

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

NOBLE INTERNATIONAL LTD

Form 10-Q

August 14, 2001

1

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

Commission File Number: 001-13581

NOBLE INTERNATIONAL, LTD.

(Exact name of registrant as specified in its charter)

Delaware	38-3139487
_____ (State or other jurisdiction of incorporation or organization)	_____ (I.R.S. Employer Identification Number)

20101 Hoover Road, Detroit, Michigan 48205

(Address of principal executive offices)
(Zip Code)

(313) 245-5600

(Registrant's telephone number, including area code)

(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
--- ---

The number of shares of the registrant's common stock, \$.001 par value,
outstanding as of June 30, 2001 was 6,609,019.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

NOBLE INTERNATIONAL, LTD. FORM 10-Q INDEX

This report contains "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and is subject to the safe harbor created by that section. Statements regarding future operating performance, new programs expected to be launched and other future prospects and developments are based upon current expectations and involve certain risks and uncertainties that could cause actual results and developments to differ materially. Potential risks and uncertainties include such factors as demand for the company's products, pricing, the company's growth strategy, including its ability to consummate and successfully integrate future acquisitions, industry cyclicalities, fuel prices and seasonality, the company's ability to continuously improve production technologies, activities of competitors and other risks detailed in the company's Annual Report on Form 10-K for the year ended December 31, 2000 and other filings with the Securities and Exchange Commission.

	PAGE
PART I - FINANCIAL INFORMATION.....	3
Item 1. Financial Statements.....	3
Consolidated Balance Sheets as of June 30, 2001 (unaudited) and December 31, 2000.....	3
Consolidated Statements of Income (unaudited) for the Three Month and Six Month Periods Ended June 30, 2001 and 2000.....	4
Consolidated Statements of Cash Flows (unaudited) for the Six Month Periods Ended June 30, 2001 and 2000.....	5
Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Month Periods Ended June 30, 2001 and 2000.....	6
Notes to Consolidated Interim Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	13
PART II - OTHER INFORMATION.....	14
Item 1. Legal Proceedings.....	14
Item 2. Changes in Securities and Use of Proceeds.....	14
Item 3. Defaults Upon Senior Securities.....	14
Item 4. Submission of Matters to a Vote of Security Holders.....	14
Item 5. Other Information.....	14
Item 6. Exhibits and Reports on Form 8-K.....	14

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

3

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (Unaudited, in thousands)

	June 30, 2001
ASSETS	-----
CURRENT ASSETS	
Cash and cash equivalents	\$ 453
Accounts receivable, trade	15,536
Inventories	4,642
Prepaid expenses and other assets	1,394
Deferred income taxes	1,435

Total Current Assets	23,460
PROPERTY, PLANT AND EQUIPMENT, NET	48,487
OTHER ASSETS	
Goodwill - net	41,906
Covenants not to compete	1,266
Sundry	9,297

Total Other Assets	52,469

	\$ 124,416
	=====
LIABILITIES AND EQUITY	
CURRENT LIABILITIES	
Current maturities of long-term debt	\$ 66
Accounts payable	9,566
Accrued liabilities	8,685
Income taxes payable	561

Total Current Liabilities	18,878
LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES	38,876
CONVERTIBLE SUBORDINATED DEBENTURES	16,726
JUNIOR SUBORDINATED NOTES	3,358
DEFERRED INCOME TAXES	2,272
PUTABLE COMMON STOCK	1,203
REDEEMABLE PREFERRED STOCK	325
SHAREHOLDERS' EQUITY	
Preferred stock, \$100 par value, 10% cumulative, authorized 150,000 shares	
Paid-in capital - warrants, \$10 per common share exercise price, 90,000 warrants outstanding	121
Common stock, \$.001 par value, authorized 20,000,000 shares, issued and outstanding 6,609,019 and 6,902,629	

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

shares in 2001 and 2000, respectively	21,935
Retained earnings	21,135
Accumulated comprehensive loss	(413)

