FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-01-12** | Period of Report: **1993-11-30**
SEC Accession No. 0000950134-94-000016

FILER

CHAPARRAL STEEL CO
CIK:**833226**| IRS No.: **751424624** | State of Incorp.:**DE** | Fiscal Year End: **0531**
Type: **10-Q** | Act: **34** | File No.: **001-09944** | Film No.: **94501117**
SIC: **3312** Steel works, blast furnaces & rolling mills (coke ovens)

Business Address
300 WARD RD
MIDLOTHIAN TX 76065
2147758241

UNITED STATES
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 PERIOD ENDED NOVEMBER 30, 1993

OR

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

COMMISSION FILE
NO. 1-9944

CHAPARRAL STEEL COMPANY

Incorporated in
STATE OF DELAWARE

IRS Employer Identification
NO. 75-1424624

300 WARD ROAD
MIDLOTHIAN, TEXAS 76065

Telephone: (214) 775-8241

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 periods 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 .

29,679,900 Shares of Common Stock, Par Value $.10 Outstanding at January 11, 1994.

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CHAPARRAL STEEL COMPANY

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CONDENSED CONSOLIDATED BALANCE SHEETS

CHAPARRAL STEEL COMPANY AND SUBSIDIARIES

<TABLE>
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	(Unaudited) November 30, 1993	May 31, 1993
	(In thousands)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,845	$ 3,763
Trade accounts receivable, net of allowance of $3.2 million and $3.4 million, respectively	41,539	34,187
Inventories	95,818	92,672
Prepaid expenses	11,062	8,147
TOTAL CURRENT ASSETS	150,264	138,769

PROPERTY, PLANT AND EQUIPMENT		
Buildings and improvements	47,118	46,634
Machinery and equipment	432,655	430,614
Land	1,288	1,288
	----------	---------
	481,061	478,536
Less allowance for depreciation	(236,157)	(222,974)
	----------	---------
	244,904	255,562
OTHER ASSETS		
Goodwill, commissioning costs and other assets, net of accumulated amortization of $14.3 million and $11.6 million, respectively	84,255	86,480
	----------	---------
	$ 479,423	$ 480,811
	==========	=========
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 27,955	$ 27,202
Accrued interest payable	2,818	3,044
Other accrued expenses	15,161	14,902
Current portion of long-term debt	11,400	12,720
	----------	---------
TOTAL CURRENT LIABILITIES	57,334	57,868
LONG-TERM DEBT	111,239	113,997
DEFERRED INCOME TAXES AND OTHER CREDITS	50,630	49,348
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value, 29,679,900 and 29,675,400 shares outstanding, respectively	2,994	2,994
Paid-in capital	188,036	188,050
Retained earnings	71,694	71,113
Cost of common stock in treasury	(2,504)	(2,559)
	----------	---------
	260,220	259,598
	----------	---------
	$ 479,423	$ 480,811
	==========	=========

</TABLE>
See notes to condensed consolidated financial statements.

(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

CHAPARRAL STEEL COMPANY AND SUBSIDIARIES

<TABLE>
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	Three months ended November 30,		Six months ended November 30,	
	1993	1992	1993	1992
	----	----	----	----
	(In thousands except per share)			
<S>	<C>	<C>	<C>	<C>
Net sales	$117,225	$106,568	$219,121	$208,126

Costs and expenses:				
Cost of sales	94,854	89,938	180,201	180,208
Selling, general and administrative	3,795	3,507	8,374	7,135
Depreciation and amortization	8,410	8,555	16,816	17,102
Interest	3,379	3,764	6,787	7,580
Other income	(575)	(345)	(1,364)	(550)
	109,863	105,419	210,814	211,475
INCOME (LOSS) BEFORE INCOME TAXES	7,362	1,149	8,307	(3,349)
Provision (benefit) for income taxes:				
Current period provision (benefit)	2,939	482	3,315	(1,707)
Change in statutory federal tax rate	-	-	1,443	-
	2,939	482	4,758	(1,707)
NET INCOME (LOSS)	$ 4,423	$ 667	$ 3,549	$ (1,642)
Per common share:				
NET INCOME (LOSS)	$ .15	$ .03	$ .12	$ (.05)
CASH DIVIDENDS	$ .05	$ .05	$ .10	$ .10
Average shares outstanding - Note B	29,709	29,701	29,712	29,675

</TABLE>

See notes to condensed consolidated financial statements.

