FINAL TRANSCRIPT

Thomson StreetEvents℠

CAS - Q2 2011 A M Castle and Co Earnings Conference Call

Event Date/Time: Aug. 02. 2011 / 3:00PM GMT

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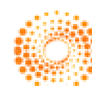

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PRESENTATION

Operator

Thank you for standing by and welcome to the A.M. Castle & Co. second-quarter 2011 earnings conference call. At this time all participants are in a listen only mode. Following today's presentation instructions will be given for the question-and-answer session. (Operator Instructions).

As a reminder, this conference is being recorded today, Tuesday, August 2, of 2011. And I would now like to turn the conference over to Mr. Usman Ahmed.

Usman Ahmed - *FD Ashton Partners - IR*

Good morning. Thank you everyone for joining us for A.M. Castle's 2011 second-quarter conference call. By now you should have all received a copy of this morning's press release. If anyone still needs one, please call my office at 312-553-6731 and we will send you a copy immediately following the conference call.

With us from the management team of Castle this morning are Mike Berg, President and CEO, and Scott Stephens, Vice President of Finance and CFO.

As a reminder, this call is being recorded. Certain information relating to projections of the Company's results that will be discussed during today's call may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. Those statements are based on current expectations and assumptions that are subject to a number of factors that could cause actual results to differ materially.

Additional information concerning these factors is contained in the risk factors section of the Company's most recent Form 10-K and other reports and filings with the SEC, and also in the cautionary statement contained in today's release. The Company does not undertake any duty to update forward-looking statements.

This presentation also include certain non-GAAP financial measures in an effort to provide additional information to investors. All non-GAAP measures have been reconciled to their related GAAP measures in accordance with SEC rules. You will find the

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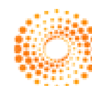

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reconciliation in the financial information attached to today's release, which is available on the Company's website at www.amcastle.com and under the Investors tab, and in the Form 8-K submitted to the SEC.

Now I will turn the call over to Mike Goldberg. Please go ahead, Mike.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Thanks. Good morning everyone and thank you for joining us today. On today's call Scott and I will review our second-quarter results, talk a little bit about the current business environment and comment briefly on our outlook.

As you saw from our press release earlier this morning, our sales and operating performance continued to show improvement in the second quarter. Consolidated net sales for the second quarter of 2011 were $282.6 million compared to $240.1 million in the second quarter of 2010, an increase of 17.7%.

The Company reported second-quarter net income of $3.7 million or $0.16 per diluted share compared to $0.4 million or $0.02 per diluted share in the prior year.

The second-quarter 2011 results include an $800,000 charge or a $0.03 charge per diluted share for export penalties associated with shipments that occurred from 2005 to 2008. Scott will talk more about our expenses later.

Net sales in our Metals segment were $252.3 million compared to $213.3 million for the prior year, an increase of 18.3%. Metals segment tons sold per day were up 18.1% from the second quarter of 2010 and 3.9% sequentially higher than the first quarter of 2011. Year-to-date average tons sold per day were up 17.9% from the prior year.

The increase in sales volume was primarily driven by higher demand for alloy bar and SBQ bar, particularly from our oil and gas and general industrial markets.

In our Plastics segment second-quarter 2011 sales of $30.3 million were $3.5 million or 13.1% higher than in the prior year, reflecting continued strength in the automotive, life sciences and retail point-of-purchase display sectors.

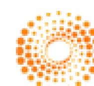
The consolidated gross margin rate for Q2 was 26.2% of sales, unchanged from the first quarter of 2011, and up from 25.7% from the prior-year period.

The LIFO expense was $4.1 million in Q2 compared to $3 million in the first quarter of 2011 and the second quarter of the prior year.

The second quarter market environment remained positive. Macro economic data suggests ongoing strength in our key markets and in the industrial market as a whole. The ISM and industrial production readings remained strong during the quarter. And even the ISM report for July yesterday -- released yesterday showed an expansion reading above 50.

Base pricing in our products seems to have stabilized, but we saw continued volatility in commodities. Both nickel and aluminum fell early in the second quarter, only to recover in the back of the second quarter, so that quarter-end prices were similar to those at the beginning. Scrap prices didn't move substantially.

