FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-03-16** | Period of Report: **1994-01-31**
SEC Accession No. 0000084278-94-000007

(HTML Version on secdatabase.com)

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ROANOKE ELECTRIC STEEL CORP

CIK:**84278**| IRS No.: **540585263** | State of Incorp.:**VA** | Fiscal Year End: **1031**
Type: **10-Q** | Act: **34** | File No.: **000-02389** | Film No.: **94516241**
SIC: **3312** Steel works, blast furnaces & rolling mills (coke ovens)

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ROANOKE VA 24017
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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 quarterly period ended January 31, 1994

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 0-2389

ROANOKE ELECTRIC STEEL CORPORATION
(Exact name of Registrant as specified in its charter)

Virginia	54-0585263
(State or other jurisdiction of incorporation or organization)	Identification No.)
102 Westside Blvd., N.W., Roanoke, Virginia	24017
(Address of principal executive offices)	(Zip Code)

(703) 342-1831
(Registrant's telephone number, including area code)

N/A
(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, and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of January 31, 1994.

5,308,909 Shares outstanding

ROANOKE ELECTRIC STEEL CORPORATION

FORM 10-Q

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ITEM 1 - FINANCIAL STATEMENTS
ROANOKE ELECTRIC STEEL CORPORATION

Consolidated Balance Sheets
ASSETS

	(Unaudited) January 31,	(Audited) October 31,

	1994	1993
CURRENT ASSETS		
Cash and cash equivalents	$ 1,645,923	$ 3,067,418
Investments	6,224,600	5,243,735
Accounts receivable	23,993,133	28,074,878
Inventories	24,231,908	24,069,180
Prepaid expenses	1,344,610	1,324,123
Total current assets	57,440,174	61,779,334
PROPERTY, PLANT AND EQUIPMENT		
Land	3,243,426	3,243,426
Buildings	15,122,803	15,121,826
Other property and equipment	93,851,865	93,677,568
Assets under construction	5,225,508	2,897,377
Sub-total	117,443,602	114,940,197
Less--accumulated depreciation	50,489,205	48,728,280
	66,954,397	66,211,917
OTHER ASSETS		
Unamortized excess of cost of investment in subsidiary over net assets acquired	248,629	295,247
Other	1,055,210	1,015,741
	1,303,839	1,310,988
	$ 125,698,410	$ 129,302,239

LIABILITIES AND STOCKHOLDERS' EQUITY

	1994	1993
CURRENT LIABILITIES		
Current portion of long-term debt	$ 4,965,500	$ 4,965,500
Notes payable	5,000,000	6,000,000
Accounts payable	11,471,787	11,595,102
Dividend payable	637,069	636,589
Employees' taxes withheld	252,307	207,069
Accrued profit-sharing contribution	567,721	1,680,246
Accrued wages and expenses	1,189,645	1,536,585
Accrued income taxes	789,620	69,538
Total current liabilities	24,873,649	26,690,629
LONG-TERM DEBT		
Notes payable	28,307,625	30,486,500
Less--current portion	4,965,500	4,965,500
	23,342,125	25,521,000
DEFERRED INCOME TAXES	10,701,093	13,887,033
POSTRETIREMENT LIABILITIES	60,500	-
STOCKHOLDERS' EQUITY		
Common stock--no par value--authorized 10,000,000 shares, issued 5,906,738 shares in 1994 and 5,901,538 in 1993	751,151	722,151
Capital in excess of stated value	9,349,429	9,349,429
Retained earnings	57,815,331	54,326,865
	67,915,911	64,398,445
Less--treasury stock, 597,829 shares--at cost	1,194,868	1,194,868
Total stockholders' equity	66,721,043	63,203,577
	$ 125,698,410	$ 129,302,239

The accompanying notes to consolidated financial statements are an integral part of this statement.

ROANOKE ELECTRIC STEEL CORPORATION

Consolidated Statements of Earnings

	(Unaudited) Three Months Ended January 31, 1994	1993
NET SALES	$ 46,712,540	$ 35,999,788
COST OF SALES	40,658,423	32,039,655
GROSS EARNINGS	6,054,117	3,960,133
OTHER OPERATING EXPENSES		
Administrative	3,307,537	2,533,262
Interest, net	454,737	435,282
Profit-sharing	567,721	172,903
	4,329,995	3,141,447
EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	1,724,122	818,686
INCOME TAXES	692,526	300,830
NET EARNINGS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	1,031,596	517,856
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES FOR INCOME TAXES	3,093,940	-
NET EARNINGS	$ 4,125,536	$ 517,856
Weighted average number of common shares outstanding *	5,306,702	5,303,709
Net earnings per share of common stock		
Net earnings before cumulative effect of accounting change	$ 0.20	$ 0.10
Cumulative effect of accounting change for income taxes	$ 0.58	$ -

Net earnings per share of common stock	$ 0.78	$ 0.10
Cash dividends per share of common stock	$ 0.12	$ 0.12

* Adjusted for stock options exercised.