	42,778

	\$ 124,416
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

3

4

NOBLE INTERNATIONAL, LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED, IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
	-----	-----
Net Sales		
Products	\$ 17,317	\$ 23,271
Services	15,255	
	-----	-----
Total Sales	32,572	\$ 23,271
Cost of goods sold		
Products	12,752	16,118
Services	11,882	
	-----	-----
Total Cost of Sales	24,634	16,118
Gross Profit	7,938	7,153
Selling, general and administrative expenses	5,235	3,889
	-----	-----
Operating income	2,703	3,264
(Loss) from unconsolidated affiliate	(260)	
Other Income (expense)		
Interest income	768	--
Interest expense	(1,415)	(412)
Sundry, net	5	(27)
	-----	-----
	(642)	(439)
	-----	-----
Earnings from continuing operations before income taxes and extraordinary item	1,801	2,825
Income tax expense	682	1,086

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Earnings from continuing operations before extraordinary item	1,119	1,739
Preferred stock dividends		13
EARNINGS FROM CONTINUING OPERATIONS ON COMMON SHARES		
BEFORE EXTRAORDINARY ITEM	1,119	1,726
LOSS FROM DISCONTINUED OPERATIONS		
GAIN ON SALE OF DISCONTINUED OPERATIONS		
EARNINGS BEFORE EXTRAORDINARY ITEM	\$ 1,119	\$ 1,726
EXTRAORDINARY ITEM - (LOSS) FROM EXTINGUISHMENT OF DEBT		
EARNINGS ON COMMON SHARES	\$ 1,119	\$ 1,726
BASIC EARNINGS PER COMMON SHARE:		
Earnings per common share from continuing operations before extraordinary item	\$ 0.17	\$ 0.24
Earnings per common share - discontinued operations	--	--
Extraordinary item - (loss) from extinguishment of debt	--	--
Earnings per common share	\$ 0.17	\$ 0.24
Dividends declared and paid	\$ 0.075	\$ 0.075
EARNINGS ASSUMING DILUTION:		
Earnings from continuing operations before extraordinary item	\$ 1,119	\$ 1,726
Proforma reduction in interest on convertible debentures		186
Proforma earnings from continuing operations before extraordinary item	1,119	1,912
Loss from discontinued operations	--	--
Gain on sale of discontinued operations	--	--
Proforma earnings before extraordinary item	1,119	1,912
Extraordinary item - (loss) from extinguishment of debt	--	--
Proforma earnings on common shares assuming dilution	\$ 1,119	\$ 1,912
EARNINGS (LOSS) PER COMMON SHARE - ASSUMING DILUTION:		
Earnings per common share from continuing operations before extraordinary item	\$ 0.17	\$ 0.23
Earnings per common share - discontinued operations	--	--
Extraordinary item - (loss) from extinguishment of debt	--	--
Earnings per common share	\$ 0.17	\$ 0.23
Basic weighted average common shares outstanding	6,609,455	7,170,938
Diluted weighted average common shares and equivalents	6,640,896	8,547,741

NOBLE INTERNATIONAL, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES

Net earnings from continuing operations before extraordinary items
Adjustments to reconcile net earnings to
 net cash provided by operations
 Interest paid in kind
 Loss from unconsolidated entity
 Depreciation of property, plant and equipment
 Amortization of goodwill
 Deferred income taxes

Changes in operating assets and liabilities, net of business acquisition
 Increase in accounts receivable
 (Increase) decrease in inventories
 (Increase) decrease in prepaid expenses
 (Increase) decrease in other assets
 Increase (decrease) in accounts payable
 (Decrease) increase in income taxes payable
 Increase (decrease) in accrued liabilities

Net cash provided by continuing operations
Net cash used by discontinued operations
Net cash from sale of discontinued operations

Net cash provided by operations

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment
Investment in S.E.T
S.E.T Receivable
Other Receivable