Recent data issued by the MSCI suggests that total industry volumes are about 80% of 2008 peak levels, which would be very similar to our own experience. We expect over the next couple of years that we would exceed previous peak volumes, especially given the likely recovery in the aerospace market and the continuing demand for many of the energy markets.



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The general industrial markets has experienced a relatively strong recovery for the past year or so, with the mining, construction equipment, motors and automotive sectors all showing good growth. Within these markets we have seen a good recovery for our plate business as well in carbon and alloy bars.

The supply side continues to support the positive outlook for our long products business. Carbon alloy bar pricing which surged over the past six months, now appears to be taking a pause before another expected round of increases later in the year.

(inaudible) SBQ and alloy bar continue to be on allocation, and customer inventory levels seem to be under control.

Carbon and alloy plate also in some part continue to be under controled order entry, and customer inventory there also continue to be locked.

Construction equipment, mining and heavy machinery customers all continue to forecast strong activity. MRO suppliers indicate their order books remain full, with restricted order entry on selected products continue.

We experienced a modest holiday-related reduction in activity towards the end of June. But overall feedback from our major customers indicate a positive outlook. And we are not aware of any announcements of extended or abnormal summer shutdowns.

Now I will move on to oil and gas, where the market continued to be strong. In June our oil and gas team recorded its stronger sales month since October of 2008.

The oilfield market remains buoyant despite the continual global economic uncertainty and volatility in the price of oil. Demand for our products and services continue to be strong. Mill leadtimes remain extended and many products remain on allocation. In this environment our challenge is to efficiently manage inventory levels and address supply chain issues for our customers.

We are starting to see an increase in nickel alloy usage in critical completions activity worldwide. Fracing and unconventional drilling continue to drive activity in North America.

The aerospace market continues to show signs of improvement, but the recovery remained slow during the second quarter. Gross margins remained under pressure during Q2 as the market continued to heavily discount plate products.

In addition to raw materials, many plate-related aerospace finished components are still also oversupplied. However, we believe we are close to the point that destocking will end, and when it does the market could tighten up considerably.

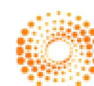
In nearly all our other aerospace products, aluminum sheet and extrusions, titanium and nickel, we have experienced healthy growth. In addition, June bookings in aerospace were the highest this year.

The commercial Aerospace segment continues to recover and activity is improving and a number of our major accounts. We are seeing substantial short-term increases in demand relating to the Boeing 787, notably our nickel and titanium products for engine production.

Titanium is in short supply and non-forecasted requirements are becoming harder to fulfill. Increased build rates, a higher mix of wide-body planes, and restricted additional capacity will suggest the aerospace market could tighten up in 2012 and could potentially could be tight in 2013. The unknown variable in this continues to be the excess inventory, both in raw materials and finished parts.

The general aviation and business jet segments continues to improve and actually exceed our expectations.

The defense segment remains unchanged from our prior outlook, with little new domestic business on the horizon. Our JSF program continues at its planned rates.



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In plastics business activity continued to trend upwards. Second-quarter sales were up 13.1% over the prior-year period. Material prices of oncoming goods continued to rise throughout the second quarter across all product lines, continuing pressure on gross margins. Manufacturers are projecting that prices will remain at current levels for the remainder of 2011.

Now I'll just mention a few other second-quarter business developments. One of our key business priorities in 2011 is to rollout our ERP system to our international locations. We successfully completed a scheduled rollout in Europe during the second quarter and have another one scheduled for the third.

We implemented Oracle in Mexico in the first quarter, and then we broke ground on the expansion of our Monterrey, Mexico facility during the second quarter.

As we mentioned earlier in the year, we are doubling the size of our facility in Mexico to approximately 100,000 square feet, and adding significant processing capabilities to support the strong growth that we are experiencing in the region.

Given the continued industrial economic outlook, we remain optimistic about the balance of the year. Our markets appear to be in good shape, with increasing optimism that aerospace will continue to gain mention. Volumes and revenues have been increasing quarter-over-quarter and our operating performance is improving.

