OLYMPIC STEEL INC
Form 10-Q
May 08, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

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

Commission File Number 0-23320
OLYMPIC STEEL, INC.
(Exact name of registrant as specified in its charter)

Ohio	34-1245650
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5096 Richmond Road, Bedford Heights, Ohio	44146
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (216) 292-3800

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 þ No o

Indicate by check mark whether the registrant is a large accelerated file, 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.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined Rule 12b-2 of the Exchange Act).
Yes o No þ

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

Class	Outstanding as of May 8, 2007
Common stock, without par value	10,579,008

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Part I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Olympic Steel, Inc.
Consolidated Balance Sheets
(in thousands)

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	$ 5,166	$ 5,211
Accounts receivable, net	109,135	85,883
Inventories	189,988	210,738
Prepaid expenses and other	4,578	6,383
Total current assets	308,867	308,215
Property and equipment, at cost	175,821	173,745
Accumulated depreciation	(88,551)	(86,386)
Net property and equipment	87,270	87,359
Goodwill	6,583	6,583
Other long-term assets	6,109	3,163
Total assets	$ 408,829	$ 405,320
Liabilities		
Accounts payable	$ 92,445	$ 75,095
Accrued payroll	7,923	7,698
Other accrued liabilities	11,199	9,547
Total current liabilities	111,567	92,340
Credit facility revolver	50,247	68,328
Other long-term liabilities	4,273	6,664
Deferred income taxes	3,303	3,751
Total liabilities	169,390	171,083
Shareholders Equity		
Preferred stock		
Common stock	109,339	109,075
Retained earnings	130,100	125,162
Total shareholders equity	239,439	234,237

Total liabilities and shareholders equity	**$ 408,829**	**$ 405,320**

The accompanying notes are an integral part of these balance sheets.

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Olympic Steel, Inc.
Consolidated Statements of Operations
(in thousands, except per share and tonnage data)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(unaudited)	
Tons sold		
Direct	273,326	281,805
Toll	38,263	56,363
	311,589	338,168
Net sales	$ 259,405	$ 238,871
Costs and expenses		
Cost of materials sold (exclusive of depreciation shown below)	212,031	191,713
Warehouse and processing	13,675	11,637
Administrative and general	10,264	9,304
Distribution	6,309	6,248
Selling	3,781	3,436
Occupancy	1,753	1,691
Depreciation	2,182	2,008
Total costs and expenses	249,995	226,037
Operating income	9,410	12,834
Loss from joint ventures		(107)
Income before financing costs and income taxes	9,410	12,727
Interest and other expense on debt	1,027	154
Income before income taxes	8,383	12,573
Income tax provision	3,131	4,592
Net income	$ 5,252	$ 7,981
Earnings per share:		
Net income per share basic	$ 0.50	$ 0.78
Weighted average shares outstanding basic	10,435	10,259
Net income per share diluted	$ 0.49	$ 0.76
Weighted average shares outstanding diluted	10,664	10,568

The accompanying notes are an integral part of these statements.

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Olympic Steel, Inc.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(in thousands)

	2007	2006
	(unaudited)	
Cash flows from (used for) operating activities:		
Net income	$ 5,252	$ 7,981
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	2,182	2,008
Loss from joint ventures, net of distributions		107
Gain on disposition of property and equipment		(3)
Stock-based compensation	7	83
Other long-term assets	(2,946)	
Other long-term liabilities	(2,391)	322
Long-term deferred income taxes	(448)	(496)
	1,656	10,002
Changes in working capital:		
Accounts receivable	(23,252)	(19,252)
Inventories	20,750	(3,172)
Prepaid expenses and other	1,805	(192)
Accounts payable	18,504	2,949
Accrued payroll and other accrued liabilities	1,876	994
	19,683	(18,673)
Net cash from (used for) operating activities	21,339	(8,671)
Cash flows from (used for) investing activities:		
Capital expenditures	(2,093)	(6,230)
Proceeds from disposition of property and equipment		3
Net cash used for investing activities	(2,093)	(6,227)
Cash flows from (used for) financing activities:		
Credit facility revolver borrowings (payments), net	(18,081)	10,000
Change in outstanding checks	(1,154)	(2,693)
Proceeds from exercise of stock options (including tax benefit) and employee stock purchases	257	3,414
Dividends paid	(313)	(312)
Net cash from (used for) financing activities	(19,291)	10,409

Cash and cash equivalents:		
Net change	**(45)**	**(4,489)**
Beginning balance	**5,211**	**9,555**
Ending balance	**$ 5,166**	**$ 5,066**

The accompanying notes are an integral part of these statements.