Net cash provided by (used in) investing activities

CASH FLOWS USED IN FINANCING ACTIVITIES

Repayments of notes payable - related parties
Capital lease payments
Redemption of common stock

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Redemption of convertible subordinated debentures
 Dividends paid
 Redemption of preferred stock of subsidiary
 Payments on long-term debt
 Net repayments on note payable to bank

Net cash used in financing activities

Effect of exchange rate changes on cash

Net decrease in cash

Cash at beginning of period

Cash at end of period

SUPPLEMENTAL CASH FLOW DISCLOSURE

Cash paid for:
 Interest

Taxes

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

5

6

NOBLE INTERNATIONAL, LTD. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND (LOSS) (UNAUDITED, IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
Net earnings	\$ 1,119	\$ 1,726
Other comprehensive income (loss), equity adjustment from foreign currency translation	\$ 92	(34)
Comprehensive income	\$ 1,211	\$ 1,692

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

NOBLE INTERNATIONAL, LTD.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and such adjustments are of a normal recurring nature.

The accompanying consolidated interim financial statements as of and for the six months ended June 30, 2001 and for the year ended December 31, 2000, include Noble International, Ltd. (the "Company") and its wholly-owned subsidiaries Monroe Engineering Products, Inc. ("Monroe"), Skandy Corp. ("Skandy"), Utilase Production Process, Inc. ("UPP"), Noble Metal Forming, Inc. ("NMF"), Noble Metal Processing, Inc. ("NMP"), Noble Land Holdings, Inc. ("Land Holdings"), Noble Components & Systems, Inc. ("NCS"), Noble Technologies, Inc. ("NTI"), Noble Metal Processing Canada, Inc. ("NMPC"), Noble Metal Processing-Midwest, Inc. ("NMPM"), Noble Holdings, Ltd. ("NHL"), Noble Logistic Holdings, Inc. (NLH) (formerly known as DSI Holdings, Inc.), Assured Transportation & Delivery, Inc. ("ATD"), Central Transportation & Delivery, Inc. ("CTD"), and Noble Logistic Services, Inc. (NLS), (collectively, "Noble" or the "Company"). All significant inter-company balances and transactions have been eliminated in consolidation.

Discontinued operations include all of the companies previously classified as the Company's plastics and coatings industry segment (Noble Component Technologies, Inc., Cass River Coatings, Inc., Noble Canada, Inc., Noble Canada Holdings, Ltd., Noble Canada Holdings II, Ltd., Noble Canada II, Inc., Tiercon Coatings, Inc., and Tiercon Industries, Inc.). On December 24, 1999 the Company executed a definitive agreement to sell these operations and the sale was completed on January 11, 2000. Results of these operations are reported as discontinued operations in the Consolidated Financial Statements for the periods presented.

On February 16, 2001, the Company acquired a 49% interest in S.E.T. Steel, Inc. ("SET") for \$3.0 million, the ("SET Acquisition"). SET is a Qualified Minority Business Enterprise, providing metal processing services to the original equipment manufacturers ("OEMs"). Contemporaneously with the SET acquisition, the Company, through its wholly owned subsidiary NTI, sold all of the capital stock of NMPM and NMF to SET for \$27.2 million (the "SET Sale"). On February 16, 2001, the Company received a note for \$27.2 million due June 14, 2001. On June 28, 2001, SET completed the financing of its purchase of NMF and MNPM. The Company received \$24.7 million in cash and a \$4.0 million, 12% subordinated note due in 2003. In addition, the Company is guarantor of \$10.0 million of SET's senior debt.

On March 7, 2001 the Company, through it wholly owned subsidiary, NHL, formed the company PECO Manufacturing, Inc. for the purpose of marketing and distributing molded plastic products to the automotive, industrial and machine building markets.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

On March 12, 2001 the Company was awarded through binding arbitration, \$0.6 million in connection with its previous acquisition of all of the assets of H&H Steel Processing Company, Inc. and is included in sundry income.