(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
CHAPARRAL STEEL COMPANY AND SUBSIDIARIES

<TABLE>
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	Six months ended November 30, 1993	1992
	(In thousands)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income (loss)	$ 3,549	$ (1,642)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,816	17,102
Deferred income taxes	1,894	2,964
Other deferred credits	(612)	(1,622)

Changes in operating assets and liabilities:		
Trade accounts receivable, net	(7,796)	2,629
Inventories	(3,145)	3,315
Prepaid expenses	(2,914)	(1,691)
Trade accounts payable	752	(7,088)
Accrued interest payable	(225)	(159)
Other accrued expenses	259	816
Net cash provided by operating activities	8,578	14,624
INVESTING ACTIVITIES		
Capital expenditures	(3,491)	(3,095)
Other	41	1
Net cash used in investing activities	(3,450)	(3,094)
FINANCING ACTIVITIES		
Short-term borrowings	5,000	7,000
Repayments on short-term debt	(5,000)	(7,000)
Long-term borrowings	260	-
Repayments on long-term debt	(4,338)	(4,327)
Dividends paid	(2,968)	(2,968)
Net cash used in financing activities	(7,046)	(7,295)
Increase (decrease) in cash and cash equivalents	(1,918)	4,235
Cash and cash equivalents at beginning of period	3,763	4,753
Cash and cash equivalents at end of period	$ 1,845	$ 8,988

</TABLE>

See notes to condensed consolidated financial statements.

(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CHAPARRAL STEEL COMPANY AND SUBSIDIARIES

November 30, 1993

NOTE A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Chaparral Steel Company and Subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended November 30, 1993 are not necessarily indicative of the results that may be expected for the year ending May 31, 1994. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 1993.

NOTE B - Earnings Per Share

Texas Industries, Inc. ("TXI") owned 100% of the Company from November 1985, when it acquired the remaining 50% of the outstanding securities of the Company from Co-Steel Inc. ("Co-Steel"), until July 1988, when approximately 19.8% of the outstanding securities were sold in an initial public offering of common stock by the Company. Under terms of the purchase agreement between TXI and Co-Steel, TXI made a $42 million initial cash payment and made a $73 million final payment in August 1990.

The acquisition by TXI has been accounted for using the purchase method of accounting. The $115 million total purchase price exceeded the value of acquired assets by $83 million and the excess has been recorded as goodwill and additional paid-in-capital. This goodwill is being amortized over 40 years using the straight-line method and reduced earnings by $1.2 million in the six months ended November 30, 1993 and 1992, respectively. The amount of goodwill, net of accumulated amortization included in other assets was $74.2 million, $75.3 million and $77.6 million at November 30, 1993, May 31, 1993 and May 31, 1992, respectively.

Net income (loss) per common share is calculated based upon a weighted average of shares outstanding (including common stock equivalents that are not antidilutive).

NOTE C - Inventories

Inventories consist of the following:

<TABLE>
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	November 30, 1993	May 31, 1993
	(In thousands)	
<S>	<C>	<C>
Finished goods	$55,273	$49,596
Work in process	8,455	7,817
Raw materials:		
Scrap	9,992	10,843
Crushed cars	359	171
Rolls	14,870	14,579
Supplies	13,807	14,684
LIFO adjustment	(6,938)	(5,018)
	$95,818	$92,672

</TABLE>

Inventories are stated at the lower of cost (last-in, first-out) or market, except rolls which are stated at cost (specific identification) and supplies which are stated at average cost.

NOTE D - Income Tax Provision

The provision (benefit) for income taxes has been included in the accompanying financial statements on the basis of an estimated annual rate. In August 1993, President Clinton signed into law the Omnibus Budget Reconciliation Act of 1993 that contained a provision raising the top effective rate for corporations to 35%. This rate increase, when applied to the Company's temporary differences, resulted in a charge of $1.4 million which is included in the income tax provision in the August 1993 quarter. Goodwill amortization also contributed to the difference between provision (benefit) amounts and amounts computed by applying the statutory federal income tax rates.

NOTE E - Commissioning Costs

The Company's policy for new facilities is to capitalize certain costs until the facility is substantially complete and ready for its intended use. The Large Beam Mill was substantially complete and ready for its intended use in the third quarter of fiscal 1992 with a total of $15.1 million of costs deferred, including $4.4 million of interest and $3.4 million of depreciation. Amortization of $1.5 million was recorded in the first six months of fiscal 1994 and 1993, respectively, based on a five year period.

NOTE F - Severance Pay

In an effort to stay competitive and reduce costs, the Company decreased its number of employees in the first quarter of fiscal 1994. As a result, a non-recurring charge of $1.6 million for severance pay is included in selling, general and administrative in fiscal 1994.

