

CASTLE A M & CO
Form 10-Q
August 04, 2006

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 Quarterly Period Ended June 30, 2006 or,

o 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 1-5415

A. M. Castle & Co.

(Exact name of registrant as specified in its charter)

Maryland

36-0879160

(State or Other Jurisdiction of
incorporation of organization)

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

3400 North Wolf Road, Franklin Park, Illinois

60131

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone, including area code 847/455-7111

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X
No _____

Indicate by check mark whether the registrant is a large accelerated filer; an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer _____ Accelerated Filer X Non-Accelerated Filer _____

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.

Yes _____ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at July 21, 2006

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Common Stock, \$0.01 Par Value
Preferred Stock, \$0.01 Par Value

17,001,204 shares
12,000 shares

A. M. CASTLE & CO.
Part I. FINANCIAL INFORMATION

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CONSOLIDATED BALANCE SHEETS*(Dollars in thousands)**Unaudited*

| | June 30, 2006 | As of Dec 31, 2005 |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 42,982 | \$ 37,392 |
| Accounts receivable, less allowances of \$2,040 at June 30, 2006 and \$1,763 at December 31, 2005 | 128,946 | 107,064 |
| Inventories (principally on last-in, first-out basis) (latest cost higher by \$114,014 at June 30, 2006 and \$104,036 at December 31, 2005) | 139,604 | 119,306 |
| Other current assets | 7,378 | 6,351 |
| Total current assets | 318,910 | 270,113 |
| Investment in joint venture | 12,358 | 10,850 |
| Goodwill | 32,250 | 32,222 |
| Prepaid pension cost | 40,037 | 41,946 |
| Other assets | 4,923 | 4,182 |
| Property, plant and equipment, at cost | | |
| Land | 5,203 | 4,772 |
| Building | 48,468 | 45,890 |
| Machinery and equipment | 132,207 | 127,048 |
| | 185,878 | 177,710 |
| Less accumulated depreciation | (118,627) | (113,288) |
| | 67,251 | 64,422 |
| Total assets | \$ 475,729 | \$ 423,735 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 123,397 | \$ 103,246 |
| Accrued liabilities | 22,997 | 21,535 |
| Current and deferred income taxes | 1,497 | 7,052 |
| Current portion of long-term debt | 6,233 | 6,233 |
| Total current liabilities | 154,124 | 138,066 |
| Long-term debt, less current portion | 73,569 | 73,827 |
| Deferred income taxes | 20,784 | 21,903 |
| Deferred gain on sale of assets | 5,672 | 5,967 |
| Pension and postretirement benefit obligations | 8,949 | 8,467 |
| Commitments and contingencies | | |
| Stockholders equity | | |

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| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Preferred stock, \$0.01 par value 10,000,000 shares authorized; 12,000 shares issued and outstanding | 11,239 | 11,239 |
| Common stock, \$0.01 par value authorized 30,000,000 shares; issued and outstanding 16,980,004 at June 30, 2006 and 16,605,714 at December 31, 2005 | 170 | 166 |
| Additional paid-in capital | 66,000 | 60,916 |
| Retained earnings | 138,434 | 110,530 |
| Accumulated other comprehensive income | 3,473 | 2,370 |
| Treasury stock, at cost 411,235 shares at June 30, 2006 and 546,065 shares at December 31, 2005 | (6,685) | (9,716) |
| Total stockholders equity | 212,631 | 175,505 |
| Total liabilities and stockholders equity | \$ 475,729 | \$ 423,735 |

The accompanying notes are an integral part of these statements

CONSOLIDATED STATEMENTS OF INCOME*(Dollars in thousands, except per share data)**Unaudited*

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|-----------------------------------------------------------------|----------------------------------------------------|-------------|--------------------------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net sales | \$ 275,607 | \$ 250,967 | \$ 554,800 | \$ 497,170 |
| Cost of material sold | 195,244 | 175,449 | 391,343 | 348,749 |
| Gross material margin | 80,363 | 75,518 | 163,457 | 148,421 |
| Plant and delivery expense | 28,981 | 27,347 | 58,605 | 53,715 |
| Sales, general, and administrative expense | 25,071 | 22,617 | 49,957 | 46,104 |
| Depreciation and amortization expense | 2,654 | 2,274 | 5,097 | 4,547 |
| Total operating expense | 56,706 | 52,238 | 113,659 | 104,366 |
| Operating income | 23,657 | 23,280 | 49,798 | 44,055 |
| Interest expense, net | (958) | (2,027) | (2,046) | (4,110) |
| Discount on sale of accounts receivable | | (464) | | (1,000) |
| Income before income taxes and equity earnings of joint venture | 22,699 | 20,789 | 47,752 | 38,945 |
| Income taxes | (9,397) | (8,320) | (19,639) | (16,215) |
| Income before equity in earnings of joint venture | 13,302 | 12,469 | 28,113 | 22,730 |
| Equity in earnings of joint venture | 1,056 | 1,016 | 2,295 | 2,525 |
| Net income | 14,358 | 13,485 | 30,408 | 25,255 |
| Preferred dividends | (243) | (240) | (485) | (480) |
| Net income applicable to common stock | \$ 14,115 | \$ 13,245 | \$ 29,923 | \$ 24,775 |
| Basic earnings per share | \$ 0.83 | \$ 0.83 | \$ 1.78 | \$ 1.56 |
| Diluted earnings per share | \$ 0.76 | \$ 0.73 | \$ 1.62 | \$ 1.37 |
| Dividends per common share paid | \$ 0.06 | \$ | \$ 0.12 | \$ |