Given all of these factors, combined with our continued focus on cost and expense management, we see no reason that we should not experience continual growth throughout the balance of the year.

In the meantime, we continue to seek the appropriate acquisitions that can further drive growth and shareholder value.

So at this time I will turn things over to Scott to give you a more detailed review of the numbers.

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Good morning everyone. I will start with a summary of our second-quarter and year-to-date financial comparisons and then provide some commentary on our balance sheet and cash results through June. Consolidated second-quarter net sales were $282.6 million, which is $42.5 million or 17.7% higher than the second quarter of last year.

In our Metals segment we recorded sales of $252.3 million, which was $39 million or 18.3% higher than last year. Overall average tons sold per day were up 18.1% versus the second quarter of 2010 and 3.9% above first-quarter levels, demonstrating the improving trend of the demand environment in our various targeted end markets.

On the Plastics side, net sales for the second quarter were $30.3 million, which was $3.5 million or 13.1% higher than the prior year. Our consolidated gross margin rate for the second quarter was 26.2% of sales unchanged from Q1 and up from 25.7% for the prior-year period.

The Company recorded LIFO expense of $4.1 million in the second quarter of 2011 compared to $3 million in the second quarter of 2010, as well the first quarter of this year. On a pre-LIFO basis gross margin increased 40 basis points.

We believe that the $7.1 million of LIFO expense recorded year-to-date is indicative of what we expect to see in the second half of the year. However, as always, inventory mix and pricing trends for the second half of this year will have an impact on the final LIFO calculation for 2011.

Second-quarter consolidated operating expenses were $69.8 million, an increase of $8.5 million or 13.9% over last year. Second-quarter expenses include a $0.8 million charge or $0.03 per diluted share related to export penalties for shipments that

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occurred from 2005 to 2008. This expense is recorded within SG&A expenses and there was no tax deduction associated with this item.

Our expenses in Q2 and year-to-date June are higher than we budgeted. Although shipping volumes and sales are also higher than budget, our expense ratios have not achieved the levels we had anticipated.

Compared to June of 2010 our overall headcount has increased just over 4%, which appears reasonable in light of the volume increases that we have experienced over the past year.

However, other costs have increased more than anticipated, such as benefits including our 401(k) reinstatement, insurance, health care costs, overtime and training. We will bring additional focus to our SG&A expense management in the second half of this year.

Topline growth and marketshare are key priorities, as always, but we do expect to generate better operating leverage as our topline growth continues.

Consolidated operating income for the quarter was $4.3 million. In the prior-year quarter we reported operating income of $0.3 million. Joint venture equity income was $3 million for the quarter, which was $1.5 million higher than that earned in the second quarter of last year and consistent with Q1 of this year.

Interest expense was $1.1 million for the second quarter of 2011, $0.1 million lower than the prior year.

Our effective tax rate, which includes JV income combined with recorded pretax income, was 40% for the second quarter, reflecting no tax benefit for the export fees that I mentioned. And the effective tax rate year-to-date through June on the same basis is 36.8%. And we believe that 36.8% rate is indicative of our normalized effective tax rate.

For the second quarter of 2011 the Company reported net income of $3.7 million or $0.16 per diluted share. In the prior-year quarter the Company reported $0.4 million or $0.02 per diluted share.

Now I will briefly go through the six-month comparative results. Consolidated sales for year-to-date June were $555.4 million, which is $92.3 million or 19.9% higher than the first half of 2010. Consolidated gross margin rate for the first half of 2011 was 26.2% of sales as compared to 25% in the prior-year period.

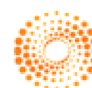
Consolidated operating expenses were $139.1 million in the first half, which is $16.8 million or 13.7% higher than for the same period last year.

Consolidated operating income for the first half of 2011 was $6.4 million versus a prior-year operating loss of $6.8 million. The first-half joint venture equity income was $5.8 million compared to $2.3 million in the first half of last year.

Interest expense was $2.1 million or $0.4 million lower than the prior-year period. Net income for the first half of this year was $6.4 million or $0.28 per diluted share compared to a loss of $4.2 million or $0.18 per diluted share in the first half of 2010.

