SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-27**
SEC Accession No. 0000931763-99-002168

(HTML Version on secdatabase.com)

FILER

CITATION CORP /AL/

CIK:**924648**| IRS No.: **630828225** | State of Incorp.:**DE** | Fiscal Year End: **0928**
Type: **10-Q** | Act: **34** | File No.: **000-24492** | Film No.: **99671278**
SIC: **3320** Iron & steel foundries

Mailing Address
312 NORTH 23RD STREET
BIRMINGHAM AL 35223

Business Address
2 OFFICE PARK CIRCLE
STE 204
BIRMINGHAM AL 35223
2058715731

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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 the quarterly period ended June 27, 1999

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 No. 0-24492

CITATION CORPORATION
(Exact name of registrant as specified in its Charter)

DELAWARE	63-0828225
(State of Incorporation)	(IRS Employer I.D. No.)

2 Office Park Circle, Suite 204
Birmingham, Alabama 35223
(Address of principal executive offices)

(205) 871-5731
(Registrant's telephone number)

____

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _______

Indicate the number of shares outstanding of the registrant's class of common stock, as of the latest practicable date.

Class	Outstanding at July 23, 1999
Common Stock, $.01 Par Value	17,877,739

INDEX

<TABLE>
<CAPTION>

	Page No.
<S>	<C>
PART I: FINANCIAL INFORMATION	
ITEM 1: Financial Statements	1
Interim Condensed Consolidated Balance Sheets	2
Interim Condensed Consolidated Statements of Income	3
Interim Condensed Consolidated Statements of Cash Flows	4
Notes to Interim Condensed Consolidated Financial Statements	5
ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	13

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

PART II: OTHER INFORMATION

ITEM 6: Exhibits and Reports on Form 8-K............................ 20

SIGNATURES.. 21
</TABLE>

PART I: FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

The financial statements listed below are included on the following pages of this Report on Form 10-Q (unaudited):

Interim Condensed Consolidated Balance Sheets at September 27, 1998 and June 27, 1999.

Interim Condensed Consolidated Statements of Income for the three months and nine months ended June 28, 1998 and June 27, 1999.

Interim Condensed Consolidated Statements of Cash Flows for the nine months ended June 28, 1998 and June 27, 1999.

Notes to Interim Condensed Consolidated Financial Statements.

[the remainder of this page intentionally left blank]

CITATION CORPORATION
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of dollars, except share and per share data)

<TABLE>
<CAPTION>

	September 27, 1998	June 27, 1999
ASSETS		(unaudited)
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 2,322	$ 2,080
Accounts receivable, net	103,152	117,989
Inventories	56,353	58,781
Deferred income taxes, prepaid expenses and other current assets	21,851	33,719
Total current assets	183,678	212,569
Property, plant and equipment, net	307,008	339,872
Intangible assets, net of accumulated amortization	72,973	109,593
Other assets	5,606	16,696
	$ 569,265	$ 678,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	$ 5,304	$ 3,480
Current portion of long-term debt	6,316	3,936
Accounts payable	46,802	54,396
Accrued expenses and other current liabilities	40,634	51,513
Total current liabilities	99,056	113,325
Long-term debt, net of current portion	237,525	315,415
Deferred income taxes and other long-term liabilities	46,650	50,086

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total liabilities	383,231	478,826
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $0.01 par value; 30,000,000 shares authorized, 17,932,402 and 17,937,402 shares issued, and 17,889,113 and 17,877,739 shares outstanding at September 27, 1998 and June 27, 1999, respectively	179	179
Additional paid-in capital	107,844	107,304
Retained earnings	78,011	92,421
Total stockholders' equity	186,034	199,904
	$ 569,265	$ 678,730

</TABLE>

See notes to interim condensed consolidated financial statements.

CITATION CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars, except share and per share data)

<TABLE>
<CAPTION>

	For the Three Months Ended		For the Three Months Ended	
	June 28, 1998	June 27, 1999	June 28, 1998	June 27, 1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<S>	<C>	<C>	<C>	<C>
Net sales	$ 196,446	$ 214,715	$ 559,760	$ 613,446
Cost of sales	160,481	181,341	462,707	518,111
Gross profit	35,965	33,374	97,053	95,335
Selling, general and administrative expenses	15,944	18,190	47,938	52,974
Operating income	20,021	15,184	49,115	42,361
Interest expense, net	4,115	5,495	11,040	15,752
Loss on sale of division	-	1,815	-	1,815
Income before provision for income taxes	15,906	7,874	38,075	24,794
Provision for income taxes	6,203	3,150	14,849	9,918
Net income	$ 9,703	$ 4,724	$ 23,226	$ 14,876
Earnings per share-basic (Note 6)	$ 0.54	$ 0.26	$ 1.30	$ 0.83
Weighted average shares outstanding-basic (Note 6)	17,880,558	17,877,534	17,821,750	17,885,253
Earnings per share-diluted (Note 6)	$ 0.54	$ 0.26	$ 1.29	$ 0.83
Weighted average shares outstanding-diluted (Note 6)	18,123,034	17,960,850	18,066,793	17,947,728

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

</TABLE>

See notes to interim condensed consolidated financial statements.