The accompanying notes are an integral part of these statements

CONSOLIDATED STATEMENTS OF CASH FLOWS*(Dollars in thousands)**Unaudited***For the Six Months
Ended June 30,
2006 2005**

| | | |
|----------------------------------------------------------------------------|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 30,408 | \$ 25,255 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 5,097 | 4,547 |
| Amortization of deferred gain | (295) | (427) |
| Equity in earnings from joint venture | (2,295) | (2,525) |
| Stock compensation expense | 1,945 | 1,497 |
| Deferred tax provision (benefit) | (1) | 1,586 |
| Excess tax benefits from stock-based payment arrangements | (811) | |
| Increase (decrease) from changes in: | | |
| Accounts receivable | (21,644) | (22,121) |
| Inventories | (20,089) | 5,711 |
| Prepaid pension costs | 1,909 | 1,124 |
| Other current assets | (1,118) | (96) |
| Accounts payable | 20,210 | (6,456) |
| Accrued liabilities | 1,471 | 2,180 |
| Income tax payable | (6,588) | 4,213 |
| Postretirement benefit obligations and other liabilities | (273) | 148 |
| Net cash from operating activities | 7,926 | 14,636 |
| Cash flows from investing activities: | | |
| Dividends from joint venture | 825 | 1,334 |
| Capital expenditures | (7,804) | (2,204) |
| Net cash used in investing activities | (6,979) | (870) |
| Cash flows from financing activities: | | |
| Repayments of long-term debt | (258) | (11,346) |
| Preferred stock dividend | (485) | (480) |
| Dividends paid | (2,018) | |
| Exercise of stock options and other | 6,174 | 177 |
| Excess tax benefits from stock-based payment arrangements | 811 | |
| Net cash from (used in) financing activities | 4,224 | (11,649) |
| Effect of exchange rate changes on cash and cash equivalents | 419 | 42 |
| Net increase in cash and cash equivalents | 5,590 | 2,159 |
| Cash and cash equivalents beginning of year | \$ 37,392 | \$ 3,106 |
| Cash and cash equivalents end of period | \$ 42,982 | \$ 5,265 |
| Supplemental cash disclosure cash paid during the period: | | |
| Interest | \$ 2,953 | \$ 4,558 |

| | | |
|--------------|-----------|----------|
| Income taxes | \$ 25,093 | \$ 9,417 |
|--------------|-----------|----------|

The accompanying notes are an integral part of these statements

A. M. Castle & Co.
Notes to Consolidated Financial Statements
June 30, 2006
(Unaudited)

1. Consolidated Financial Statements

The consolidated financial statements included herein are unaudited. The Consolidated Balance Sheet at December 31, 2005 is derived from the audited financial statements at that date. A. M. Castle & Co. (the Company) believes that the disclosures are adequate and make the information not misleading. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited statements, included herein, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position, the cash flows and the results of operations for the periods then ended. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K. The 2006 interim results reported herein may not necessarily be indicative of the results of operations for the full year.

2. Earnings Per Share

Earnings per common share are computed by dividing net income applicable to common stock by the weighted average number of shares of common stock (basic) plus common stock equivalents (diluted) outstanding during the year. Common stock equivalents consist of stock options, restricted stock awards and preferred stock shares and have been included in the calculation of weighted average shares outstanding using the treasury stock method. In accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 128 Earnings per Share, the following table is a reconciliation of the basic and fully diluted earnings per share calculations for the periods reported.

| <i>(dollars and shares in thousands, except per share data)</i> | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|----------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------|----------------------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 14,358 | \$ 13,485 | \$ 30,408 | \$ 25,255 |
| Preferred dividends | (243) | (240) | (485) | (480) |
| Net income applicable to common stock | \$ 14,115 | \$ 13,245 | \$ 29,923 | \$ 24,775 |
| Weighted average common shares outstanding | 16,653 | 15,823 | 16,657 | 15,806 |
| Dilutive effect of outstanding employee and directors common stock options and restricted stock | 360 | 760 | 305 | 804 |
| Dilutive effect of convertible preferred stock | 1,794 | 1,794 | 1,794 | 1,794 |
| Diluted common shares outstanding | 18,807 | 18,377 | 18,756 | 18,404 |
| Basic income per common share | \$ 0.83 | \$ 0.83 | \$ 1.78 | \$ 1.56 |
| Diluted income per common share | \$ 0.76 | \$ 0.73 | \$ 1.62 | \$ 1.37 |

| | | | |
|----------------------------------------------------------------------------------------------------------------------------------|----|---|-----|
| Outstanding employees & directors common stock options and restricted and preferred stock shares having no dilutive effect | 60 | 4 | 111 |
|----------------------------------------------------------------------------------------------------------------------------------|----|---|-----|

3. Revolving Line of Credit

On July, 29, 2005 the Company entered into an \$82.0 million five year secured revolving credit agreement (the Revolver) with a syndicate of U.S. banks.