Now onto the ballot sheet and working capital. Our key metrics around inventory and receivable turnover improved significantly in the second quarter of 2011 compared to the prior year. Our day sales in inventory or DSI, was 124 days on a trailing three-month basis for Q2 compared to 142 at this time last year.

Although inventory turnover rates were slightly higher than Q1 levels of 117, we had intended to get our overall inventories back to planned levels during the quarter in order to support additional sales opportunities that we are seeing in several key end markets.



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Aerospace DSI continues to improve as we reduce excess in aged inventory and refine our buy plan.

Average receivable DSO on a trailing three-month basis was 50.1 days at the end of June compared to 49.3 at the same time last year. We expect our DSL rate to be below 50 days for the full year of 2011.

Cash used in operations was $16.5 million during the first quarter of 2011 compared to cash generated from operations of $2.7 million for the same period last year.

Our debt to capital ratio at quarter's end was 21.1% versus 21.5% at the end of the second quarter last year, and compared to 18.1% at the end of 2010.

Total debt at the end of June was $86.7 million compared to $69.1 million at year-end 2010. And net debt was $54.6 million at the end of June compared to $59.5 million this time last year, and compared to $32.4 million at the end of last year.

Capital expenditures in the quarter were $3 million compared to $1.3 million last year. We anticipate 2011 capital spending to be approximately $14 million, with a significant portion of that tied to our planned expansion in Mexico.

On our last call we said we expected Q2 results to show continued growth in sales and earnings sequentially over Q1 levels and on a year-over-year basis, and they did. Going into 2011 we also said that gross profit margins would improve from 2010 levels and be near the midpoint of our 25% to 29% range by the end of 2011. Through the first half our gross profit margin was 26.2%.

We also said at the start of this year that we would be striving to achieve our historical pre-recession DSI levels of around 120 days. And year-to-date DSI through June stood right at 120.

Our operating expenses in the first half were higher than anticipated, but we did have some frontloaded expenses in the first half that we expect will result in the incremental expense ratio declining during the second half of this year. As we mentioned, we have placed additional focus on managing our SG&A expenses.

Overall, we feel good about the volume growth we are seeing, and we expect that the continued strength that we are seeing in our key end markets will drive further growth for our business going forward.

Now we will open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will begin the question-and-answer session at this time. (Operator Instructions). Edward Marshall, Sidoti & Company. A.

Edward Marshall - *Sidoti & Company - Analyst*

You talked about some frontloaded expenses into the first half of the year that you're not going to repeat themselves in the back half of the year. Can you quantify them? Can you talk about what they were? I know you mentioned a few things like the ERP and some startup costs, but can we get a little bit more granular on that?

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Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Well, we can, but it is really a collection -- there is nothing individually significant. We have certainly done that and we mentioned -- I mentioned a few of them in my remarks. It is hundreds of thousands in several pockets. We talked about training. We talked about overtime. We talked about the 401(k), merit increases. So it is really a collection of stuff.

Edward Marshall - *Sidoti & Company - Analyst*

I would have thought at this level we would have seen a little bit better operating performance or better operating leverage from the business.

Just let me -- to clear it up, you are saying it is because you are adding employment, overtime and training new employees, as well as those benefits to the health and insurance, et cetera, that have really caused what would be a headwind, so to speak, that will alleviate itself as we ramp up in the back half of the year?

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Yes, we think so. There is certainly are some -- and again, nothing other than the export item which we called out and quantified itself -- nothing else really worth quantifying individually. And at these levels -- but yet at these levels, yes, they show up.

So, yes, we anticipate some of those alleviating themselves or not recurring given their nature, because they were front-end loaded, in the hundreds of thousands in a few of those areas that we talked about. And then, yes, we agree as the volume continues to increase, we also expect better operating leverage than what we experienced in the first half of this year.

Edward Marshall - *Sidoti & Company - Analyst*

Okay, do you -- are you still on target for the full year to reach the gross margin profile that you set out between that 26 and 29? You said the midpoint of that range. Are we still on that target? I think you alluded to that in your comments.