EXHIBIT A

Independent Accountants' Review Report

Board of Directors
Chaparral Steel Company

We have reviewed the accompanying condensed consolidated balance sheet of Chaparral Steel Company and subsidiaries as of November 30, 1993, and the related condensed consolidated statements of income and cash flows for the three and six month periods ended November 30, 1993 and 1992. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Chaparral Steel Company as of May 31, 1993, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein) and in our report dated July 14, 1993, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 1993, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst and Young

December 17, 1993

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Unaudited)

Comparison of operations and financial condition for the quarter and six months ended November 30, 1993 to the quarter and six months ended November 30, 1992.

RESULTS OF OPERATIONS

An increase in average selling price of 12% offset a decrease in shipments of 5,000 tons resulting in a $10.7 million increase in net sales in the three month period ended November 30, 1993 compared to the same quarter in fiscal 1993. Net sales increased $11 million in the six month period ending November 30, 1993 principally due to a $32 increase in average selling price. The pricing strategy for certain structural products announced in the May 1993 quarter and general price increases in the current fiscal year, intended to offset the continued escalation in scrap prices, have combined to produce the improvement in selling prices. Demand for structural steel has improved slightly during the fall, but there is no indication that this trend will continue.

Cost of sales increased $4.9 million to $94.9 million for the three month period ended November 30, 1993 compared to the same period in the prior year. The increase was predominately caused by a $19 increase in cost of sales per ton which resulted from a scrap price increase offset by the 5,000 ton decrease in shipments. Cost of sales for the six month period was virtually unchanged as a 6% increase in cost of sales per ton was offset by a decrease in shipments of 35,000 tons. Scrap prices, which fluctuate with market conditions, are up approximately 25% from the prior year. Certain cost cutting measures implemented by the Company in the August 1993 quarter continued to reduce other manufacturing costs.

Selling, general and administrative expense increased $.3 million from the prior year quarter primarily due to an increase in employee profit sharing which is based on profitability. The $1.6 million charge for severance pay in fiscal 1994 was the primary reason for the increase of $1.2 million in selling, general and administrative expense in the six month period ended November 30, 1993. The Company continues to experience decreases in costs in all other areas of administration and marketing compared to the periods in the previous year.

Interest expense decreased $.4 million and $.8 million in the three and six month periods ended November 30, 1993 compared to the same periods in the prior year. Interest expense in the current period was reduced by repayments of long-term debt which is principally at fixed rates.

The provision (benefit) for income taxes has been calculated on the basis of an estimated annual rate. The rate was affected by recently passed legislation, which when applied to the Company's temporary differences, resulted in an increase of $1.4 million in the amount of deferred tax expense recorded in the

August 1993 quarter. Goodwill amortization also contributed to the difference between provision amounts and income tax amounts computed by applying the statutory federal income tax rates.

The increase in net income (loss) in the current periods was due principally to higher average selling prices. Lower depreciation and interest costs in fiscal 1994 increased profitability by $.5 million in the three month period and by $1.1 in the six month period ending November 30, 1993. The increase in net income (loss) was achieved despite the adjustment for severance pay and the additional $1.4 million income tax provision described above.

CAPITAL RESOURCES AND LIQUIDITY

Working capital increased $12 million to $92.9 million at November 30, 1993 from the previous fiscal year-end. Accounts receivable increased $7.4 million from May 1993 as the Days Sales Outstanding ratio increased by five days which follows a historical trend. Prepaid expenses increased from May 31, 1993 as a result of summer shutdown spending. Cash provided by operations in the first six months of fiscal 1994 decreased by $6 million primarily from a change in net cash provided by accounts receivable and inventories. As a result, cash and cash equivalents decreased $1.9 million after the Company acquired $3.5 million of capital additions, repaid $4.3 million of long-term debt and paid cash dividends of $3 million.

Capital expenditures for the six months ended November 30, 1993 totaled $3.5 million and are estimated to be approximately $10 million in fiscal 1994 which represents normal replacement and upgrades of existing equipment. The Company continues to study the possibility of new processes related to its primary business.

The Company is subject to federal, state and local environmental laws and regulations concerning, among other matters, waste water effluent, air emissions and electric arc furnace ("EAF") dust disposal. From time to time, the Company is involved in litigation relating to claims arising in the ordinary course of business operations. No litigation (based on the opinion of counsel) is pending against or currently affects the Company, the ultimate liability of which, if any, would have a material effect on the Company's financial position or results of operations. The Company maintains a hazardous waste liability policy against certain third party claims, which insurance the Company believes to be adequate in relation to the Company's business.