CITATION CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

<TABLE>
<CAPTION>

	For the Nine Months Ended	
	June 28, 1998	June 27, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:	(unaudited)	(unaudited)
Net income	$ 23,226	$ 14,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on receivables	812	564
Depreciation	23,217	28,714
Amortization	3,082	4,604
Loss on sale of division	-	1,815
Changes in operating assets and liabilities, net:		
Accounts receivable	(7,468)	(2,346)
Inventories	(1,659)	3,150
Prepaid expenses and other assets	(1,205)	2,070
Accounts payable	(6,115)	(1,243)
Accrued expenses and other liabilities	26	3,122
Total adjustments	10,690	40,450
Net cash provided by operating activities	33,916	55,326
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment expenditures - net	(37,378)	(31,591)
Investment in joint venture	-	(8,651)
Cash paid for acquisitions	(57,006)	(61,780)
Net cash used in investing activities	(94,384)	(102,022)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft	5,993	(3,213)
Repayments of acquired debt	(2,621)	(12,670)
Distributions to former S-corp shareholders (Note 12)	-	(466)
Change in credit facility and other financing arrangements, net	56,719	63,343
Change in paid-in-capital	608	(540)
Net cash provided by financing activities	60,699	46,454
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	231	(242)
Cash and cash equivalents, beginning of period	2,645	2,322
Cash and cash equivalents, end of period	$ 2,876	$ 2,080

</TABLE>

See notes to interim condensed consolidated financial statements.

CITATION CORPORATION
NOTES TO INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of dollars, except share and per share data)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1. The condensed consolidated balance sheet of Citation Corporation (the "Company") at September 27, 1998 has been derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles ("GAAP"). The interim condensed consolidated financial statements at June 27, 1999 and for the three and nine months ended June 27, 1999 and June 28, 1998 are unaudited; however, in the opinion of management, all adjustments, consisting only of normal recurring accruals necessary for a fair presentation, have been included. Certain minor reclassifications have been made in the previous year's financial statements in order to conform them to current year classifications. These financial statements should be read in conjunction with the Company's 1998 annual report on SEC Form 10-K.

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 131, Disclosures about Segments of an Enterprise and Related Information, which specifies revised guidelines for determining an entity's operating segments and the type and level of financial information to be required. In February 1998, the FASB issued SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, which revises employers' disclosures about pension and other postretirement benefit plans. The Company is required to adopt these statements in fiscal year 1999. The Company intends to provide the appropriate disclosures required by these statements in its fiscal year 1999 annual report.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires all derivatives to be recognized at fair value as either assets or liabilities on the balance sheet. Any gain or loss resulting from changes in such fair value is required to be recognized in earnings to the extent the derivatives are not effective as hedges. SFAS No. 133, as amended by SFAS No. 137, Deferral of the effective Date of FAS 133, is effective for fiscal years beginning after June 15, 2000, and is effective for interim periods in the initial year of adoption. The Company has not yet determined the effect, if any, of the adoption of SFAS No. 133 on its results of operations, financial position or liquidity.

2. A summary of inventories is as follows:

<TABLE>
<CAPTION>

	September 27, 1998	June 27, 1999
<S>	<C>	<C>
Raw materials	$ 10,210	$ 9,118
Supplies and containers	14,052	16,377
Work in process and finished goods	32,091	33,286
	$ 56,353	$ 58,781

</TABLE>

3. A summary of major classes of property, plant and equipment and accumulated depreciation is as follows:

<TABLE>
<CAPTION>

	September 27, 1998	June 27, 1999
<S>	<C>	<C>
Land and improvements	$ 12,454	$ 14,652
Buildings	59,509	66,786
Plant equipment	319,092	357,135
Office equipment	14,258	18,140
Transportation equipment	12,753	12,853
Construction in progress	9,923	18,086
	427,989	487,652
Less accumulated depreciation	(120,981)	(147,780

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	$ 307,008	$ 339,872

</TABLE>

4. A summary of other assets is as follows:

	September 27, 1998	June 27, 1999
Investment in joint venture	$1,441	$10,090
Consulting and non-competition agreements, net	579	338
Other, net	3,586	6,268
	$5,606	$16,696

5. A summary of long-term debt is as follows:

	September 27, 1998	June 27, 1999
Credit facility	$232,993	$306,954
Other financing arrangements	10,848	12,397
	243,841	319,351
Less current portion of long-term debt	6,316	3,936
	$237,525	$315,415