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Well, we do, predicated primarily on aerospace continuing to get better. That is really where that is going to come from. Aerospace continue -- margins continue to be -- well, outside of their normalized range. And again, we have put most of that down to the plate market.

So as that normalizes itself that would be the key driving factor toward continuing to improve the margins. The rest of our business there is room for additional improvement and we're working on that, but the bulk of that increase from 26.2 up to 27 is going to come on the backs of aerospace.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

The other variable, I think, which we alluded to there is LIFO. And as I think we know, it is tough to nail that down at this time of the year. So I think I would just concur with Scott's comments that the aerospace margins have -- I think we will see some upside coming through. And the other big variable would be our LIFO numbers.

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Edward Marshall - *Sidoti & Company - Analyst*

Okay. When you talk about aerospace margin, and you're saying you're seeing outside of the normal range, is it right to think it is pricing? You've got inventory in the channel. You're going to have discount product in order to move it because customers are not really excepting price increases. Is it really coming from price or is it something other than that?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

The pressure on Aerospace margins has for a number of years been as a result of the excess inventory in the supply chain, and people's desire to move inventory at reduced prices to say the least.

So we -- are we out of the woods on that? Most probably not quite. But I think there is certainly some signs that that market is about to change.

Our aerospace activity has increased, and that is a good sign, month by month by month in terms of bookings. So that is a good indicator that the demand is being pulled through. And once we get to that point where the inventory in the channel normalizes, we would absolutely expect to see a pretty significant uplift in our aerospace business, which obviously would translate into the total.

Edward Marshall - *Sidoti & Company - Analyst*

Okay. You're talking about inventory, has that -- has there been any relief whatsoever? I think you are saying there is a little bit of change, but not really.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

I don't think -- if we look back on the last three months I would say no that the market still remains oversupplied and hyper-aggressive. But I think the indications are that that that certainly could change over the next period of time here. I have gone on record saying I'm not going to forecast when this is going to change. I feel a little bit more comfortable now that at least it is in sight.

Edward Marshall - *Sidoti & Company - Analyst*

Okay. Can you -- last question -- can you just give me the gross profit and the operating profit of the two individual segments? I know will be in the Q when that is released, but if you have it available that would be great.

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

I do.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Scott is going through his papers here so -- at least kind of shuffles them.

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Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

One second. The operating profit for medals in the quarter was 5.1. For plastics 1.1. And then you've got the other segment, which is a corporate cost of 1.9, which nets to the 4.3.

Edward Marshall - *Sidoti & Company - Analyst*

Okay, thanks, guys.

Operator

Tim Hayes, Davenport & Company.

Tim Hayes - *Davenport & Company - Analyst*

In your prepared remarks did I hear something you had some order softness in latter part of June. If that was correct, was that overall or for a specific end market?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

No, we just saw -- I think our comments were really -- were intended to be relatively positive in that normally as you get up to the July 4 time period you see some softening, and in that few days before that weekend we saw it generally, but it wasn't particularly significant and we don't -- there was no indications that there is any extended summer shutdowns or anything like that.

So the remarks were almost intended to be somewhat positive rather than negative, that there was a normal slowdown in the last day or two before the holiday, but that was about it.

Tim Hayes - *Davenport & Company - Analyst*

So far since you have at least a little bit of a read on July, what is your expectations for volume in Q3 versus Q2? We have always thought of maybe just a slight seasonal decrease -- decline due Q2 to Q3. Do we -- might that occur again or is there some underlying cyclical strength that could offset that this go-round?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

We would anticipate volumes to be up in Q3 over Q2. With, again, it always depends on those summer shutdowns. That is what normally gives you the cyclical decline. Obviously, we've got July behind us, and we have a pretty good view of August, and so we would expect volumes to not go back within Q3.

Tim Hayes - *Davenport & Company - Analyst*

Then did you have any of your customers -- nickel customers pullback in what they were buying from you in Q2, given the volatility in nickel prices, specifically the decline in nickel prices that occurred during the quarter?

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Mike Goldberg - *A. M. Castle & Co. - President, CEO*

No, nothing of note.