On June 8, 2001 the Company acquired a 51% interest in SCO Logistics, Inc. ("SCOL"). SCOL is a provider of logistics management services to the bulk chemical industry.

Results for interim periods should not be considered indicative of results for a full year. The December 31, 2000 consolidated balance sheet was derived from audited financial statements, but does not include

7

8

all disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE B--INVENTORIES

Inventories at June 30, 2001 and December 31, 2000 consisted of the following (in thousands):

	JUNE 30, 2001 ----	DECEMBER 2000 ----
Raw materials and purchased parts	\$ 1,242	\$ 2,61
Work in process	632	62
Finished goods	2,567	3,44
Unbilled customer tooling	201	1,50
	-----	-----
	\$ 4,642	\$ 8,18
	=====	=====

NOTE C--INDUSTRY SEGMENTS

The Company classifies its operating subsidiaries into three industry segments based on types of products and services: metal processing (NMP, NMPC, NMPM, NMF, UPP, Skandy and Land Holdings), distribution (Monroe) and logistics (ATD, CTD, DSI, NLS and SCOL). The metal processing group provides a variety of laser welding, metal blanking, forming, slitting, cutting and die construction products and services utilizing proprietary laser weld and light die technology. The metal processing group sells direct to automotive OEM's and Tier I suppliers. The distribution group distributes tooling components and paint gauges. The logistics group provides customized, time sensitive delivery services to a variety of retail, medical and service businesses, including automobile dealerships, pharmaceutical suppliers and reprographic service providers.

Transactions between the metal processing, distribution and logistics segments

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

are not significant and have been eliminated. Interest expense is allocated to each segment based on the segments actual borrowings from the corporate headquarters, together with a partial allocation of corporate general and administrative expenses. Revenues from external customers are identified geographically based on the customer's shipping destination.

The Company's operations by business segment for the three months ended June 30, 2001 follows (in thousands):

	METAL PROCESSING -----	DISTRIBUTION -----	LOGISTICS -----	SE TO ---
Revenues from external customers	\$ 16,162	\$ 1,155	\$ 15,255	\$
Interest income	-	-	-	
Interest expense	574	32	597	
Depreciation and amortization	1,369	94	627	
Segment profit (loss) pre tax	1,780	89	(484)	
Segment assets	62,730	7,718	32,635	1
Expenditures for segment assets	3,076	7	21	

RECONCILIATION TO CONSOLIDATED AMOUNTS

8

9

EARNINGS

Total earnings for reportable segments	\$ 1,385
Unallocated corporate headquarters expense	416

Earnings from continuing operations before income taxes and extraordinary item	\$ 1,801
	=====

ASSETS

Total assets for reportable segments	\$ 103,083
Corporate headquarters	21,176

Total consolidated assets	\$ 124,259
	=====

OTHER SIGNIFICANT ITEMS

	SEGMENT TOTALS -----	ADJUSTMENTS -----	CONSOLIDATED TOTALS -----
Interest expense	\$ 1,203	\$ 212	\$ 1,415

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Expenditures for segment assets	3,104	165	3,269
Depreciation and amortization	2,090	74	2,164

GEOGRAPHIC INFORMATION

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$ 29,663	\$ 88,774
Canada	2,887	1,694
Mexico	9	-
Other	13	-
	-----	-----
Total	\$ 32,572	\$ 90,468
	=====	=====

The Company's operations by business segment for the six months ended June 30, 2001 follows (in thousands):

	METAL PROCESSING	DISTRIBUTION	LOGISTICS	SE TO
	-----	-----	-----	-----
Revenues from external customers	\$ 28,078	\$ 2,384	\$ 29,633	\$
Interest income	-	-	-	
Interest expense	1,359	75	1,246	
Depreciation and amortization	2,509	190	799	
Segment profit (loss) pre tax	2,311	266	(1,405)	
Segment assets	62,730	7,718	32,635	1
Expenditures for segment assets	4,269	58	38	