Olympic Steel, Inc.
Notes to Consolidated Financial Statements
March 31, 2007

(1) Basis of Presentation:

The accompanying consolidated financial statements have been prepared from the financial records of Olympic Steel, Inc. and its wholly-owned subsidiaries (collectively Olympic or the Company), without audit and reflect all normal and recurring adjustments which are, in the opinion of management, necessary to fairly present the results of the interim periods covered by this report. Year-to-date results are not necessarily indicative of 2007 annual results and these financial statements should be read in conjunction with the Company s 2006 Annual Report on Form 10-K for the period ended December 31, 2006. All significant intercompany transactions and balances have been eliminated in consolidation.

(2) Accounts Receivable:

The Company maintained allowances for doubtful accounts and unissued credits of $3.5 million and $3.3 million at March 31, 2007 and December 31, 2006, respectively. The allowance for doubtful accounts is maintained at a level considered appropriate based on historical experience and specific customer collection issues that have been identified. Estimations are based upon a calculated percentage of accounts receivable, which remains fairly level from year to year, and judgments about the probable effects of economic conditions on certain customers, which can fluctuate significantly from year to year. The Company cannot guarantee that the rate of future credit losses will be similar to past experience. The Company considers all available information when assessing each quarter the adequacy of its allowance for doubtful accounts.

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(3) Inventories:
Steel inventories consist of the following:

(in thousands)	March 31, 2007	December 31, 2006
Unprocessed	$ 144,083	$ 159,581
Processed and finished	45,905	51,157
Totals	$ 189,988	$ 210,738

(4) Investments in Joint Ventures:
The Company and the United States Steel Corporation (USS) each own 50% of Olympic Laser Processing (OLP), a company that produced laser welded sheet steel blanks for the automotive industry. In January 2006, the Company and USS announced the closing of OLP. In conjunction with the closing, during the fourth quarter of 2005, the Company recorded a $3.5 million charge for the disposition of the joint venture, consisting of $1.3 million for the impairment of the Company s investment in OLP and a then-estimated $2.2 million to be paid pursuant to the Company s guarantee of OLP s debt. OLP ceased operations during the first quarter of 2006. Operating losses incurred by OLP during the first quarter of 2006 were recorded against the $3.5 million reserve. During the second and third quarters of 2006, OLP began liquidating its remaining assets. Offers from third-parties to purchase the remaining assets were less than anticipated and the Company recorded an additional $2.0 million charge in the second quarter of 2006 to reflect additional expected obligations under the guarantee of OLP s debt. In December 2006, the Company advanced $3.2 million to OLP in connection with the loan guarantee. The Company believes the underlying value of OLP s remaining assets, upon liquidation, will be sufficient to repay the advance at a later date.
The Company recorded 50% of OLP s net income or loss to its Consolidated Statement of Operations as Income (Loss) from Joint Ventures.

Prior to May 1, 2006, the Company held a 49% ownership interest in G.S.P., LLC (GSP), a venture to support the flat-rolled steel requirements of the automotive industry as a Minority Business Enterprise. In order to gain full control of GSP, on May 1, 2006, the Company purchased the remaining 51% ownership interest for $100 thousand and GSP ceased qualification as a Minority Business Enterprise.

During 2006, all of GSP s bank debt was extinguished, thereby eliminating the Company s 49% guarantee of GSP s demand note bank agreement.

Since May 1, 2006, GSP s results have been fully consolidated in the Company s financial statements. Prior to May 1, 2006, the Company, using the equity method of accounting, recorded 49% of GSP s net income or loss to its Consolidated Statements of Operations as Income (Loss) from Joint Ventures.