The accompanying notes to consolidated financial statements are an integral part of this statement.

ROANOKE ELECTRIC STEEL CORPORATION

Consolidated Statements of Cash Flows

	(Unaudited) Three Months Ended January 31, 1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 4,125,536	$ 517,856
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Cumulative effect of change in accounting for income taxes	(3,093,940)	-
Postretirement liabilities	60,500	-
Depreciation and amortization	1,865,385	1,851,186
Deferred income taxes	(92,000)	(42,000)
Changes in assets and liabilities which provided (used) cash, exclusive of changes shown seperately	3,081,070	2,016,268
Net cash provided by operating activities	5,946,551	4,343,310
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(2,558,243)	(516,788)
Purchases of investments	(980,865)	(43,831)
Other	(42,474)	(17,695)
Net cash used in investing activities	(3,581,582)	(578,314)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes payable--net	(1,000,000)	(500,000)
Cash dividends	(637,069)	(636,445)
Increase in dividends payable	480	-
Proceeeds from exercise of common stock options	29,000	-
Redemption of long-term debt	(2,178,875)	(2,178,875)
Net cash used in financing activities	(3,786,464)	(3,315,320)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,421,495)	449,676
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,067,418	1,766,134
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,645,923	$ 2,215,810

CHANGES IN ASSETS AND LIABILITIES WHICH PROVIDED (USED) CASH, EXCLUSIVE OF CHANGES SHOWN SEPARATELY:		
(Increase) decrease in accounts receivable	$ 4,081,745	$ 3,557,213
(Increase) decrease in inventories	(162,728)	(715,896)
(Increase) decrease in prepaid expenses	(20,487)	(249,409)
Increase (decrease) in accounts payable	(123,315)	887,794
Increase (decrease) in employees' taxes withheld	45,238	69,551
Increase (decrease) in accrued profit-sharing	(1,112,525)	(724,935)
Increase (decrease) in accrued wages and expenses	(346,940)	(711,114)
Increase (decrease) in accrued income taxes	720,082	(96,936)
Total	$ 3,081,070	$ 2,016,268

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 592,639	$ 561,346
Income taxes	$ 64,444	$ 439,766

The accompanying notes to consolidated financial statements are an integral part of this statement.

ROANOKE ELECTRIC STEEL CORPORATION

Notes to Consolidated Financial Statements

January 31, 1994

Note 1. In the opinion of the Registrant, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of January 31, 1994 and the results of operations and cash flows for the three months ended January 31, 1994 and 1993.

Note 2. Inventories include the following major classifications:

	(Unaudited) January 31, 1994	(Audited) October 31, 1993
Scrap Steel	$ 1,157,412	$ 2,651,005
Melt Supplies	2,029,225	2,034,790
Billets	2,866,328	2,400,164
Mill Supplies	2,793,694	2,745,971
Finished Steel	15,385,249	14,237,250
	$ 24,231,908	$ 24,069,180

Note 3. Effective November 1, 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers'

Accounting for Postretirement Benefits Other Than Pensions". The Company currently provides certain health care benefits for eligible retired and terminated employees, and SFAS No. 106 requires the Company to accrue the estimated cost of retiree benefit payments during the years the employee provides services. The Company previously expensed the cost of these benefits as claims were incurred. SFAS No. 106 allows recognition of the cumulative effect of the liability in the year of adoption or the amortization of the obligation over a period of up to twenty years. The Company has elected to recognize this obligation of approximately $1,381,000 over a period of twenty years. Cash flows are not affected by implementation of this Statement, but implementation decreased net earnings from continuing operations for the three months ended January 31, 1994 by $26,935 ($.01 per share).

The following table sets forth the health care plan's funded status at November 1, 1993.