The Revolver consists of (i) a \$75.0 million revolving loan (the U.S. Facility) and (ii) a \$7.0 million revolving loan (the Canadian Facility) to be drawn by the borrower from time to time. The Canadian Facility can be drawn in U.S. dollars and/or Canadian dollars. Available proceeds under the Revolver may be used for general corporate purposes.

As of June 30, 2006 and December 31, 2005 the Company had no outstanding borrowings under either the U.S. or Canadian Facility. As described in the Company s Form 10-K for the year-ended December 31, 2005, the Revolver replaced the accounts receivable securitization facility.

4. Goodwill

The Company performs an annual impairment test on goodwill during the first quarter of each fiscal year. Based on the test made during the first quarter of 2006, the Company has determined that there is no impairment of goodwill.

The changes in carrying amounts of goodwill were as follows (*in thousands*):

| | Metals Segment | Plastics Segment | Total |
|---------------------------------|---------------------------|-----------------------------|--------------|
| Balance as of December 31, 2005 | \$ 19,249 | \$ 12,973 | \$ 32,222 |
| Currency valuation | 28 | | 28 |
| Balance as of June 30, 2006 | \$ 19,277 | \$ 12,973 | \$ 32,250 |

5. Inventory

Final inventory determination under the last-in first-out (LIFO) method can only be made at the end of each fiscal year based on the actual inventory levels and costs at that time. Accordingly, interim LIFO determinations, including those at June 30, 2006, are based on management s estimates of year-end inventory levels and costs. Since future estimates of inventory levels and costs are subject to certain forces beyond the control of management, interim financial results are subject to fiscal year-end LIFO inventory calculations.

Current replacement cost of inventories exceeded book value by \$114.0 million and \$104.0 million at June 30, 2006 and December 31, 2005, respectively. Income taxes would become payable on any realization of this excess from reductions in the level of the Company s inventories.

The Company has entered into consignment inventory agreements with a few select customers whereby revenue is not recorded until the customer has consumed product from the consigned inventory and title has passed. Revenue derived from consigned inventories at customer locations for 2006 was \$9.6 million, or 1.7% of sales. Inventory on consignment at customers as of June 30, 2006 was \$1.9 million, or 1.4% of consolidated net inventory as reported on the Company s consolidated balance sheets.

6. Share-Based Compensation

As described in the Company's Form 10-K for the year-ended December 31, 2005, the Company adopted FAS No. 123R, Share-Based Payments, effective October 1, 2005 using the modified retrospective method of adoption. Accordingly, all prior period financial statements have been restated to reflect this standard.

The fair value of stock options granted has been estimated using the Black Scholes option pricing model. There were no stock options granted in the first six months of 2006. Other forms of share-based compensation have generally used the market price of the Company's stock on the date of grant to estimate fair value.

In 2005, the Company established the 2005 Performance Stock Equity Plan (the Performance Plan). Under the Performance Plan, 435,698 stock awards were granted of which 73,319 have been forfeited. In the second quarter of 2006, awards of 2,411 were forfeited. The number of shares that could potentially be issued is 724,758.

7. Segment Reporting

The Company distributes and performs processing on both metals and plastics. Although the distribution processes are similar, different customer markets, supplier bases and types of products exist. Additionally, our Chief Executive Officer reviews and manages these two businesses separately. As such, these businesses are considered separate segments according to FAS No. 131 Disclosures about Segments of an Enterprise and Related Information and are reported accordingly in the Company's financial statements.

The accounting policies for all segments are described in Note 1 Principal Accounting Policies in the Company's Form 10-K for the year-ended December 31, 2005. Management evaluates performance of its business segments based on operating income. The Company does not maintain separate standalone financial statements prepared in accordance with generally accepted accounting principles for each of its operating segments.