(5) Acquisition of Tinsley Group PS&W, Inc.:

In order to further expand value-added and fabrication capabilities, on June 2, 2006, the Company purchased all of the outstanding stock of Tinsley Group PS&W, Inc. (PS&W) for a final purchase price of $9.0 million, which included $6.7 million of goodwill. The results of PS&W have been fully consolidated in the Company s financial results since June 2, 2006.

PS&W is a full service fabricating company that utilizes burning, forming, machining and painting to produce a wide variety of fabrications for large original equipment manufacturers of heavy construction equipment. PS&W was founded in 1990 and currently operates two facilities in North Carolina.

(6) Debt:

The Company s secured bank-financing agreement (the Credit Facility) is a revolving credit facility collateralized by the Company s accounts receivable, inventories, and substantially all of its property and equipment. Borrowings are limited to the lesser of a borrowing base, comprised of eligible receivables and inventories or, effective with an April 2007 amendment, $130 million in the aggregate. The April 2007 amendment also extended the maturity date of the Credit Facility to December 15, 2010, with annual extensions at the banks option. The Company has the option to borrow based on the agent s base rate or Eurodollar Rates (EURO) plus a premium.

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The Credit Facility requires the Company to comply with various covenants, the most significant of which include: (i) minimum availability of $10 million, tested monthly, (ii) a minimum fixed charge coverage ratio of 1.25, and a maximum leverage ratio of 1.75, which are tested quarterly, (iii) restrictions on additional indebtedness, and (iv) limitations on dividends, capital expenditures and investments. At March 31, 2007, the Company had approximately $78 million of availability under the Credit Facility and the Company was in compliance with its covenants. The Credit Facility also contains an accordion feature which allows the Company to add up to $25 million of additional revolver capacity in certain circumstances.

Outstanding checks are included as part of Accounts Payable on the accompanying Consolidated Balance Sheets and such checks totaled $15.7 million as of March 31, 2007 and $16.9 million as of December 31, 2006.

(7) Shares Outstanding and Earnings Per Share:

Earnings per share have been calculated based on the weighted average number of shares outstanding as set forth below:

	For the Three Months Ended March 31,	
	2007	**2006**
(in thousands, except per share data)		
Weighted average shares outstanding	10,435	10,259
Assumed exercise of stock options	229	309
Weighted average diluted shares	10,664	10,568
Net income	$ 5,252	$ 7,981
Basic earnings per share	$ 0.50	$ 0.78
Diluted earnings per share	$ 0.49	$ 0.76

(8) Stock Options:

In January 1994, the Olympic Steel, Inc. Stock Option Plan (Option Plan) was adopted by the Board of Directors and approved by the shareholders of the Company. Pursuant to the provisions of the Option Plan, key employees of the Company, non-employee directors and

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consultants may be offered the opportunity to acquire shares of Common Stock by the grant of stock options, including both incentive stock options (ISOs) and nonqualified stock options. ISOs are not available to non-employee directors or consultants. A total of 1,300,000 shares of Common Stock were originally reserved for issuance under the Option Plan. To the extent possible, shares of treasury stock are used to satisfy shares resulting from the exercise of stock options. The purchase price of a share of Common Stock pursuant to an ISO will not be less than the fair market value of a share of Common Stock at the grant date. Options vest over periods ranging from six months to five years and all expire 10 years after the grant date.

The Option Plan terminates on January 5, 2009. Termination of the Option Plan will not affect outstanding options. As of March 31, 2007, there were options to purchase 24,170 shares of Common Stock available for grant.

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123-R (SFAS No. 123-R) and elected to use the modified prospective transition method. The modified prospective transition method requires that compensation cost be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been rendered as of the date of the adoption. The modified prospective transition does not require prior periods to be restated. Prior to the adoption of SFAS No. 123-R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principals Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The Company has elected to use the short-cut method to calculate the historical pool of windfall tax benefits upon adoption of SFAS No. 123-R. The election to use the short-cut method had no effect on the Company s financial statements.

Under the intrinsic value method used prior to January 1, 2006, compensation expense for stock-based compensation was not recognized in the Company s Consolidated Statements of Operations as all stock options granted by the Company had an exercise price equal or greater than the market value of the underlying Common Stock on the option grant date. The adoption of SFAS No. 123-R resulted in the following:

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	For the Three Months Ended March 31,	
	2007	2006
(in thousands, except per share data)		
Stock option expense before taxes	$7	$ 83
Stock option expense after taxes	5	53
Impact per basic share	$	$0.01
Impact per diluted share	$	$0.01

All pre-tax charges related to stock options were included in the caption Administrative and General on the accompanying Consolidated Statement of Operations.