Accumulated postretirement benefit obligation:	
Retirees	$ 277,000
Fully eligible plan participants	566,000
Other active plan participants	538,000
	1,381,000
Fair value of plan assets	-
Accumulated postretirement benefit obligation in excess of plan assets	1,381,000
Unrecognized transition obligation	1,381,000
Accrued postretirement benefit cost	$ -

Net postretirement benefit cost for the three months ended January 31, 1994 consisted of the following components:

Service cost for 1994	$ 31,750
Interest cost for 1994 on accumulated postretirement benefit obligation	29,500
Amortization of transition obligation for 1994	17,250
Estimated expected benefit payments in 1994	(18,000)
Return on plan assets	-
	$ 60,500

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation as of November 1, 1993 was 13% for 1993, decreasing linearly each successive year until it reached 6.5% in 2004, after which it remains constant. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of November 1, 1993 by approximately $103,000 and the net postretirement health care cost by approximately $26,000. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 8%.

Note 4. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes", effective November 1, 1993. The cumulative effect of adopting SFAS No. 109 on the Company's statements was to increase income by $3,093,940 ($.58 per share) for the three months ended January 31, 1994.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, and operating loss and tax credit carryforwards. As of November 1, 1993, the Company had total deferred tax liabilities of $12,111,290 and deferred tax assets of $1,318,197. Deferred tax liabilities result exclusively from excess tax depreciation, and deferred tax assets result, primarily, from reserves not currently deductible of $625,430 and alternative minimum tax credit carryforwards of $302,318. There were no valuation allowances.

The Company's effective tax rate during fiscal 1993 was 36.79%. The provision for income tax expense for the three months ended January 31, 1994 was $692,526, of which $784,526 and $(92,000) is current and deferred tax expense, respectively.

PART I - 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 which have affected the Company's earnings during the periods included in the accompanying consolidated statements of earnings.

A summary of the period to period changes in the principal items included in the consolidated statements of earnings is shown below:

	Comparison of Increases (Decreases) Three months Ended January 31, 1994 and 1993	
	Amount	Percent
Net Sales	10,712,752	29.8
Cost of Sales	8,618,768	26.9
Administrative Expenses	774,275	30.6
Interest Expense	19,455	4.5
Profit-sharing Expense	394,818	228.3
Earnings before Income Taxes and Cumulative Effect of Change in Accounting Principles	905,436	110.6
Income Taxes	391,696	130.2
Net Earnings before Cumulative Effect of Change in Accounting Principles	513,740	99.2
Cumulative Effect of Change in Accounting		

Principles for Income Taxes	3,093,940	*
Net Earnings	3,607,680	696.7

* Cannot be calculated

Sales for the periods compared increased significantly as a result of increases in selling prices and tons shipped for both merchant bar products and fabricated products (bar joists and rebar). Improved selling prices for billets also contributed to the sales increase, eventhough billet shipments declined. The increased bar product shipments were due to much improved market conditions, while merchant bar selling prices improved as a result of higher scrap costs prompting industry-wide price increases. Shipments of fabricated products increased primarily due to successful job bidding and an easing of competition within the construction industry, while fabricated product selling prices continued to trend upward influenced by higher raw material costs. Billet selling prices increased mainly due to improved domestic demand and rising scrap prices which normally trigger changes in billet pricing. The decrease in billet tons shipped resulted entirely from a decline in export business caused by selling prices not keeping pace with rising production costs; however, domestic shipments nearly doubled last year's first quarter tonnage. Cost of sales increased as a result of the increases in both tons shipped of merchant bar and fabricated products and the cost of scrap steel, our main raw material, in spite of the reduction in billet tons shipped. Inflation in general was not significant. Gross profit as a percentage of sales increased by approximately 2.0% primarily a result of the higher selling prices for all product classes and increased production levels for raw steel, merchant bar and fabricated products which reduced unit costs for fixed expenses, in spite of higher scrap costs. The increase in gross profit margins at the higher shipment levels resulted in significant improvements in gross profit and net earnings for the period. Administrative expenses increased mainly as a result of increased executive and other compensation, based on various incentive arrangements, together with higher insurance expenses and professional fees. Interest expense increased as higher interest rates more than offset lower average borrowings and increased capitalized interest and interest income. Profit-sharing expense, computed as a percentage of pretax income, increased due to the improvement in earnings. The effective income tax rate increased in 1994 due to lower tax-exempt investment income. The 1994 quarter reflects the adoption of an accounting principles change in reporting for income taxes, resulting in the cumulative effect of $3,093,940 of increased income through a deferred tax benefit.