RECONCILIATION TO CONSOLIDATED AMOUNTS

9

10 EARNINGS

Total earnings for reportable segments	\$ 1,172
Unallocated corporate headquarters expense	2,124

Earnings from continuing operations before income taxes and extraordinary item	\$ 3,296
	=====

ASSETS

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Total assets for reportable segments	\$ 103,083
Corporate headquarters	21,176

Total consolidated assets	\$ 124,259
	=====

OTHER SIGNIFICANT ITEMS

	SEGMENT TOTALS	ADJUSTMENTS	CONSOLIDATED TOTALS
	-----	-----	-----
Interest expense	\$ 2,680	\$ (60)	\$ 2,620
Expenditures for segment assets	4,385	5	4,390
Depreciation and amortization	3,498	125	3,623

GEOGRAPHIC INFORMATION

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$ 54,988	\$ 88,774
Canada	5,046	1,694
Mexico	9	-
Other	52	-
	-----	-----
Total	\$ 60,095	\$ 90,468
	=====	=====

The Company's operations by business segment for the three months ended June 30, 2000 follows (in thousands):

	METAL PROCESSING	DISTRIBUTION	SEGMENT TOTALS
	-----	-----	-----
Revenues from external customers	\$ 22,214	\$ 1,057	\$ 23,271
Interest income	-	-	-
Interest expense	1,463	26	1,489
Depreciation and amortization	1,672	72	1,744
Segment profit pre-tax	2,102	233	2,335
Segment assets	100,832	6,451	107,283
Expenditure for segment assets	2,601	17	2,618

RECONCILIATION TO CONSOLIDATED AMOUNTS

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

10

11 EARNINGS

Total earnings for reportable segments	\$ 2,335
Unallocated corporate headquarters expense	490

Earnings from continuing operations before income taxes and extraordinary item	\$ 2,825
	=====

ASSETS

Total assets for reportable segments	\$ 107,283
Net assets of discontinued operations	1,344
Corporate headquarters	2,768

Total consolidated assets	\$ 111,395
	=====

OTHER SIGNIFICANT ITEMS

	SEGMENT TOTALS	ADJUSTMENTS	CONSOLIDATED TOTALS
	-----	-----	-----
Interest expense	\$ 1,489	\$ (1,077)	\$ 412
Expenditures for segment assets	2,618	1	2,619
Depreciation and amortization	1,744	195	1,939

GEOGRAPHIC INFORMATION

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$ 18,704	\$ 80,762
Canada	4,551	2,177
Mexico	16	-
	-----	-----
Total	\$ 23,271	\$ 82,939
	=====	=====

The Company's operations by business segment for the six months ended June 30, 2000 follows (in thousands):

	METAL PROCESSING	DISTRIBUTION	SEGMENT TOTALS
	-----	-----	-----
Revenues from external customers	\$ 46,162	\$ 2,173	\$ 48,335

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Interest income	-	-	-
Interest expense	2,924	61	2,985
Depreciation and amortization	3,331	146	3,477
Segment profit pre-tax	5,104	504	5,608
Segment assets	100,832	6,451	107,283
Expenditure for segment assets	7,053	29	7,082

RECONCILIATION TO CONSOLIDATED AMOUNTS

11

12 EARNINGS

Total earnings for reportable segments	\$ 5,608
Unallocated corporate headquarters expense	896

Earnings from continuing operations before income taxes and extraordinary item	\$ 6,504
	=====

ASSETS

Total assets for reportable segments	\$ 107,283
Net assets of discontinued operations	1,344
Corporate headquarters	2,768

Total consolidated assets	\$ 111,395
	=====

OTHER SIGNIFICANT ITEMS

	SEGMENT TOTALS	ADJUSTMENTS	CONSOLIDATED TOTALS
	-----	-----	-----
Interest expense	\$ 2,985	\$ (2,058)	\$ 927
Expenditures for segment assets	7,082	(29)	7,053
Depreciation and amortization	3,477	292	3,769