No options were granted during 2006 or the first quarter of 2007.

The following table summarizes stock-based award activity during the three months ended March 31, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000s)
Outstanding at December 31, 2006	477,140	$ 6.12		
Granted				
Exercised	(15,836)	7.76		
Canceled				
Outstanding at March 31, 2007	461,304	$ 6.06	5.0 years	$ 11,499
Exercisable at March 31, 2007	451,304	$ 5.96	5.0 years	$ 11,295

The total intrinsic value of stock options exercised during the three months ended March 31, 2007 and 2006 were $337 thousand and $5.5 million, respectively. Net cash proceeds from the exercise of stock options were $123 thousand and $1.3 million for the three months ended March 31, 2007 and 2006, respectively. Income tax benefits of $128 thousand and $2.1 million were realized from stock option exercises during the three months ended March 31, 2007 and 2006, respectively. The fair value of options vested during the three months ended March 31, 2007 and 2006 totaled $7 thousand and $93 thousand, respectively.

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As of March 31, 2007, approximately $79 thousand of expense, before taxes, with respect to non-vested stock-based awards has yet to be recognized and will be amortized into expense over a weighted-average period of 1.66 years.

(9) Supplemental Cash Flow Information:

Interest paid during the first three months of 2007 and 2006 totaled $1.2 million and $88 thousand, respectively. Income taxes paid during the first three months of 2007 and 2006 totaled $959 thousand and $1.5 million, respectively.

(10) Impact of Recently Issued Accounting Pronouncements:

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109.* This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company adopted FIN 48 on January 1, 2007. The adoption had no effect on the opening balance of retained earnings as of January 1, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements.* This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 157 will have a material impact on our consolidated financial statements.

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and accompanying notes contained herein and our consolidated financial statements, accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2006. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those described in Item 1A, Risk Factors, of our Annual Report on Form 10-K and under the caption Forward-Looking Information below.

Overview

We are a leading U.S. steel service center with over 50 years of experience. Our primary focus is on the direct sale and distribution of large volumes of processed carbon, coated and stainless flat-rolled sheet, coil and plate products. We act as an intermediary between steel producers and manufacturers that require processed steel for their operations. We serve customers in most carbon steel consuming industries, including manufacturers and fabricators of transportation and material handling equipment, automobiles, construction and farm machinery, storage tanks, environmental and energy generation, food service and electrical equipment, as well as general and plate fabricators, and steel service centers. We distribute our products primarily through a direct sales force.

We operate as a single business segment with 16 strategically-located processing and distribution facilities in Connecticut, Georgia, Illinois, Iowa, Michigan, Minnesota, North Carolina, Ohio and Pennsylvania. This geographic footprint allows us to focus on regional customers and larger national and multi-national accounts, primarily located throughout the midwestern, eastern and southern United States.

We sell a broad range of steel products, many of which have different gross profits and margins. Products that have more value-added processing generally have a greater gross profit and higher margins. Accordingly, our overall gross profit is affected by, among other things, product mix, the amount of processing performed, the availability of steel, volatility in selling prices and material purchase costs. We also perform toll processing of customer-owned steel, the majority of which is performed by our Detroit and Georgia operations. We sell certain products internationally, primarily in Puerto Rico and Mexico. All international sales and payments are made in United States dollars. Recent international sales have been immaterial to our consolidated financial results.

Our results of operations are affected by numerous external factors including, but not limited to, general and global business, economic and political conditions, competition, steel pricing and availability, energy prices, pricing and availability of raw materials used in the production of steel, customer demand for steel, customers ability to manage their credit line availability and layoffs or work stoppages by our own, our suppliers or our customers personnel. The steel industry also continues to be affected by the global consolidation of our suppliers, competitors, and end-use customers.