The following is the segment information for the quarters ended June 30, 2006 and 2005:

| <i>(dollars in millions)</i> | Net Sales | Gross Material Margin | Other Operating Expense | Operating Income (Loss) | Capital Expenditures | Depreciation |
|------------------------------|------------------|------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------|
| 2006 | | | | | | |
| Metals Segment | \$ 244.8 | \$ 70.0 | \$ 46.6 | \$ 23.4 | \$ 5.1 | \$ 2.5 |
| Plastics Segment | 30.8 | 10.4 | 7.6 | 2.8 | 0.3 | 0.2 |
| Other | | | 2.4 | (2.4) | | |
| Consolidated | \$ 275.6 | \$ 80.4 | \$ 56.6 | \$ 23.8 | \$ 5.4 | \$ 2.7 |
| 2005 | | | | | | |
| Metals Segment | \$ 222.1 | \$ 66.3 | \$ 42.3 | \$ 24.0 | \$ 0.9 | \$ 2.0 |
| Plastics Segment | 28.9 | 9.2 | 7.2 | 2.0 | 0.3 | 0.3 |
| Other | | | 2.7 | (2.7) | | |
| Consolidated | \$ 251.0 | \$ 75.5 | \$ 52.2 | \$ 23.3 | \$ 1.2 | \$ 2.3 |

The following is the segment information for the six-months ended June 30, 2006 and 2005:

| <i>(dollars in millions)</i> | Net Sales | Gross Material Margin | Other Operating Expense | Operating Income (Loss) | Capital Expenditures | Depreciation |
|------------------------------|------------------|------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------|
| 2006 | | | | | | |
| Metals Segment | \$ 495.4 | \$ 143.7 | \$ 93.8 | \$ 49.9 | \$ 7.2 | \$ 4.5 |
| Plastics Segment | 59.4 | 19.8 | 15.3 | 4.5 | 0.6 | 0.6 |
| Other | | | 4.6 | (4.6) | | |

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| | | | | | | |
|------------------|----------|----------|----------|---------|--------|--------|
| Consolidated | \$ 554.8 | \$ 163.5 | \$ 113.7 | \$ 49.8 | \$ 7.8 | \$ 5.1 |
| 2005 | | | | | | |
| Metals Segment | \$ 442.1 | \$ 130.6 | \$ 85.6 | \$ 45.0 | \$ 1.5 | \$ 4.0 |
| Plastics Segment | 55.1 | 17.8 | 14.3 | 3.5 | 0.7 | 0.5 |
| Other | | | 4.5 | (4.5) | | |
| Consolidated | \$ 497.2 | \$ 148.4 | \$ 104.4 | \$ 44.1 | \$ 2.2 | \$ 4.5 |

Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments of the Company.

The segment information for total assets at June 30, 2006 and December 31, 2005 was as follows:

| (dollars in thousands) | June 30, 2006 | December 31, 2005 |
|------------------------|--------------------------|----------------------------------|
| Metals Segment | \$ 413,237 | \$ 362,822 |
| Plastics Segment | 50,106 | 49,775 |
| Other | 12,386 | 11,138 |
| Consolidated | \$ 495,729 | \$ 423,735 |

Other The segment's total assets consist of the Company's income tax receivable and its investment in a joint venture.

8. Pension and Postretirement Benefits

The following are the components of the net pension and post-retirement benefit expenses (*dollars in thousands*):

| For Quarter Ended | June 30, | |
|------------------------------------|-----------------|-------------|
| | 2006 | 2005 |
| Service cost | \$ 917.8 | \$ 720.5 |
| Interest cost | 1,805.8 | 1,593.0 |
| Expected return on plan | (2,423.9) | (2,394.2) |
| Amortization of prior service cost | 26.4 | 27.7 |
| Amortization of net loss | 945.8 | 614.7 |
| Net periodic cost | \$ 1,271.9 | \$ 561.6 |
| | | |
| For Six Months Ended | June 30, | |
| | 2006 | 2005 |
| Service cost | \$ 1,835.6 | \$ 1,441.0 |
| Interest cost | 3,611.6 | 3,186.0 |
| Expected return on plan | (4,847.8) | (4,788.4) |
| Amortization of prior service cost | 52.8 | 55.4 |
| Amortization of net loss | 1,891.6 | 1,229.2 |
| Net periodic cost | \$ 2,543.8 | \$ 1,123.2 |

As of June 30, 2006 the Company has not made any cash contributions to its pension plans for this fiscal year but will continue to evaluate options for funding this plan in 2006 in light of the Company's favorable cash position and proposed pension accounting rule changes.

9. Commitments and Contingent Liabilities

At June 30, 2006 the Company had \$2.2 million of an irrevocable letter of credit outstanding to comply with the insurance reserve requirements of its workers' compensation insurance carrier. The Letter of Credit is obtained under a provision in the revolving credit facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financial Review

This discussion should be read in conjunction with the information contained in the Consolidated Financial Statements and Notes.

Executive Overview

Economic Trends and Current Business Conditions

A. M. Castle & Co. (the Company) continued to enjoy favorable demand for its products through the second quarter of 2006. The North American durable goods manufacturing sector, the Company's primary market, continues to exhibit demand requirements above 2005 levels. The aerospace, oil and gas, and mining and construction equipment sectors continued to show particular strength. The Company's metals product offerings are predominantly in carbon bar or tubing, alloy bar, high-end specialty metals (such as nickel alloy, stainless steel and aluminum), and carbon plate up to twenty inches thick.

