filed for bankruptcy protection. One of these customers closed all its stores in December 1993; the other, Jamesway Corporation ("Jamesway") reorganized and emerged from Chapter 11 in January 1995. Jamesway continued to be one of SCPI's largest customers throughout this period, but in October 1995, Jamesway announced that it is again considering filing for bankruptcy protection. If, as expected, Jamesway closes all its stores, SCPI will suffer a significant reduction in its sales levels until replacement business could be developed. In the seven-month period of March through September 1995, SCPI's sales to Jamesway were about \$4 million.

In its efforts to offset these trends, SCPI strengthened its sales team to help identify new customers and better serve existing customers, expanded its product offerings to certain customers and enlarged the territory that it serves. In the current year, SCPI has begun offering "hard parts" such as brake rotors. During the current year second quarter, SCPI added two new large customers (NHD and Ames), but the level of sales to such customers is currently not sufficient to offset the loss of the Jamesway business.

Three months ended August 31, 1995 compared with thirteen weeks ended August 27, 1994

Compared with the prior year second quarter, sales decreased by 3.4%, or \$252,000. There were decreases in sales aggregating \$1.8 million; \$1.5 million of the decrease resulted from lower sales to customers that are facing increasing competitive pressures, have downsized or eliminated their automotive departments, or have filed bankruptcy, and \$350,000 of the sales decrease was attributable to two customers that have changed their source of supply. The decrease was largely offset by increases in sales of \$1.6 million, of which new customers added since the prior year accounted for \$1 million. Sales to Jamesway represented an increase of \$220,000 over the prior year, but sales to this customer were suspended in October 1995.

Gross profit decreased by \$133,000 compared with the prior year due in part to the sales reduction along with a decrease of about 1% in gross margin. The decreased margin resulted from slightly lower average

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prices to many of SCPI's customers.

Operating, selling and administrative expenses increased over the prior year second quarter by \$30,000, offsetting a reduction realized in the current year first quarter. Increased selling expenses were partially offset by lower corporate overhead expense and executive salaries.

There was an increase in the provision for doubtful accounts of \$201,000 compared with the prior year second quarter relating primarily to the announcement by Jamesway that it may file for bankruptcy protection.

Interest expense reflected an increase over the prior year of \$28,000, but this was offset by interest earned on the Oakhurst Notes.

Six months ended August 31, 1995 compared with twenty-six weeks ended August 27, 1994

Compared with the prior year, sales decreased by 5.6%, or \$890,000. Sales increases aggregating \$2.1 resulted primarily from the addition of

several new customers, together with higher sales to several customers, including Jamesway, but sales to this customer, which represented 22.5% of total sales in the first half of the current year, were suspended in October 1995. These sales increases were offset by decreases of \$3 million, with over half of the reduction attributed to SCPI's small customer base and to reduced sales in the Northeast market, resulting from intense competitive pressures being faced by those customers, along with reduced sales of spring product lines due to a rainy spring season in the Northeast. The remainder of the decrease resulted from lower sales to customers that have downsized or eliminated their automotive departments, have filed bankruptcy, or that have changed their source of supply.

Gross profit decreased by \$222,000 compared with the prior year due primarily to the sales reduction.

Operating, selling and administrative expenses were essentially at the same level as last year as lower corporate overhead expense and executive salaries were offset by higher selling expenses.

There was an increase in the provision for doubtful accounts of \$257,000 when compared with the prior year. The provision was increased by \$150,000 in connection with the balances due from Jamesway and by \$107,000 for the bankruptcies of three of SCPI's small customers that occurred during the current year.

Interest expense reflected an increase over the prior year of \$45,000, but this was offset by interest earned on the Oakhurst Notes.

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#### PART II - OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any material legal proceedings.

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

No matters were submitted to a vote of security holders during the quarter for which this report is filed.

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

(a) Exhibits

27. Financial Data Schedule

(b) No reports on Form 8-K have been filed during the quarter for which this report is filed.

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#### SIGNATURES

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

STEEL CITY PRODUCTS, INC.

Date: January 10, 1996

By: /s/ Bernard H. Frank

-----  
Bernard H. Frank  
Chief Executive Officer

Date: January 10, 1996

By: /s/ Mark Auerbach

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INDEX TO EXHIBITS

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27.	Financial Data Schedule

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