On May 1, 2006, we acquired the remaining 51% interest in GSP. Prior to May 1, 2006 our 49% interest in GSP was accounted for under the equity method. Since May 1, 2006, the results of GSP have been fully consolidated into our financial statements. In January 2006, we announced plans to close the OLP joint venture in Detroit, Michigan. OLP, which was a processor of laser welded steel blanks for the automotive industry, ceased operations in the first quarter of 2006. Our 50% interest in OLP is accounted for under the equity method.

In June 2006, we acquired all of the outstanding stock of PS&W, a North Carolina-based fabricator of heavy construction equipment components. Since June 2, 2006, the results of PS&W have been fully consolidated into our financial statements.

A collective bargaining agreement covering approximately five Detroit maintenance workers expires July 31, 2007. Collective bargaining agreements covering our Minneapolis and other Detroit employees expire in 2009 and subsequent years. We have never experienced a work stoppage and we believe that our relationship with employees is good. However, any prolonged work stoppages by our personnel represented by collective bargaining units could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

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Critical Accounting Policies

This discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates under different assumptions or conditions. On an ongoing basis, we monitor and evaluate our estimates and assumptions.

For further information regarding the accounting policies that we believe to be critical accounting policies and that affect our more significant judgments and estimates used in preparing our consolidated financial statements, see Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

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Results of Operations

The following table sets forth certain income statement data for the three months ended March 31, 2007 and 2006 (dollars are shown in thousands):

	For the Three Months Ended March 31,			
	2007		2006	
	$	% of net sales	$	% of net sales
Net sales	$259,405	100.0%	$238,871	100.0%
Gross profit (1)	47,374	18.3%	47,158	19.7%
Operating expenses (2)	37,964	14.6%	34,324	14.4%
Operating income	$ 9,410	3.7%	$ 12,834	5.3%

(1) Gross profit is calculated as net sales less the cost of materials sold, exclusive of depreciation.

(2) Operating expenses are calculated as total costs and expenses less the cost of materials sold.

Tons sold decreased 7.9% to 312 thousand in the first quarter of 2007 from 338 thousand in the first quarter of 2006. Tons sold in the first quarter of 2007 included 274 thousand from direct sales and 38 thousand from toll processing, compared with 282 thousand direct tons and 56 thousand toll tons in the comparable period of last year. The decrease in tons sold was primarily attributable to reduced sales to domestic automotive customers due to credit concerns and lower sales to other service centers due to high inventory levels held by service centers during the first quarter of 2007.

Net sales increased 8.6% to $259.4 million in the first quarter of 2007 from $238.9 million in the first quarter of 2006. Average selling prices for the first quarter of 2007 increased 17.8% from last year s first quarter and remained flat with the fourth quarter of 2006.

As a percentage of net sales, gross profit (exclusive of depreciation) decreased to 18.3% in the first quarter of 2007 from 19.7% in the first quarter of 2006. The decrease in gross margin was primarily attributable to competitive pressures resulting from the high levels of inventory held at steel service centers during the first quarter of 2007. Service center inventories are now more balanced with demand and demand appears to be slowly improving, leading to potentially higher margins in the second quarter of 2007.

Operating expenses in the first quarter of 2007 increased 10.6% to $38.0 million from $34.3 million in last year s first quarter. The increase in operating expenses was primarily attributable to the inclusion of PS&W s operating expenses in 2007 results and the costs associated with the implementation of our new operating system, which commenced during the third quarter of 2006. As a percentage of net sales, operating expenses increased to 14.6% for the first quarter of 2007 from 14.4% in the comparable 2006 period.

Financing costs totaled $1.0 million for the first quarter of 2007 compared to $154 thousand for the first quarter of 2006. Our effective borrowing rate, inclusive of deferred financing fees and commitment fees, for the first quarter of 2007 was 7.2% compared to 9.8% in the first quarter of 2006. The effective borrowing rate in 2006 was higher because the commitment fee remained relatively constant while our 2006 average borrowings declined.

For the first quarter of 2007, income before income taxes totaled $8.4 million compared to $12.6 million in the first quarter of 2006. An income tax provision of 37.3% was recorded for the first quarter of 2007, compared to a provision of 36.5% for the first quarter of 2006. The effective tax rate was lower in 2006 due to the recognition of deferred tax assets related to certain state net operating loss carryforwards. We expect the effective tax rate to approximate 37% to 38% for the remainder of 2007. Income taxes paid totaled $959 thousand and $1.5 million for the first quarter of 2007 and 2006, respectively.