GEOGRAPHIC INFORMATION

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$ 39,164	\$ 80,762
Canada	9,123	2,177

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Mexico	48	-
	-----	-----
Total	\$ 48,335	\$ 82,939
	=====	=====

NOTE D - RESTRUCTURING RESERVE

The restructuring reserve of \$3.9 million recorded in December 2000 was reduced by \$0.5 million in the first quarter due primarily to a change in estimate regarding the holding period and carrying costs of some of the Company's real estate. In the second quarter, the reserve was reduced an additional \$0.27 million due to a change in estimate related to the loss anticipated in connection with the imminent disposition of real estate.

NOTE E - ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued two new pronouncements: Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 is effective as follows: a) use of the pooling-of-interest method is prohibited for business combinations initiated after June 30, 2001; and b) the provisions of SFAS 141 apply to all business combinations accounted for by the purchase method that are completed after June 30, 2001 (that is, the date of the acquisition is July 2001 or later). There are also transition provisions that apply to business combinations completed before July 1, 2001, that were accounted for by the purchase method. SFAS 142 is effective for fiscal years beginning after December 15, 2001 and applies to all goodwill and other intangible assets recognized in an entity's statement of

12

13

financial position at that date, regardless of when those assets were initially recognized. The Company is currently evaluating the effects of these statements, however, the Company has recorded amortization related to its goodwill and identifiable intangible assets of \$1.3 million for the six months ended June 30, 2001.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

NET SALES. Net sales for the three months ended June 30, 2001 increased 40.0% to \$32.6 million from \$23.3 million for the comparable quarter of 2000. The increase in sales is substantially due to the inclusion of the logistics group that was acquired in the third quarter of 2000 and higher steel sales within the Company's metal processing group. This increase was partially offset by the overall reduction in sales in the metal processing group due to the sale of NMF and NMPM in February 2001 and lower revenue in NMP and the distribution group due to lower production volumes and product mix. The logistics group net sales for the period were \$15.3 million. The metal and distribution groups net sales for the period declined 25.6% to \$17.3 million as compared to \$23.3 million in the same period in 2000.

Net sales for the six months ending June 30, 2001 increased 24.3% to \$60.1 million from \$48.3 million for the same period in 2000. The increase in sales was primarily due to the acquisition of the Company's logistics group in the

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

third quarter of 2000, as well as the higher steel sales within the Company's metal processing group. This increase was partially offset by the reduction in sales due to the sale of NMF and NMPM in February 2000. The logistics group revenue for the period was \$29.6 million. The metal and distribution group's revenue declined 37.0% to \$30.5 million from \$48.3 million during the same period in 2000.

COST OF GOODS SOLD. As a percent of net sales, cost of goods sold for the three-month period ended June 30, 2001 increased to 75.6% as compared with 69.3% for the same period in 2000. The increase in cost of goods sold as a percent of net sales is primarily due to the inclusion of the logistics group as this business has higher cost of goods sold and due to lower production volumes and product mix in the metal processing and distribution groups. For the three months ended June 30, 2001 the logistics group had cost of goods sold of 77.9%. The metal processing and distribution group's cost of goods sold increased to 74.6% from 69.3%.

For the six-months ended June 30, 2001, cost of goods sold increased to 75.1% from 68.5% for the same period in 2000. This increase was primarily the result of the inclusion of the logistics group as this business has higher cost of goods sold and due to lower production volumes and product mix in the metal processing and distribution groups. The logistics group's cost of sales, as percent of net sales, for the six-month period ended June 30, 2001 was 78.2%. The metal processing and distribution group's costs of sales, as percent of net sales, increased to 71.2% as compared to 68.5% for the comparable period in 2000.

GROSS PROFIT. The Company's gross profit increased 11.0% to \$7.9 million for the three months ended June 30, 2001 from \$7.2 million for the comparable period of 2000. The increase was primarily the result of the acquisition of the logistics group in 2000 offset by the sale of NMF and NMPM earlier in the year. The logistic group's gross profit was \$3.4 million in the period. The metal and distribution group's gross profit declined 36.2% to \$4.6 million as compared to \$7.2 million for the comparable period in 2000.