Historically, the Company has used the Purchaser's Managers Index (PMI) provided by the Institute of Supply Managers to track general demand trends in its customer markets. Table 1 below shows recent PMI trends from the first quarter of 2005 through the first quarter of 2006. Generally speaking, an index above 50.0 indicates growth in the manufacturing sector of the U.S. economy. As the table indicates, there has been sustained growth in the manufacturing sector for several quarters. The Company's revenue growth, in real terms or net of material price increases, has improved over these same quarters. Second quarter 2006 revenue growth for the Company on a consolidated basis is approximately 9.8% ahead of the same quarter in 2005 and 11.6% ahead on a comparative year-to-date basis.

Table 1

| YEAR | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
|------|-------|-------|-------|-------|
| 2005 | 55.7 | 53.2 | 56.0 | 57.0 |
| 2006 | 55.6 | 55.2 | | |

Results of Operations: Year-to-Year Comparisons and Commentary

Consolidated results by business segment are summarized in the following table for the quarter ended June 30, 2006 and 2005.

Operating Results by Segment*(dollars in millions)*

| | <i>Quarter Ended</i> | | <i>Fav/(Unfav)</i> | |
|-----------------------------|----------------------|-------------|--------------------|---------------|
| | <i>2006</i> | <i>2005</i> | <i>Fav/(Unfav)</i> | <i>% Chge</i> |
| Net Sales | | | | |
| Metals | \$ 244.8 | \$ 222.1 | \$ 22.7 | 10.2% |
| Plastics | 30.8 | 28.9 | 1.9 | 6.6 |
| Total Net Sales | 275.6 | \$ 251.0 | \$ 24.6 | 9.8% |
| Gross Material Margin | | | | |
| Metals | \$ 70.0 | \$ 66.3 | \$ 3.7 | 5.6% |
| <i>% of Metals Sales</i> | 28.6% | 29.9% | (1.3)% | |
| Plastics | 10.4 | 9.2 | 1.2 | 13.0% |
| <i>% of Plastics Sales</i> | 33.8% | 31.8% | 1.9% | |
| Total Gross Material Margin | \$ 80.4 | \$ 75.5 | 4.9 | 6.5% |
| <i>% of Total Net Sales</i> | 29.2% | 30.1% | (0.9)% | |
| Operating Expense | | | | |
| Metals | \$ 46.6 | \$ 42.3 | \$ (4.3) | (10.2)% |
| Plastics | 7.6 | 7.2 | (0.4) | (5.6) |
| Other | 2.4 | 2.7 | 0.3 | 11.1 |
| Total Operating Expense | \$ 56.6 | \$ 52.2 | \$ (4.4) | (8.4)% |
| <i>% of Total Net Sales</i> | 20.5% | 20.8% | 0.3% | |
| Operating Income | | | | |
| Metals | \$ 23.4 | \$ 24.0 | \$ (0.6) | (2.5)% |
| <i>% of Metals Sales</i> | 9.6% | 10.8% | (1.2)% | |
| Plastics | 2.8 | 2.0 | 0.8 | 40.0 |
| <i>% of Plastics Sales</i> | 9.1% | 6.9% | 2.2% | |
| Other | (2.4) | (2.7) | 0.3 | (11.1) |
| Total Operating Income | \$ 23.8 | \$ 23.3 | \$ 0.5 | 2.1% |
| <i>% of Total Net Sales</i> | 8.6% | 9.3% | (0.6)% | |

Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments of the Company.

Net Sales:

Consolidated net sales of \$275.6 million increased 9.8%, or \$24.6 million, versus the second quarter of 2005. Metals segment sales of \$244.8 million were \$22.7 million, or 10.2%, ahead of last year. Strong demand continued for the Company's metals products, particularly in the aerospace, oil and gas, and mining and construction equipment markets. Increased volume accounted for approximately 5% of this segment's sales growth with the balance due to favorable material price.

Plastics segment sales of \$30.8 million were \$1.9 million, or 6.6%, stronger than the same quarter of 2005. Increased volume accounted for 2% of the sales growth while plastics material selling prices rose 5%.

Gross Material Margin and Operating Income:

Consolidated gross material margin of \$80.4 million was \$4.9 million, or 6.5%, better than last year driven by increased sales. Metals segment gross material margin of \$70.0 million was \$3.7 million, or 5.6%, ahead of the second quarter of 2005. Gross material margin as a percentage of net sales (gross margin rate) in our Metals business was lower during the quarter due to increased supplier surcharges that were passed through to our customers at cost. Additionally, growth with our large program customer accounts and resistance to price increases in our transaction business contributed to the margin rate decline. Generally we experience slightly lower margins on program account business than on our transactional business.

Plastics segment gross material margin increased by \$1.2 million, or 13.0%, to a level of \$10.4 million. The Company has been able to maintain or slightly improve its material margin percentages in the Plastics segment while the Metals segment had a slight decline.