6. Earnings per share ("EPS")

	Quarter Ended June 28, 1998		
	Income (numerator)	Shares (denominator)	Per Share Amount
EPS - basic:			
Income available to common stockholders	$9,703	17,880,558	$0.54
Effect of dilutive common shares:			
Weighted average stock options outstanding		705,561	
Less:			
Stock options - assumed buyback /(1)/		(463,085)	
Stock options - antidilutive /(2)/		--	
EPS - diluted	$9,703	18,123,034	$0.54

	Nine Months Ended June 28, 1998		
	Income (numerator)	Shares (denominator)	Per Share amount

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Income (numerator)	Shares (denominator)	Per Share Amount
EPS - basic:			
Income available to common stockholders	$23,226	17,821,750	$1.30
Effect of dilutive common shares:			
Weighted average stock options outstanding		708,374	
Less:			
Stock options - assumed buyback /(1)/		(451,335)	
Stock options - antidilutive /(2)/		(11,996)	
EPS - diluted	$23,226	18,066,793	$1.29

</TABLE>

<TABLE>
<CAPTION>

	Quarter Ended June 27, 1999		
	Income (numerator)	Shares (denominator)	Per Share Amount
<S>	<C>	<C>	<C>
EPS - basic:			
Income available to common stockholders	$4,724	17,877,534	$0.26
Effect of dilutive common shares:			
Weighted average stock options outstanding		710,023	
Less:			
Stock options - assumed buyback /(1)/		(224,707)	
Stock options - antidilutive /(2)/		(402,000)	
EPS - diluted	$4,724	17,960,850	$0.26

</TABLE>

<TABLE>
<CAPTION>

	Nine Months Ended June 27, 1999		
	Income (numerator)	Shares (denominator)	Per Share Amount
<S>	<C>	<C>	<C>
EPS - basic:			
Income available to common stockholders	$14,876	17,885,253	$0.83
Effect of dilutive common shares:			
Weighted average stock options outstanding		713,100	
Less:			
Stock options - assumed buyback /(1)/		(148,625)	
Stock options - antidilutive /(2)/		(502,000)	
EPS - diluted	$14,876	17,947,728	$0.83

</TABLE>

(1) The number of stock options assumed to have been bought back by the Company for computational purposes has been calculated by dividing gross proceeds from all weighted average stock options outstanding during the period, as if exercised, by the average common market share price during the period. The average common market share prices used in the above calculations were $20.45 and $12.95 for the three month periods and $19.09 and $11.63 for the nine month periods ended June 28, 1998 and June 27, 1999, respectively.

(2) Stock options to purchase shares of common stock at prices greater than the average market price of the common shares during that period are considered antidilutive.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

7. On June 24, 1999, Citation and RSJ Acquisition Co. entered into a definitive agreement and plan of merger and recapitalization. RSJ Acquisition Co. is a corporation formed by Kelso & Company (Kelso), a private investment firm.

Under the merger agreement, RSJ Acquisition Co. will merge with and into Citation and Citation will be the surviving corporation. Each share of common stock issued and outstanding will be converted into the right to receive, at the election of the stockholder, either $18.10 in cash or one share of common stock of Citation as the surviving corporation, subject to proration designed to ensure approximately 790,000 Citation shares (approximately 4.4% of the presently outstanding shares) are retained by the existing stockholders of Citation. RSJ Acquisition Co., Kelso and Kelso affiliates will invest approximately $190,000 in equity in connection with the transaction. Additionally, approximately $465,000 million in financing will be obtained to fund the purchase of stock and to repay existing indebtedness.

The agreement has been approved by Citation's board of directors but is subject to shareholder approval and the availability of financing to complete the transaction, as well as a number of other conditions.

8. Effective November 17, 1998, the Company completed the purchase of the outstanding stock of Custom Products Corporation ("Custom") of Milwaukee, Wisconsin, for approximately $35,719 in cash. In addition, the agreement provides for contingent payments equal to five times the amount by which the average annual net earnings of Custom before all interest, income taxes, and franchise taxes during the three year period from October 1, 1998 through September 29, 2001 exceeds $9,500. Earnings shall be computed in accordance with generally accepted accounting principles on a pre-acquisition basis, and the aggregate amount of contingent payments shall not exceed $16,500. The acquisition has been accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets and liabilities of Custom based on their estimated fair values at the date of acquisition. Custom is a machiner of cast and forged metal products, primarily for the diesel engine, construction equipment, farm implement and automotive markets. Custom's revenues for its 1998 fiscal year were approximately $75,000. Custom has approximately 650 employees.