13

14

For the six month period ended June 30, 2001 gross profit decreased 1.5% to \$15.0 million from \$15.2 million for the same period in 2000. The decline was primarily the result of lower gross profit in the metal processing due to the sale of NMF and NMPM earlier this year. The logistics group's gross profit for the period ended June 30, 2001 was \$6.5 million. Gross profit for the metal and distribution groups declined 44.1% to \$8.5 million from \$15.2 million in the comparable period in 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by \$1.4 million, or 34.6% to \$5.2 million for the three-month period ended June 30, 2001 as compared to the comparable period of 2000. For the six-month period ended June 30, 2001, selling, general and administrative expenses increased \$2.9 million to \$10.6 million from \$7.8 million. The increase in selling, general and administrative expenses for the three and six month periods was due primarily to the inclusion of the Company's logistics group that was acquired in the third quarter of 2000, partially offset by a reduction in expenses due to the sale of NMF and NMPM in February 2001 and a change in estimate for local taxes totaling \$0.4 million.

OPERATING INCOME. As a result of the foregoing factors, operating profit decreased \$0.6 million for the three-month period ended June 30, 2001 to

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

\$2.7 million from \$3.3 million for the same period in 2000, a decrease of 17.2%. For the six-month period, operating profit decreased \$3.1 million to \$4.3 million from \$7.5 million for the comparative six-month period in 2000, a decrease of 41.9%.

INTEREST EXPENSE. Interest expense increased 243.5% to \$1.4 million for the three months ended June 30, 2001 from \$0.4 million for the comparable quarter of the prior year. For the six month period ended June 30, 2001, interest expense increased 182.6% to \$2.6 million from \$0.9 million for the same period in 2000. The increase for the three month and six month periods was primarily the result to increased borrowings due to the acquisition of the logistics group, the temporary financing of the sale of NMPM and NMF since February 2001 and investments in property, plant and equipment.

INCOME TAX EXPENSE. Income tax expense for the three-month period ended June 30, 2001 decreased \$0.4 million to \$0.7 million from \$1.1 million for the comparable period in 2000. This decrease was the result of lower taxable income in the 2001 period. Income tax expense for the six months ended June 30, 2001 decreased \$0.1 million to \$2.4 million from \$2.5 million for the same period in the prior year. The six-month period in 2001 includes a one-time income tax expense of \$1.1 million due to the difference between the book and tax basis resulting from the sale of NMF and NMPM in February 2001.

NET EARNINGS. As a result of the foregoing factors, net earnings from continuing operations for the three-month period ended June 30, 2001 decreased \$0.6 million to \$1.1 million from \$1.7 million for the comparable period of the prior year. Net earnings for the six-month period ended June 30, 2001 decreased \$3.1 million to \$0.9 million from \$4.0 million for the same period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash requirements have historically been satisfied through a combination of cash flow from operations, equipment financing, bank financing and loans from stockholders. The Company's working capital needs and capital equipment requirements have increased as a result of the growth of the Company and are expected to continue to increase as a result of anticipated growth. The anticipated increase in required working capital and capital equipment requirements are expected to be met from cash flow from operations, equipment financing and revolving credit borrowings. As of June 30, 2001, the Company had working capital of approximately \$4.6 million.