Total consolidated operating expenses of \$56.6 million increased \$4.4 million, or 8.4%, versus the second quarter of last year on a 9.8% increase in net sales. The increased expenses were due to increased demand and related distribution activity.

The Company's Other operating segment includes expenses related to executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments.

Consolidated operating income of \$23.8 million (8.6% of sales) is \$0.5 million better than the second quarter of last year.

Other Income and Expense, and Net Results:

Equity in earnings of joint venture of \$1.1 million were \$0.1 million higher than 2005, reflecting increased sales and earnings performance within the Company's joint venture, Kreher Steel.

Financing costs were \$1.0 million in the second quarter of 2006, or \$1.5 million lower than the same period in 2005 principally due to the Company's reduced borrowings and lower interest rate on its refinanced debt.

Consolidated net income applicable to common stock was \$14.1 million or \$0.76 per diluted share in the second quarter of 2006 versus a consolidated net income applicable to common stock of \$13.2 million, or \$0.73 per diluted share in the corresponding period of 2005.

Results of Operations: Six-Month Comparisons and Commentary

Consolidated results by business segment are summarized in the following table for the six-months ended June 30, 2006 and 2005

| | <i>Six-Months Ended June 30,</i> | | <i>Fav/(Unfav)</i> | |
|-----------------------------|--------------------------------------|--------------|----------------------|---------------------|
| | <i>2006</i> | <i>2005</i> | <i>\$ Change</i> | <i>% Change</i> |
| Net Sales | | | | |
| Metals | \$ 495.4 | \$ 442.1 | \$ 53.3 | 12.1% |
| Plastics | 59.4 | 55.1 | 4.3 | 7.8 |
| Total Net Sales | \$ 554.8 | \$ 497.2 | \$ 57.6 | 11.6% |
| Gross Material Margin | | | | |
| Metals | \$ 143.7 | \$ 130.6 | \$ 13.1 | 10.0% |
| <i>% of Metals Sales</i> | <i>29.0%</i> | <i>29.5%</i> | <i>(0.5)%</i> | |
| Plastics | 19.8 | 17.8 | 2.0 | 11.2 |
| <i>% of Plastics Sales</i> | <i>33.3%</i> | <i>32.3%</i> | <i>1.0%</i> | |
| Total Gross Material Margin | \$ 163.5 | \$ 148.4 | \$ 15.1 | 10.2% |
| <i>% of Total Net Sales</i> | <i>29.5%</i> | <i>29.8%</i> | <i>(0.4)%</i> | |
| Operating Expense | | | | |
| Metals | \$ 93.8 | \$ 85.6 | \$ (8.2) | 9.6% |
| Plastics | 15.3 | 14.3 | (1.0) | 7.0 |
| Other | 4.6 | 4.5 | (0.1) | 2.2 |
| Total Operating Expense | \$ 113.7 | \$ 104.4 | \$ (9.3) | 8.9% |
| <i>% of Total Net Sales</i> | <i>20.5%</i> | <i>21.0%</i> | <i>0.5%</i> | |
| Operating Income | | | | |
| Metals | \$ 49.9 | \$ 45.0 | \$ 4.9 | 10.9% |
| <i>% of Metals Sales</i> | <i>10.1%</i> | <i>10.2%</i> | <i>(0.1)%</i> | |
| Plastics | 4.5 | 3.5 | 1.0 | 28.6 |
| <i>% of Plastics Sales</i> | <i>7.6%</i> | <i>6.4%</i> | <i>1.2%</i> | |
| Other | (4.6) | (4.5) | (0.1) | 2.2 |
| Total Operating Income | \$ 49.8 | \$ 44.0 | \$ 5.8 | 13.2% |
| <i>% of Total Net Sales</i> | <i>9.0%</i> | <i>8.8%</i> | <i>0.1%</i> | |

Other Operating loss includes the costs of executive, finance and legal departments, and other corporate activities which support both the metals and plastics segments of the Company.

Net Sales:

Six-month 2006 consolidated net sales of \$554.8 million were \$57.6 million, or 11.6%, stronger than last year. Metals segment sales of \$495.4 million were \$53.3 million, or 12.1%, ahead of last year. Strong demand existed across our customer base through the first half of 2006. For the six months ended June 30, 2006, Metals segment sales volume,

net of material price increases, was 7% higher than for the same period in 2005. Metals material sales prices were approximately 5% higher than the corresponding 2005 period.

Plastics segment sales of \$59.4 million were \$4.3 million, or 7.8%, higher than the first-half of 2005. Approximately 7% of the revenue increase was attributable to higher material pricing levels. The balance of the year-over-year sales increase in the Plastics segment was due to increased customer demand.

Gross Material Margin and Operating Profit:

Consolidated gross material margin for the first six-months of 2006 was \$15.1 million, or 10.2% higher than the same period of 2005. Metals segment gross material margin of \$143.7 million was \$13.1 million, or 10.0%, higher than last year due to increased sales levels. Gross material margin as a percentage of net sales (gross margin rate) in our Metals business was lower during the second quarter due to increased supplier surcharges that were passed through to our customers at cost. Additionally, growth with our large program customer accounts and resistance to price increases in our transaction business contributed to the margin rate decline.