The estimated fair values of assets acquired and liabilities assumed are as follows:

<TABLE>

<S>	<C>
Accounts receivable, net	$ 11,127
Inventories	3,800
Other current assets	6,233
Property, plant and equipment	27,942
Intangible assets and other	30,302
Deferred income tax asset	800
Accounts payable and accrued expenses	(17,839)
Deferred income taxes	(1,743)
Long-term debt	(24,903)
Purchase price	$ 35,719

</TABLE>

9. Effective December 28, 1998, the Company acquired all of the stock of CT-South, Inc. of Marion, Alabama, for a purchase price of approximately $14,844 in cash. Following the acquisition, the name of CT-South was changed to Citation Marion, Inc. Citation Marion, Inc. was merged into Citation Castings, Inc. and is now doing business under the name Citation Marion ("Marion"). The acquisition has been accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets and liabilities of Marion based on their estimated fair values at the date of acquisition. Marion is a producer of ductile iron thin-walled exhaust manifolds primarily for the passenger car and

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

light truck markets, and it had revenues for its most recent fiscal year of approximately $30,000. Marion has approximately 400 employees.

The estimated fair values of assets acquired and liabilities assumed are as follows:

Accounts receivable, net	$ 3,724
Inventories	3,501
Other current assets	18
Property, plant and equipment	4,326
Deferred income tax asset	10,523
Accounts payable and accrued expenses	(3,527)
Deferred income taxes	(3,500)
Long-term debt	(221)
Purchase price	$14,844

10. In conjunction with the Company's acquisition of Interstate Forging Industries, Inc. ("Interstate") during October 1996, the purchase agreement requires the Company to make additional contingent payments equal to five times the amount by which the average annual net earnings of Interstate before all interest, income taxes, and franchise taxes during the three-year period from January 1, 1996 through December 31, 1998 exceeds $10,000, computed in accordance with generally accepted accounting principles on a pre-merger basis. Any additional payments made, as the contingencies are resolved, will be accounted for as additional costs of acquired assets and amortized over the remaining life of the assets. During the third quarter of fiscal 1999, the Company distributed $11,217 to the previous stockholders of Interstate representing a portion of the Company's contingent payment for calendar year 1998 as required by the purchase agreement. During fiscal 1998 and 1997, the Company distributed $7,227 and $2,542, respectively, in contingent payments under the purchase agreement for calendar years 1997 and 1996, respectively. These payments have been included in the calculation of the cash paid for the Interstate acquisition of $69,649. The acquisition has been accounted for under the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets and liabilities of Interstate based on their estimated fair values at the date of acquisition.

The estimated fair values of assets acquired and liabilities assumed are summarized as follows:

Accounts receivable, net	$ 15,161
Inventories	12,946
Other current assets	3,014
Property, plant and equipment	78,353
Intangible assets and other	18,560
Accounts payable and accrued expenses	(18,675)
Deferred income taxes	(17,046)
Long-term debt	(22,664)
Purchase price	$ 69,649

11. The following unaudited pro forma summary for the nine months ended June 28, 1998 combines the results of operations of the Company with the fiscal year 1998 acquisitions of Camden Casting, Dycast, and Citation Precision, fiscal year 1999 acquisitions of Custom and Marion and the fiscal year 1999 disposition of Oberdorfer Industries Corporation ("Oberdorfer") as if all had occurred at the beginning of the 1998 fiscal year. For the nine months ended June 27, 1999, the pro forma summary presents the results of operations of the Company as if the acquisitions of Custom and Marion and the disposition of Oberdorfer had occurred at the beginning of the 1999 fiscal year. Certain adjustments, including additional depreciation

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

expense, interest expense on the acquisition debt, amortization of intangible assets and income tax effects, have been made to reflect the impact of the purchase transactions. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made at the beginning of either fiscal years 1998 or 1999, or of results which may occur in the future.

Pro forma interim condensed consolidated statements of income are as follows:

	Nine Months Ended	
	June 28, 1998	June 27, 1999
Sales	$ 624,774	$ 622,662
Operating income	$ 56,668	$ 44,172
Income before provision for income taxes	$ 39,950	$ 26,978
Net income	$ 24,369	$ 16,187
Weighted average shares outstanding - basic (Note 6)	17,821,750	17,885,253
Earnings per common share - basic	$ 1.37	$ 0.90
Weighted average shares outstanding - diluted (Note 6)	18,066,793	17,947,728
Earnings per common share - diluted	$ 1.35	$ 0.90

12. On October 23, 1998, the Company made distributions aggregating $466 to Citation's former S corporation stockholders as a consequence of an Internal Revenue Service audit of the 1993 and 1994 tax years (prior to the Company's 1994 initial public offering), which resulted in an increase to the Company's taxable income for those years. This distribution was made in accordance with the terms of the 1994 Tax Indemnification Agreement between the Company and its former S corporation stockholders, by which the Company and the former S corporation stockholders agreed to indemnify each other for subsequent determinations of income tax liability or increased earnings, respectively, attributable to fiscal periods prior to termination of the S corporation status.