The Company has short-term credit facilities with two banks totaling $20 million which will expire January 31, 1994 if not renewed by the banks or the Company. The Company had maximum borrowings of $5 million at any one time under these arrangements during the first six months of fiscal 1994. At November 30, 1993, the Company had no outstanding borrowings under these facilities. The Company has been offered renewal of the existing facilities at substantially the same terms as the existing facilities. Management is reviewing those offers and similar arrangements offered by other financial institutions and intends to accept some combination of the offers prior to January 31, 1994. The Company expects that current financial resources and anticipated cash provided from operations in fiscal 1994 will be sufficient to provide funds for capital expenditures, meet scheduled debt payments and satisfy other known working capital needs for fiscal 1994. If additional funds are required to accomplish long-term expansion of its productive capabilities, the Company believes that funding can be obtained to meet such requirements.

PART II. OTHER INFORMATION

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

At the Annual Meeting of the Stockholders held October 20, 1993, stockholders elected as Directors of the Company, Robert Alpert, John M. Belk, Gordon E. Forward, Eugenio Clariond Reyes, Robert D. Rogers, Gerald R. Heffernan and Gerhard Liener, to terms expiring in 1994. Votes cast to elect Robert Alpert were 29,334,982 affirmative, 6,336 opposed and 338,582 abstained or non-voted. Votes cast to elect John M. Belk, Gordon E. Forward, Eugenio Clariond Reyes and Robert D. Rogers were 29,335,082 affirmative, 6,236 opposed and 338,582 abstained or non-voted. Votes cast to elect Gerald R. Heffernan were 29,333,682 affirmative, 7,636 opposed and 338,582 abstained or non-voted. Votes cast to elect Gerhard Liener were 29,294,082 affirmative, 47,236 opposed and 338,582 abstained or non-voted.

Item 6. Exhibits and Reports on Form 8-K.

The following exhibits are included herein:

(11) Statement re: Computation of earnings per share

(15) Letter re: Unaudited interim financial information

The Registrant did not file any reports on Form 8-K during the three months ended November 30, 1993.

SIGNATURES

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

CHAPARRAL STEEL COMPANY

January 11, 1994

/s/ Richard M. Fowler .
Richard M. Fowler
Senior Vice-President &
Chief Financial Officer

January 11, 1994

/s/ Larry L. Clark .
Larry L. Clark
Vice President - Controller

EXHIBIT 11

COMPUTATION OF EARNINGS PER SHARE

CHAPARRAL STEEL COMPANY AND SUBSIDIARIES

<TABLE>
<CAPTION>

	Three months ended November 30, 1993	Three months ended November 30, 1992	Six months ended November 30, 1993	Six months ended November 30, 1992
	(In thousands except per share)			
<S>	<C>	<C>	<C>	<C>
AVERAGE SHARES OUTSTANDING				
Primary:				
Average shares outstanding	29,680	29,675	29,680	29,675
Stock options - treasury stock method using average market prices	29	26	32	A) -
TOTALS	29,709	29,701	29,712	29,675
Fully diluted:				
Average shares outstanding	29,680	29,675	29,680	29,675
Stock options - treasury stock method using end of quarter market price if higher than average	31	31	35	A) -
TOTALS	29,711	29,706	29,715	29,675
INCOME (LOSS) APPLICABLE TO COMMON STOCK				
Primary and fully diluted:				
Net income (loss)	$ 4,423	$ 667	$ 3,549	$ (1,642)
Add:				
Pre-September 1990 contingent price amortization	58	58	116	116
	$ 4,481	$ 725	$ 3,665	$ (1,526)
PER SHARE				
Net income (loss) per common share:				
Primary	$ .15	$ .03	$ .12	$ (.05)
Fully diluted	$ .15	$ .03	$ .12	$ (.05)

</TABLE>

A) - Shares have been excluded as they are antidilutive.

EXHIBIT 15

Board of Directors
Chaparral Steel Company

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-39626) pertaining to the Chaparral Steel Company Stock Option Plan of our report dated December 17, 1993, relating to the unaudited condensed consolidated interim financial statements of Chaparral Steel Company and subsidiaries which are included in its Form 10-Q for the quarter ended November 30, 1993.

Pursuant to Rule 436(c) of Securities Act of 1933 our report is not a part of the Registration Statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Ernst and Young

Dallas, Texas
January 11, 1994