Plastics segment gross material margin increased by \$2.0 million, or 11.2%, to a level of \$19.8 million versus the first six-months of 2005. Gross material margin as a percentage of sales increased during the second quarter on lower large order business which produced a higher gross margin rate.

Year-to-date consolidated operating expenses of \$113.7 million were \$9.3 million, or 8.9% higher than last year, largely due to increased overall volume and related processing activity.

Consolidated operating profit of \$49.8 million, or 9.0% of sales, was \$5.8 million better than last year.

Other Income and Expense, and Net Results:

Joint venture equity earnings for the first-half of 2006 of \$2.3 million were slightly below the corresponding period in 2005.

Six-month financing costs, which consist of interest expense and discount on sale of accounts receivable in 2005, were \$2.0 million for 2006 and \$5.1 million for 2005 due to reduced borrowings and lower interest rates on our refinanced debt.

Year-to-date consolidated net income (after preferred dividends of \$0.5 million) was \$29.9 million, or \$1.62 per basic share, versus \$24.8 million, or \$1.37 per basic share, in the corresponding period of 2005.

Critical Accounting Policies:

There have been no changes in critical accounting policies from those described in the Company's Annual Report on Form 10-K for the year-ended December 31, 2005.

Liquidity and Capital Resources

The Company's principal sources of liquidity are earnings from operations, management of working capital and the \$82.0 million five-year secured revolving credit agreement (the Revolver) with a syndicate of U.S. banks.

Cash from operating activities through the second quarter of 2006 was \$7.9 million.

Working capital, excluding the current portion of long-term debt, of \$158.6 million is up \$20.3 million since the beginning of the year. Trade receivables of \$128.9 million were up \$21.9 million reflecting strong sales growth year-to-date. Receivable days sales outstanding (DSO) decreased 1.3 days from year-end to a level of 41.9 days. Inventory at net book value of \$139.6 million, including LIFO (last-in, first-out) reserves of \$114.0 million is up \$20.3 million from year-end. Days sales in inventory (DSI) decreased 8 days from year-end to a level of 111 days. The Company expects to operate at an average DSI of approximately 115 days in 2006.

The Company also paid a cash dividend to its shareholders of \$0.06 per share, or \$1.0 million during the second quarter of 2006. Year-to Date, \$2.0 million of cash dividends have been paid.

Capital expenditures in the first six months of 2006 were \$7.8 million. Expenditures included spending associated with the new Birmingham, Alabama facility (\$2.9 million) and its ongoing business system replacement initiative (\$1.3 million), along with typical equipment replacement and upgrades.

Company Financial Condition

In addition to several consecutive quarters of favorable earnings performance, the Company has reduced its overall borrowings. In 2005, the Company replaced its long-term notes with a new loan arrangement that reduced interest expense and overall debt service cash outlays for the next several years.

The Company's principal payments required over the next few years are summarized below in Table 2 (*dollars in thousands*)

Table 2**Year ending December 31,**

| | |
|-----------------|-----------|
| 2006 | \$ 5,975 |
| 2007 | 6,570 |
| 2008 | 6,841 |
| 2009 | 10,390 |
| 2010 | 7,190 |
| 2011 and beyond | 42,836 |
| Total debt | \$ 79,802 |

As of June 30, 2006, the Company remains in compliance with the covenants of its financial agreements, which require it to maintain certain funded debt-to-capital ratios, working capital-to-debt ratios and a minimum equity value as defined within the agreement. A summary of covenant compliance is shown below.

| | Required | Actual 6/30/06 |
|-------------------------------|--------------------|---------------------------|
| Debt-to-Capital Ratio | < 0.55 | 0.23 |
| Working Capital-to-Debt Ratio | > 1.00 | 3.21 |
| Book Value of Equity | \$134.5 million | \$212.6 million |

Current business conditions lead management to believe it will be able to generate sufficient cash from operations and ongoing working capital management to fund its ongoing capital expenditure programs and meet its debt obligations.

Commitments and Contingencies

At June 30, 2006 the Company had \$2.2 million of an irrevocable letter of credit outstanding to comply with the insurance reserve requirements of its workers' compensation insurance carrier. The Letter of Credit is obtained under a provision of the revolving credit facility.

The Company is the defendant in several lawsuits arising out of the conduct of its business. These lawsuits are incidental and occur in the normal course of the Company's business affairs. It is the opinion of the Company, based on current knowledge, that no uninsured liability will result from the outcome of this litigation that would have a material adverse effect on the consolidated results of operations, financial condition or cash flows of the Company.