Tim Hayes - *Davenport & Company - Analyst*

Then, finally, on your sales guidance remaining positive, is that -- it will just remain positive from a year ago, but we should expect that the year-over-year decline would be smaller than what we saw in Q2, is that how -- am I reading that correctly?

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

What decline, or do you mean the increase?

Tim Hayes - *Davenport & Company - Analyst*

Yes, the revenue growth in Q2 was up almost 18% from the year-ago quarter. Then you mentioned positive sales growth for the rest of the year. Certainly I figured it would be up from a year ago, but just looking -- would it have a smaller year-over-year increase than what we saw in Q2?

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

At this point, Tim, not a whole lot different.

Tim Hayes - *Davenport & Company - Analyst*

Okay.

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Yes, for year-over-year.

Tim Hayes - *Davenport & Company - Analyst*

Okay, very good. Thank you.

Operator

(Operator Instructions). Mark Parr, KeyBanc.

Mark Parr - *KeyBanc - Analyst*

Congratulations on the progress. The quarter looked a little weak at first blush, but going through the LIFO, et cetera, it looked a pretty solid quarter.

In looking at the first-half LIFO, I will just get through this -- some housekeeping, you've got a little over $7 million in the first half of LIFO. Would that be fair to assume as we are trying to recast our models $7 million for the second half?

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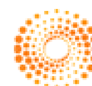

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Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

We think so. That is our expectation, at least at this point. All the variables will get more clear every month that goes by, but we are expecting about the same level at this point.

Mark Parr - *KeyBanc - Analyst*

Okay, all right, that's helpful. I think -- I was going to talk a little bit about getting into some of the expense commentary, but I think what you're really suggesting is that expenses have moved up and they would be leveling off as revenue momentum grows. So the divergence you're looking for is not expenses coming down, but it is expenses staying level and revenues moving higher. Is that right?.

Scott Stephens - *A. M. Castle & Co. - VP Finance, CFO*

Yes, that is what our forecast indicates at this point, exactly.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

We would expect better operating leverage moving forward. There is no doubt about that.

Mark Parr - *KeyBanc - Analyst*

Okay. Then I was curious, your joint venture, Kreher, seems to be doing extremely well. The prior peak earnings that we have for this, at least looking at our model, is something between $8 million and $9 million in 2008. You are already at $6 million here through the first half. I was wondering maybe if you could talk a little bit about that business, what has changed there? And do you think the $3 million quarterly run rate is sustainable here in the back half?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

There has been a couple of substantial changes to that business over the prior cycles. I think one is a few years ago they made an acquisition in the oil and gas business. And just like the oil and gas business at Castle, that has done very well. So that is one driver.

The other driver is that joint venture, Kreher, has always participated in the automotive business. They have a kind of a wire drawing plant in Detroit. And in the past that was -- that business could have been a bit of a drag and at current times that business is doing very well.

So it is a combination of the improved automotive market and the improved energy markets have been the substantial changes behind their change in performance. (multiple speakers).

Mark Parr - *KeyBanc - Analyst*

In the wire drawing business, Michael, is it more of a function of changing competitive landscape or is there -- what would have changed for that business to be doing so much better now, especially when you think about automotive momentum today a lot lower than it was in 2007 and 2008?

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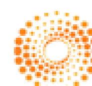

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Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Yes, but there's a lot more parts being made domestically. I think that is a big key there. That the number of -- again, I think there's a couple of factors in that. One is that the competitive landscape has changed. The fall out of 2009 reduced the capacity in that market.

And then even though the build rates for automobiles is obviously significantly less than it was at the peak, there was a significant amount more are being made, I think, domestically than in terms of parts being imported. So I think that is a big factor as well.

So it is a kind of -- I would say there is a kind of a fundamental shift that has happened in that particular market. We would anticipate their earnings to be about the same in the second half of the year and the first, subject to some seasonality. I think that is -- as we know, it is always a bit of factor, especially in the fourth quarter.

Mark Parr - *KeyBanc - Analyst*

Right. But so what is this -- this wire is going into harnesses and harness manufacturing?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Bolts. (multiple speakers).

Mark Parr - *KeyBanc - Analyst*

Into bolts, okay. Oh, that is really interesting. Thanks for the color there. One last question, if I could. Or, actually, I had two other questions if I could get a little more color.