13. On June 16, 1999, Citation completed the sale of Oberdorfer and recorded a pretax loss of $1,815 in the consolidated statement of income for the three and nine months ended June 27, 1999. Citation received proceeds of $3,453, which included $1,000 in cash, a note receivable of $953 discounted at an interest rate of 9% and payable in twenty quarterly installments commencing on October 1, 2001, and membership interests in the purchaser (a limited liability company) of $1,500. The note receivable and LLC membership interests are included in Other Assets at June 27, 1999.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors that have affected the Company's financial condition and earnings during the periods included in the accompanying interim condensed consolidated financial statements.

Forward Looking Statements. The statements in this Form 10-Q that are not historical fact are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements appear in a number of places in this report and include statements regarding the intent, belief or expectations of the Company and its management with respect to, among other things: (i) the Company's operating performance; (ii) the Company's expectations concerning sales growth and earnings per share growth; (iii) the intent, belief or expectations of the Company and its directors and officers with respect to anticipated acquisitions and acquisition strategies; (iv) trends in the industries served by the Company; and (v) trends that may affect the Company's financial condition or results of operations. Such statements are subject to numerous risks and uncertainties which could cause actual results to

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

differ materially from anticipated results. The following are some of such factors, risks and uncertainties: (i) competitive product and pricing pressures; (ii) fluctuations in the cost and availability of raw materials; (iii) general economic and business conditions, as well as conditions affecting the industries served by the Company; (iv) the ability to generate sufficient cash flows to support acquisition strategies, capital expansion plans and general operating activities; (v) recent management changes; and (vi) the Company's ability to penetrate new markets.

In addition, a significant element of uncertainty is occasioned by the Company's recent announcement of the execution of a definitive merger agreement with RSJ Acquisition Co. Statements in this Form 10-Q concerning the proposed merger, as well as virtually all facets of the Company's operations, are subject to the numerous uncertainties associated with the successful closing of the proposed transaction with RSJ Acquisition Co., and the risks associated with acquisitions generally.

Readers are cautioned not to place undue reliance on these forward looking statements which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the disclosures made in other periodic reports and other filings with the Securities and Exchange Commission.

Quarter ended June 27, 1999 compared to the quarter ended June 28, 1998

Sales. Sales increased 9.3%, or $18.3 million, to $214.7 million in the third quarter of fiscal 1999, from $196.4 million in the comparable quarter of fiscal 1998. The increase includes $30.9 million attributable to the acquisitions of Custom and Marion during the current year (collectively the "Acquisitions"), offset by a 6.4% decrease or $12.6 million in reduced revenues from the Company's existing operations. The Company's Industrial Iron and Industrial Steel Groups had reduced sales of 24.3% or $24.2 million from existing units due to a reduction in orders, principally from customers in the construction equipment, mining equipment, farm implement, and/or oil tool industries. This also includes approximately $1.2 million in reduced sales at the Company's Mansfield, Ohio facility due to a five week strike that was settled in June 1999. Sales by the Company's existing units in its Automotive Group increased 13.2% or $11.0 million, principally due to new business.

Gross Profit. Gross profit decreased $2.6 million or 7.2% to $33.4 million in the third quarter of fiscal 1999, from $36.0 million in the comparable quarter of fiscal 1998. The gross profit margin declined to 15.5% in the third quarter of fiscal 1999 from 18.3% in the comparable quarter of fiscal 1998. The gross margin for the Acquisitions in the third quarter of fiscal 1999 was 16.1%. The gross margin for existing units in the third quarter of fiscal 1999 was 15.5%, down from 18.3% in the comparable quarter of fiscal 1998 principally due to reduced sales in the Company's Industrial Iron and Industrial Steel Groups.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SGA") increased 14.0% or $2.3 million to $18.2 million in the third quarter of fiscal 1999 from $15.9 million in the comparable quarter of fiscal 1998. SGA costs as a percentage of sales increased to 8.5% in the third quarter of fiscal 1999 versus 8.1% in the comparable quarter of fiscal 1998. SGA costs attributable to the Acquisitions was $2.5 million for the third quarter of fiscal 1999. SGA costs at existing units was $15.7 million in the third quarter of fiscal 1999 versus $15.9 million in the comparable quarter of fiscal 1998.

Operating Income. Operating income decreased $4.8 million or 24.2% to $15.2 million in the third quarter of fiscal 1999 from $20.0 million in the comparable quarter of fiscal 1998. The overall operating margin decreased to 7.1% in the third quarter as compared to 10.2% in the third quarter of the previous year. The operating margin attributable to Acquisitions was 8.0% for the quarter while the margin for the existing units in the same period was 6.9%.