In 2006, the Company will be negotiating a new contract for 276 of the 289 union employees, included in its total workforce of 1,640. The contract is due for renewal in September 2006 and the Company continues reviewing contract issues and has developed contingency plans.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

The Company is exposed to various interest rate and metals and plastics price risks that arise in the normal course of business. The Company finances its operations with fixed and variable rate borrowings. Market risk arises from changes in variable interest rates. Under its Revolver, the Company's interest rate on borrowings is subject to changes in the LIBOR and Prime Rate. As of June 30, 2006, the Company had no outstanding borrowings under the Revolver. All of the Company's long-term debt as of June 30, 2006 is in its term loan which has a fixed interest rate. The Company's raw material costs are comprised primarily of engineered metals and plastics. Market risk arises from changes in the price of steel, other metals and plastics. Although average selling prices generally increase or decrease as material costs increase or decrease, the impact of a change in the purchase price of materials is more immediately reflected in the Company's cost of material sold than in its selling prices.

Item 4. Controls and Procedures**(a) Evaluation of Disclosure Controls and Procedures**

A review and evaluation was performed by the Company's management, including the Company's Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report.

In its annual report on Form 10-K for the year ended December 31, 2005, the Company reported that it had identified certain material weaknesses in its system of internal controls over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Specifically, in conducting its evaluation of the Company's internal control over financial reporting at December 31, 2005, management identified material weaknesses that it (1) lacks sufficient resources with the appropriate level of technical accounting expertise in areas such as stock-based compensation, income taxes and LIFO (last-in, first-out) inventory valuation, and (2) did not maintain sufficient monitoring controls over its financial closing and reporting process.

As part of its evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report, management has (i) identified no material weaknesses other than those described above and (ii) evaluated whether the material weaknesses described above continue to exist. Although the Company believes that the changes in internal controls discussed below begin to address the reported material weaknesses, management cannot conclude that these weaknesses are eliminated until the Company performs further testing of internal controls over financial reporting in subsequent periods and takes further action steps to address these weaknesses. Therefore, the CEO and CFO conclude that the Company's current disclosure controls and procedures, as designed and implemented, were not effective in ensuring that the information the Company is required to disclose in this quarterly report is recorded, processed, summarized and reported reliably in accordance with generally accepted accounting principles within the time period required by the rules of the Securities and Exchange Commission.

(b) Changes in Internal Controls

In response to deficiencies in internal control over financial reporting as identified above, management implemented the following changes in the Company's internal control over financial reporting during the period ended June 30, 2006.

The Company has established a tax manager position in its finance department to improve its internal capabilities for tax accounting. The position was filled with an experienced tax manager in March 2006.

To remediate weaknesses identified in its stock based compensation plans, the Company has instituted a policy that simplifies the process by which employees exercise of stock options and

has strategically moved from employee stock option plans to a performance based, long-term, stock grant program. To remediate deficiencies in the accounting close and reporting process, the Company is reviewing proposals from external resources to review and document the Company's process and make recommendations on improving its controls. To remediate deficiencies in complex accounting issues, the Company is in the process of engaging the services of an accounting research firm. Further, as part of the business system replacement project, the accounts receivable, accounts payable and general ledger modules were implemented in the second quarter and all processes and controls related to these applications are being reviewed and updated accordingly.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material legal proceedings other than the ordinary routine litigation incidental to the business of the Company.

Item 1A. Risk Factors

During the quarter there were no material changes to the risk factors set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased (Under the Plans or Programs) |
|--------------------|-------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1 - April 30 | | N/A | | |
| May 1 - May 31 | | N/A | | |
| June 1 - June 30 | | N/A | | |
| Total | N/A | N/A | N/A | N/A |

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

- a) The Annual Meeting of Stockholders was held on April 27, 2006.
- b) At the Annual Meeting the full Board of Directors was elected. The following table lists the individual board members and voting results:

| Director | For | Withheld | Abstaining |
|-------------------------|------------|-----------|------------|
| Brian P. Anderson | 15,618,206 | 230,282 | |
| Thomas A. Donahoe | 15,617,910 | 230,578 | |
| Michael H. Goldberg | 15,651,270 | 197,218 | |
| William K. Hall | 15,404,490 | 443,988 | |
| Robert S. Hamada | 15,649,307 | 198,181 | |
| Patrick J. Herbert, III | 13,234,555 | 2,613,933 | |
| John McCartney | 15,410,870 | 437,618 | |
| G. Thomas McKane | 15,645,373 | 203,115 | |
| John W. Puth | 15,455,925 | 392,563 | |
| Michael Simpson | 15,104,791 | 743,697 | |

Item 6. Exhibits

Exhibit 31.1 Certification Pursuant to Section 302 by CEO

Exhibit 31.2 Certification Pursuant to Section 302 by CFO

Exhibit 32.1 Certification Pursuant to Section 906 by CEO & CFO

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.

A. M. Castle & Co.

(Registrant)

Date: August 4, 2006

By: /s/ Henry J. Veith

Henry J. Veith

Controller

(Mr. Veith is the Chief Accounting Officer and has been authorized to sign on behalf of the Registrant.)