Net income for the first quarter of 2007 totaled $5.3 million or $.49 per diluted share, compared to net income of $8.0 million or $.76 per diluted share for the first quarter of 2006.

Liquidity and Capital Resources

Our principal capital requirements include funding working capital needs, purchasing and upgrading processing equipment and facilities, acquisitions, and paying dividends. We use cash generated from operations, leasing transactions, and our revolving credit facility to fund these requirements.

Working capital at March 31, 2007 totaled $197.3 million, an $18.6 million decrease from the end of the prior year. Significant working capital changes included a $23.3 million increase in accounts receivable, partially offset by a $20.8 million decrease in inventories and a $17.4 million increase in accounts payable.

For the three months ended March 31, 2007, we generated $21.3 million of net cash from operations, of which $1.7 million was derived from cash earnings and $19.7 million was generated from a decrease in working capital.

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During the first quarter of 2007, we spent $2.1 million on capital expenditures. We expect to spend between $15 million and $20 million on capital expenditures in 2007 and we anticipate using our financial position to continue to take advantage of a consolidating service center and fabricating industry. In 2007, we will add a $5.5 million stretcher-leveler cut-to-length line in Minneapolis and we will undertake a $2.9 million project to expand our Iowa facility by approximately 54,000 square feet in order to meet our customers need for high quality sheet product. We will also add additional laser and plasma cutting equipment in Cleveland, Chicago and Chambersburg to support our growing value-added services. In July 2006, we announced the beginning of a project to implement a new single information system to replace the three systems we currently use. The objective is to standardize and streamline business processes and improve support for our growing service center and fabrication business. The project will require a significant deployment of capital and will require a significant use of management s time. The total external costs associated with the new information system are expected to approximate $14 million over a 30-month phased implementation that began in July 2006.

During the first quarter of 2007, we used $19.3 million from financing activities, which was primarily used to repay borrowings under our revolving credit facility.

In February 2007, our Board of Directors approved a quarterly dividend of $.03 per that was paid on March 15, 2007 to shareholders of record as of March 1, 2007. In April 2007, our Board of Directors approved a quarterly dividend of $.03 per share which is payable on June 15, 2007 to shareholders of record as of June 1, 2007. We expect to make regular dividend distributions in the future, subject to the continuing determination by our Board of Directors that the payment of dividends remains in the best interest of our shareholders.

Our secured bank-financing agreement (the Credit Facility) is a revolving credit facility collateralized by our accounts receivable, inventories, and substantially all of our property and equipment. Borrowings are limited to the lesser of a borrowing base, comprised of eligible receivables and inventories or, effective with an April 2007 amendment, $130 million in the aggregate. The April 2007 amendment also extended the maturity date of the Credit Facility to December 15, 2010, with annual extensions at the banks option.

The Credit Facility requires us to comply with various covenants, the most significant of which include: (i) minimum availability of $10 million, tested monthly, (ii) a minimum fixed charge coverage ratio of 1.25, and a maximum leverage ratio of 1.75, which are tested quarterly, (iii) restrictions on additional indebtedness, and (iv) limitations on dividends, capital expenditures and investments. At March 31, 2007, we had approximately $78 million of availability under our Credit Facility and we were in compliance with our covenants. The Credit Facility also contains an accordion feature which allows us to add up to $25 million of additional revolver capacity in certain circumstances.

We believe that funds available under our Credit Facility and lease arrangements, together with funds generated from operations, will be sufficient to provide us with the liquidity necessary to fund anticipated working capital requirements and capital expenditure requirements over the next 12 months. In the future, we may, as part of our business strategy, acquire and dispose of other companies in the same or complementary lines of business, enter into and exit strategic alliances and joint ventures, and pursue other business ventures. Accordingly, the timing and size of our capital requirements are subject to change as business conditions warrant and opportunities arise.

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Forward-Looking Information

This Quarterly Report on Form 10-Q and other documents we file with the SEC contain various forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, business, our beliefs and management s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as may, will, anticipate, should, intend, expect, believe, estimate, project, plan, pote as the negative of these terms or similar expressions are intended to identify forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks, uncertainties and assump