Interest Expense. Interest expense for the third quarter of fiscal 1999 increased to $5.5 million from $4.1 million in the comparable quarter of fiscal 1998, an increase of $1.4 million. The increase reflects primarily the cost of financing the Acquisitions.

Loss on Sale. The loss on sale relates to the sale of Oberdorfer which is described in Note 13 of the interim condensed consolidated financial statements

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

included elsewhere in this Form 10-Q.

Nine months ended June 27, 1999 compared to the nine months ended June 28, 1998

Sales. Sales increased 9.6%, or $53.6 million, to $613.4 million for the first nine months of fiscal 1999 from $559.8 million in the comparable prior year period. The increase includes $91.5 million attributable to the incremental sales of Custom, Marion, Citation Precision, Dycast, and Camden (collectively the "Acquisitions"), offset by a 6.8% decrease or $37.8 million in reduced revenues from the Company's existing operations. The Company's Industrial Iron and Industrial Steel Groups had reduced sales of 20.1% or $60.1 million from existing units due to a reduction in orders, principally from customers in the construction equipment, mining equipment, farm implement, and/or oil tool industries. This also includes approximately $1.2 million in reduced sales at the Company's Mansfield, Ohio facility due to a five week strike that was settled in June 1999. Sales by the Company's existing units in its Automotive Group increased 9.9% or $23.3 million, principally due to new business.

Gross Profit. Gross profit decreased $1.8 million or 1.8% to $95.3 million for the first nine months of fiscal 1999, from $97.1 million in the comparable prior year period. The gross profit margin declined to 15.5% for the first nine months of fiscal 1999 from 17.3% in the comparable prior year period. The gross margin for the Acquisitions included in the first nine months of fiscal 1999 was 16.8%. The gross margin for existing units decreased to 15.3% in the first nine months of fiscal 1999 down from 17.3% in the comparable prior year period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SGA") increased 10.5% or $5.1 million to $53.0 million in the first nine months of fiscal 1999 from $47.9 million in the comparable prior year period. SGA costs as a percentage of sales held constant at 8.6% in the first nine months of fiscal 1999 from the comparable prior year period. SGA costs attributable to the Acquisitions was $8.0 million in the first nine months of fiscal 1999. SGA costs at existing units was $44.9 million in the first nine months of fiscal 1999 versus $47.9 million in the comparable prior year period.

Operating Income. Operating income decreased 13.8%, or $6.7 million, to $42.4 million during the first nine months of fiscal 1999 from $49.1 million in the comparable prior year period. The overall operating margin decreased to 6.9% in the first nine months of fiscal 1999 from 8.8% in the comparable prior year period. The operating margin attributable to Acquisitions was 8.0% for the first nine months of fiscal 1999 while the margin for the existing units in the same period was 6.7%.

Interest Expense. Interest expense for the first nine months of fiscal 1999 increased to $15.8 million from $11.0 million in the comparable prior year period, an increase of $4.8 million. The increase primarily reflects the cost of financing the Acquisitions.

Loss on Sale. The loss on sale relates to the sale of Oberdorfer which is described in Note 13 of the interim condensed consolidated financial statements included elsewhere in this Form 10-Q.

Liquidity and Capital Resources

The Company's principal capital requirements are to fund capital expenditures for existing facilities and to fund new business acquisitions. Historically, the Company has used cash generated by operations, borrowings under its revolving credit facility (discussed below) and proceeds from public equity offerings to fund its capital requirements. Additionally, the Company requires capital to finance accounts receivable and inventory.

As of September 27, 1998, the Company had a $300.0 million revolving credit facility with a consortium of banks, led by the First National Bank of Chicago ("First Chicago") to be used for working capital purposes and to fund future acquisitions. On November 3, 1998, the Company's credit facility was increased from $300.0 million to $400.0 million. The facility consists of a swing line of credit up to $15.0 million bearing interest at prime and revolving credit borrowings which bear interest at LIBOR plus .625% to LIBOR plus 2.00% based upon the Company's ratio of debt to its cash flow, measured by earnings before interest and taxes plus depreciation and amortization (EBITDA). At September 27, 1998 and June 27, 1999, the Company was able to borrow at LIBOR plus 1% and LIBOR plus 1.75%, respectively. The facility calls for an unused commitment fee payable quarterly, in arrears, at a rate of .20% to .50% based upon the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Company's ratio of debt to EBITDA. At September 27, 1998 and June 27, 1999, the Company's unused commitment fee rate was .25% and .375%, respectively. The facility is collateralized by the stock of the Company's subsidiaries and expires on October 15, 2001. At September 27, 1998 and June 27, 1999, the total outstanding balance under this credit facility was $233.0 million and $307.0 million, respectively.