Michael, you had indicated that your aerospace order momentum in June was the highest that you'd seen in quite some time. And I think did you say it was the strongest it has been for it, I don't know, for quite some time. I was just curious if that June rate is sustained here over the back half of the year, what sort of upside to the aero market in the second half would be implied by that June number?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

What we said was that June was the best this year. I think we can share that July was better than June. The challenge becomes -- that is a booking rate. That booking eventually converts to billings, but it is not clear exactly when all that will turn into actual revenue.

So we would expect to see that improve, but I think we will see the bigger kick come later and into 2012, rather than a major -- I don't think our third-quarter aerospace revenue run rates are going to be substantially different from our second-quarter revenue run rate. So I think that what we see is our backlog building, and that in turn over perhaps the fourth quarter and then going into 2012 would hit the P&L spend.

Mark Parr - *KeyBanc - Analyst*

Okay, I am sure that you have read Reliance's earnings transcript, if you didn't listen into the call. They had indicated as early as the second quarter -- I mean, the aluminum business really was a lot better for them, and that the heat treat plate market had begun to show some signs of upside a bit earlier than what they hoped for.

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So I would imagine that it is not unreasonable to assume that you guys, at least at some point here in the next six months would have some -- at least some sort of -- at least moving in the same direction. I don't know if it is the same magnitude or not. (multiple speakers). Are those comments giving you more conviction, in addition to what you're hearing from customers, about the fact that this inventory restocking is approaching an end?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Absolutely. I very much enjoyed hearing that from the guys at Reliance that they were -- as you know, they are a significant player in this market as well. So that is all just another indication that this will change. And I think it is pretty much widely accepted that this market shifts from surplus to shortage relatively quickly.

So as we look out over the next 12, 18 months we would expect that market to -- the characteristics of that market to change fairly significantly, and that would have a meaningful impact on our numbers.

Mark Parr - *KeyBanc - Analyst*

Okay, look, I appreciate all the color and the help. I know that you had also indicated you thought the energy markets could be a lot -- you talked about overall revenues -- your overall shipment momentum having recovered to about 80% of prior peak for both Castle and for the MSCI.

I would -- we track the MSCI data as well. We would concur with that. But how much incremental upside do you think the energy markets provide to Castle as we go here through the next cycle? Assuming the rest of the business gradually is restored, could you guys be 20% or 30% higher than the previous cycle peak from a volume perspective?

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Yes, I think so. I think there is -- sometimes it is difficult to track in terms of various elements, but we separate our oil and gas business, and that is obviously -- I think we would say our volumes on oil and gas are back to previous peak levels. So with the development of the shale gas and the fracing which is -- high consumer of Hy-Alloy metal, we would anticipate that market to be -- and our participation in that market to be higher than peak.

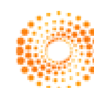
In our European business we see significant upside on the nuclear front. I'm not sure we see it as bright in the US as we do necessarily in Europe. And then all the other energy-related, the power generation, coal mining equipment, almost anything related to power seems to have some significant -- continued significant upside.

I know the world economies are always in a state of uncertainty, but the demand for power long-term is there in one form or another. And again, as you know, many of our customers in North America export their products and so it is really a global market.

So long-term trend we see very, very positive for power, whether it is natural gas or whether it is nuclear or whether it is fossil fuel, which requires mining equipment. So I think that, yes, I think over this cycle we should see significantly higher peaks in that segment.

Mark Parr - *KeyBanc - Analyst*

Terrific. Thanks again for all the color, and good luck on the third quarter.



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Operator

I show no further questions in queue at this time. Management, please continue.

Mike Goldberg - *A. M. Castle & Co. - President, CEO*

Well, that is our story for this quarter. We appreciate your time and interest and we will speak to you shortly.

Operator

Ladies and gentlemen, this concludes our call for today. If you would like to listen to a replay of today's conference, please dial 1-800-406-7325, and you may enter the access code of 4458935. Once again that is 1-800-406-7325 with the access code of 4458935. Thank you for your participation. You may now disconnect.

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