Working capital decreased $2,522,180 during the period to $32,566,525 mainly as a result of capital expenditures, dividends and current maturities of long-term debt amounting to $2,558,243, $637,069 and $2,178,875, respectively, which exceeded working capital provided from operations. Borrowings against the Registrant's $37,500,000 lines of credit were $5,000,000 leaving a balance of $32,500,000 for future use. As a condition of our loan agreements, the real estate and equipment at the Roanoke plant and the capital stock of Socar, Inc. have been pledged as security for the loans. In addition, the terms do not allow consolidated current assets or the assets of Socar, Inc. to be pledged. However, additional capital resources are available to the Company as the secured creditors are over-collateralized and the Company's lenders and other financial institutions have expressed confidence and their willingness to provide additional long-term financing.

At January 31, 1994, there were commitments for the purchase of plant and equipment amounting to $2,987,763. Funding for these expenditures will come from internally generated funds or the use of the credit lines mentioned above.

The percentage of long-term debt to total capital decreased from 28.8% to 25.9% during the quarter, due to current maturities reducing long-term debt by $2,178,875, while stockholders' equity increased as net earnings of $4,125,536 exceeded dividends of $637,069.

REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The financial statements included in this filing on Form 10-Q have been reviewed by Deloitte & Touche, Independent Certified Public Accountants, in accordance with established professional standards and procedures for such a review. All adjustments or additional disclosures proposed by Deloitte & Touche have been reflected in the data presented.

The report of Deloitte & Touche commenting upon their review is included as an Exhibit to this report.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

To the best of Registrant's information and belief no new legal proceedings were instituted against Registrant or any of its wholly-owned subsidiaries during the period covered by this report and there were no material developments in or terminations of the legal proceedings reported earlier by Registrant on Form 10-K for fiscal year ended October 31, 1993, as previously filed with the commission.

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

On January 17, 1994, the Annual Meeting of Shareholders was held and the following persons were elected as Directors of the Registrant:

Frank A. Boxley	Thomas L. Robertson
T.A. Carter	Donald G. Smith
George B. Cartledge, Jr.	Paul E. Torgersen
John W. Hancock, Jr.	Gordon C. Willis
Charles I. Lunsford, II	John D. Wilson

William L. Neal

Votes for 11 nominees - 4,592,560.
Votes withheld for nominees as a group or individual nominees 4,492.

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

a. Exhibits.

(10)(a) Executive Officer Incentive Arrangement (incorporated herein by reference to Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1993)

(10)(b) Roanoke Electric Steel Corporation Employees' Stock Option Plan (incorporated herein by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1992)

(15) Independent Accountants' Report

b. Reports on Form 8-K.

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

Items 2, 3 and 5 are omitted because the information required by these items is not applicable.

SIGNATURES

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

ROANOKE ELECTRIC STEEL CORPORATION
Registrant

Date 3/15/94

Donald G. Smith
Donald G. Smith, Chairman, President,
Treasurer and Chief Executive Officer
(Principal Financial Officer)

Date 3/15/94

John E. Morris
John E. Morris, Vice President-Finance
and Assistant Treasurer
(Chief Accounting Officer)

EXHIBIT INDEX

EXHIBIT NO. 10

(a)

EXECUTIVE OFFICER INCENTIVE ARRANGEMENT

Incorporated herein by reference to Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1993.

(b)

ROANOKE ELECTRIC STEEL CORPORATION
EMPLOYEES' STOCK OPTION PLAN

Incorporated herein by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1992.

EXHIBIT NO. 15

DELOITTE & TOUCHE
Suite 1401
500 West Fifth Street
P.O. Box 20129
Winston-Salem, North Carolina 27120-0129

Telephone: (919) 721-2300
Facsimile: (919) 721-2301

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Roanoke Electric Steel Corporation:

We have reviewed the accompanying consolidated balance sheet of Roanoke Electric Steel Corporation and subsidiaries as of January 31, 1994 and the related consolidated statements of earnings and cash flows for the three-month periods ended January 31, 1994 and 1993. These financial statements are the responsibility of the Corporation's management.

We conducted our review 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 of making inquires 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, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated financial statements for them to be in conformity with generally accepted accounting principles.

As discussed in Notes 3 & 4 to the consolidated financial statements, the Corporation changed its method of accounting for income taxes and postretirement benefits in the three-month period ended January 31, 1994.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Roanoke Electric Steel Corporation and subsidiaries as of October 31, 1993, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated November 19, 1993, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as October 31, 1993 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

March 8, 1994

Deloitte Touche
Tohmatsu
International