As of September 27, 1998, the Company had $3.0 million outstanding under the swing line of credit at the prime rate of 8.5%. The remaining $230.0 million outstanding under the credit facility at September 27, 1998 related to four revolving loans. The Company had one loan at $150.0 million at an interest rate of 6.60%. The remaining $80.0 million outstanding under the credit facility at September 27, 1998 consists of one $40.0 million and two $20.0 million five-year interest rate swap agreements that were entered into during fiscal year 1996. These agreements have fixed interest rates plus a margin of .625% to 1.50%, based on the Company's leverage ratio on the date the agreements are repriced. The Company's fixed interest rates, including margins, were 7.91% and 8.09% on the two $20.0 million swap agreements and 7.85% on the $40.0 million swap agreement at September 27, 1998.

As of June 27, 1999, the Company had $7.0 million outstanding under the swing line of credit. Of the $300.0 million outstanding under the credit facility at June 27, 1999, $220.0 million related to seven revolving loans as follows:

Loan Amount (in millions)	Interest Rate	Maturity Date
125.0	6.79%	August 9, 1999
50.0	6.84%	August 16, 1999
25.0	6.75%	July 26, 1999
5.0	6.67%	June 28, 1999
5.0	6.71%	July 12, 1999
5.0	6.71%	July 19, 1999
5.0	6.79%	August 2, 1999

The remaining $80.0 million outstanding under the credit facility at June 27, 1999 consists of one $40.0 million and two $20.0 million five-year interest rate swap agreements that were entered into during fiscal year 1996. These agreements have fixed interest rates plus a margin of .625% to 1.50%, based on the Company's leverage ratio on the date the agreements are repriced. The Company's fixed interest rates, including margins, were 8.84% and 8.66% on the two $20.0 million swap agreements and 8.60% on the $40.0 million swap agreement at June 27, 1999. These are scheduled to reprice on August 2, 1999. The Company is exposed to credit risk in the event of nonperformance by the counterparty to the interest rate swap agreements. The Company mitigates credit risk by dealing with only financially sound banks. Accordingly, the Company does not anticipate loss for nonperformance by these counterparties.

The Company's credit facility contains certain restrictive covenants that require the maintenance of a funded debt to EBITDA ratio and a specified fixed charge coverage ratio; place a minimum level of stockholders' equity; place limitations on capital expenditures, and place limitations on dividends and other borrowings. As of June 27, 1999, the Company was either in compliance with or had obtained waivers for all restrictive covenants.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates which may adversely affect its consolidated financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not party to any leverage financial instruments.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Company is exposed to interest rate risk primarily through its borrowing activities. The majority of the Company's borrowings are under variable rate instruments. However, the Company uses interest rate swaps to help manage its exposure to interest rate movements and reduce borrowing costs.

Refer to the Liquidity and Capital Resources section in Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

Recently Issued Accounting Standards

Note 1 of the interim condensed consolidated financial statements included elsewhere in this Form 10-Q describes the recently issued accounting standards.

Acquisitions

Notes 8 and 9 of the interim condensed consolidated financial statements included elsewhere in this Form 10-Q describe the recent acquisitions of Custom and Marion.

Dispositions

Note 13 of the interim condensed consolidated financial statements included elsewhere in this Form 10-Q describes the recent disposition of Oberdorfer Industries.

Year 2000 (Y2K) Readiness Disclosure

General. As many computer systems and other equipment with embedded chips or processors use only two digits to represent the year, they may be unable to process accurately certain data before, during or after the year 2000. The Company continues to address the "Year 2000" issue through a company-wide Y2K Project (the "Project").

The Project involves reviewing current software as well as embedded systems in certain manufacturing equipment and surveying each of the Company's divisional operations to assess the impact of the Y2K issue. The Project is being coordinated by a twenty-five member team. This team includes five personnel from corporate headquarters, including the overall coordinator, and a coordinator at each division. The Project, which is approximately 90% complete to date, is expected to be completed by the fall of 1999. The Company has developed a contingency plan that involves manual processing, system backups, increased inventory from critical suppliers and the selection of alternative suppliers of critical materials.

Project. The Company's Project is divided into five major sections: infrastructure, applications software, manufacturing software, process control and instrumentation ("PC&I") and third party suppliers/customers. The Company has designated a Y2K team leader at each of its locations to help direct the phases of the project. These phases, which are common to the five major sections, are as follows: (1) inventorying Y2K items; (2) assessing compliance to Y2K for the items identified; (3) developing a strategy for remediation of non-compliant items; (4) implementation of the remediation strategy; and (5) independent validation from external resources as to the Company's compliance.

The infrastructure and applications software sections consist of an analysis of hardware and systems software. The applications software includes both the conversion of applications that are not Y2K compliant and, where available from the supplier, the replacement of such software. The inventory, assessment, implementation and validation for the infrastructure, applications software and manufacturing software are approximately 95% complete. With respect to the manufacturing software, approximately 90% of the Company's divisions are compliant, with approximately 60% using B&L Information Systems, which is Y2K compliant, and another 20% using other manufacturing software that is also Y2K compliant. The remaining 20% non-compliant manufacturing software has been inventoried and identified. The Company expects these three sections of the Project to be complete by the fall of 1999.