The Company generated cash from continuing operations of \$1.4 million for the six months ended June 30, 2001. Net cash provided by continuing operations was primarily the result of net income, increased accounts payable, accrued liabilities, depreciation, amortization and interest paid in kind, partially offset by decreased income taxes payable and deferred income taxes, and increased accounts receivable, inventories, prepaid expenses and other assets. Cash provided by investing activities of \$15.9 million for the six months ended June 30, 2001 was primarily due to the receipt of \$24.7 million related to the sale of NMF and NMPM to SET earlier in the year. This was partially offset by the purchase of property, plant and equipment and the Company's investment in SET. The Company used cash in financing activities of \$17.8 million for the six months ended June 30, 2001 primarily for the reduction of senior debt.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

The amount of the Company's revolving credit facility with Comerica Bank (the "Credit Facility") was \$55 million at December 31, 2000, subsequently amended to a \$75 million facility. On June 30, 2001, the Credit Facility was reduced to \$50.0 million in connection with the collection of \$24.7 million related to the sale of NMF and NMPM earlier in the year. The Credit Facility expires in May 2002, is secured by the assets of Noble and its subsidiaries and provides for the issuance of up to \$5 million in standby or documentary letters of credit. Management believes the Credit Facility will be renewed on substantially the same terms and therefore, continues to classify this obligation as long-term debt. The Credit Facility may be utilized for general corporate purposes, including working capital and acquisition financing, and provides the Company with borrowing options for multi-currency loans. Borrowing options include a euro-currency rate or a base rate. Advances under the Credit Facility during the six months ended June 2001 bore interest at the rate of approximately 7.02% per annum. The Credit Facility is subject to customary financial and other covenants including, but not limited to, limitations on payment of dividends, limitations on consolidations, mergers, and sales of assets, and bank approval on acquisitions over \$25 million. The Company is in compliance with the terms of the Credit Facility.

On February 16, 2001, the Company received a \$27.2 million note in connection with the SET Sale, due June 14, 2001. On June 28, 2001, the Company received \$24.7 million in cash and a \$4.0 million, 12% subordinated note due in 2003. In addition, the Company is guarantor of \$10.0 million of the purchaser's senior debt obligations. The subordinated note is classified in sundry on the Company's balance sheet.

The liquidity provided by the Company's credit facilities is expected to be sufficient to meet the Company's currently anticipated working capital and capital expenditure needs for at least 12 months. There can be no assurance, however, that such funds will not be expended prior thereto due to changes in economic conditions or other unforeseen circumstances, requiring the Company to obtain additional financing prior to the end of such 12 month period. In addition, the Company regularly reviews, as part of its business strategy, future growth through opportunistic acquisitions which may involve the expenditure of significant funds. Depending upon the nature, size and timing of future acquisitions, if any, the Company may be required to obtain additional debt or equity financing in connection with such future acquisitions. There can be no assurance, however, that additional financing will be available to the Company, when and if needed, on acceptable terms or at all.

INFLATION

Inflation generally affects the Company by increasing the interest expense of floating rate indebtedness and by increasing the cost of labor, equipment and raw materials. The Company does not believe that inflation has had a material effect on its business over the past two years.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of foreign currency fluctuations. International revenues from the Company's foreign subsidiaries were approximately 8.5% of the total revenues for the six months ended June, 2001. The Company's primary foreign currency exposure is the Canadian Dollar. The Company manages its exposures to foreign currency assets and earnings primarily by funding certain foreign currency denominated assets with liabilities in the

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

same currency and, as such, certain exposures are naturally offset.

A portion of the Company's assets are based in its foreign operations and are translated into U.S. Dollars at foreign currency exchange rates in effect as of the end of each period, with the effect of such translation reflected as a separate component of shareholders' equity. Accordingly, the Company's consolidated shareholders' equity will fluctuate depending on the weakening or strengthening of the U.S. Dollar against the respective foreign currency.

The Company's financial results are affected by changes in U.S. and foreign interest rates. The Company does not hold financial instruments that are subject to market risk (interest rate risk and foreign exchange risk).

16

17

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Inapplicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Inapplicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Inapplicable.

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

Inapplicable.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

ITEM 5. OTHER INFORMATION

Inapplicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports of Form 8-K.

None

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.

NOBLE INTERNATIONAL, LTD.

Dated: August 14, 2001

By: /s/ David V. Harper

David V. Harper,
Chief Financial Officer