The PC&I section includes the hardware, software and associated embedded computer chips that are used in the operation of all facilities operated by the Company. 100% of the PC&I Y2K items have been inventoried and identified. Furthermore, approximately 90% of those systems are deemed to be Y2K compliant.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Company expects substantially all of its PC&I equipment to be compliant by the fall of 1999.

The third party suppliers/customers section of the Project involves sending a Y2K compliance questionnaire to all key suppliers as well as dealing with any independent review of the Company's compliance by certain of its customers. The Company obtains evidence from its key suppliers documenting their compliance with the Y2K issue and will continue to monitor vendors that are non-compliant for contingency planning purposes. The Company's contingency plan addresses non-compliance of key suppliers by having alternative suppliers as well as increasing critical inventory prior to the year 2000. This section of the project is approximately 90% complete and full implementation is expected by fall of 1999.

Once the strategy of all sections has been implemented, the Company will have independent validation of its Y2K compliance. Major customers will continue to review various divisions' systems along with external resources hired by the Company. The Company anticipates this external review will be completed by the fall of 1999. The costs associated with the Project have been and will continue to be expensed as incurred. The Company does not separately track these internal costs incurred for the Y2K Project; these costs however, to date, consist principally of the related payroll costs of its information systems group.

Risks. The failure to correct a material Y2K problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Y2K issue, resulting in part from the uncertainty of the Y2K readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Y2K failures will have a material impact on the Company's results of operations, liquidity or financial condition. The Y2K Project is expected to significantly reduce the Company's level of uncertainty about the Y2K issue and, in particular, about the Y2K compliance and readiness of external parties. The Company believes that, with the implementation and completion of the Project as scheduled, the possibility of significant interruptions of normal operations should be reduced. The Company does not believe it has any material exposure to contingencies related to the Y2K issue for products it has sold.

____

PART II: OTHER INFORMATION

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule, submitted to the Securities and Exchange Commission in electronic format

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended June 27, 1999. However, in a report on Form 8-K filed July 1, 1999, the Company reported the execution on June 24, 1999 of a definitive merger agreement with RSJ Acquisition Co.

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

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

undersigned, thereunto duly authorized.

DATE:	CITATION CORPORATION
July 23, 1999	/s/ Frederick F. Sommer -------------------------------------- FREDERICK F. SOMMER President and Chief Executive Officer
July 23, 1999	/s/ Thomas W. Burleson -------------------------------------- THOMAS W. BURLESON Vice President-Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

```
<TABLE> <S> <C>


<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FORM "INTERIM
CONDENSED CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF INCOME
FOUND ON PAGES 2 AND 3 OF THE COMPANY'S FORM 10-Q FOR THE NINE MONTHS ENDED
JUNE 27, 1999" AND IS QUALIFIED IN ENTIRETY BY REFERENCE TO SUCH FINANCIAL
STATEMENTS.
</LEGEND>
<MULTIPLIER> 1,000

<S>                               <C>
<PERIOD-TYPE>                     9-MOS
<FISCAL-YEAR-END>                           OCT-03-1999
<PERIOD-START>                              SEP-28-1998
<PERIOD-END>                                JUN-27-1999
<CASH>                                            2,080
<SECURITIES>                                          0
<RECEIVABLES>                                   121,061
<ALLOWANCES>                                    (3,072)
<INVENTORY>                                      58,781
<CURRENT-ASSETS>                                212,569
<PP&E>                                          487,652
<DEPRECIATION>                                (147,780)
<TOTAL-ASSETS>                                  678,730
<CURRENT-LIABILITIES>                           113,325
<BONDS>                                               0
<PREFERRED-MANDATORY>                                 0
<PREFERRED>                                           0
<COMMON>                                            179
<OTHER-SE>                                      199,725
<TOTAL-LIABILITY-AND-EQUITY>                    678,730
<SALES>                                         613,446
<TOTAL-REVENUES>                                613,446
<CGS>                                           518,111
<TOTAL-COSTS>                                   571,085
<OTHER-EXPENSES>                                  1,815
<LOSS-PROVISION>                                      0
<INTEREST-EXPENSE>                               15,752
<INCOME-PRETAX>                                  24,794
<INCOME-TAX>                                      9,918
<INCOME-CONTINUING>                              14,876
<DISCONTINUED>                                        0
<EXTRAORDINARY>                                       0
<CHANGES>                                             0
<NET-INCOME>                                     14,876
<EPS-BASIC>                                      0.83
```

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<EPS-DILUTED> 0.83

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document