

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

NOBLE INTERNATIONAL LTD
Form 10-Q
May 15, 2002

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 March 31, 2002

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 (I.R.S. Employer
incorporation or organization) Identification Number)

28213 Van Dyke Road, Warren, MI 48093

(Address of principal executive offices)
(Zip Code)

(586) 751-5600

(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 March 31, 2002 was 6,808,415.

NOBLE INTERNATIONAL, LTD.
FORM 10-Q INDEX

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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 cyclicality, 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, 2001 and other filings with the Securities and Exchange Commission.

PART I - FINANCIAL INFORMATION.....	
ITEM 1. FINANCIAL STATEMENTS.....	
CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2002 (UNAUDITED) AND DECEMBER 31, 2001.....	
CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2002 AND 2001.....	
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2002 AND 2001.....	
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED) FOR THE THREE PERIOD ENDED MARCH 31, 2002 AND 2001.....	
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS.....	
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	
PART II - OTHER INFORMATION.....	
ITEM 1. LEGAL PROCEEDINGS.....	
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.....	
ITEM 3. DEFAULTS UPON SENIOR SECURITIES.....	
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	
ITEM 5. OTHER INFORMATION.....	
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.....	

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED, IN THOUSANDS)

ASSETS	MARCH 31, 2002	DECEMBER 31, 2001
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 643	\$ 943
Accounts receivable, trade	32,165	32,556
Inventories	19,954	20,495
Prepaid expenses and other assets	2,886	3,200
Deferred income taxes	506	506
	-----	-----
Total Current Assets	56,154	57,700
PROPERTY, PLANT AND EQUIPMENT, NET	47,965	46,989
OTHER ASSETS		
Goodwill	40,754	40,755
Covenants not to compete	1,076	1,139
Other	10,818	10,356
	-----	-----
Total Other Assets	52,648	52,250
	-----	-----
	\$ 156,767	\$ 156,939
	=====	=====
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 267	\$ 51,035
Accounts payable	26,092	21,231
Accrued liabilities	8,185	12,823
Income taxes payable	826	--
	-----	-----
Total Current Liabilities	35,370	85,089
LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES	49,898	809
CONVERTIBLE SUBORDINATED DEBENTURES	16,110	16,110
JUNIOR SUBORDINATED NOTES	3,447	3,439
DEFERRED INCOME TAXES	2,658	2,658
PUTABLE COMMON STOCK	--	1,203
REDEEMABLE PREFERRED STOCK	--	250
STOCKHOLDERS' 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	121
Common stock, \$.001 par value, authorized 20,000,000 shares, issued 7,617,632 and 7,519,186 shares in 2002 and 2001, respectively	23,953	22,871
Retained earnings	25,921	24,857
Accumulated comprehensive loss	(711)	(468)

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

-----	-----
49,284	47,381
-----	-----
\$ 156,767	\$ 156,939
=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
Net sales		
Products	\$ 38,902	\$ 13,145
Services	16,092	14,378
	-----	-----
Total sales	54,994	27,523
Cost of sales		
Products	32,924	9,208
Services	12,744	11,280
	-----	-----
Total cost of sales	45,668	20,488
Gross margin	9,326	7,035
Selling, general and administrative expenses	6,213	5,414
	-----	-----
Operating income	3,113	1,621
Income from unconsolidated affiliate	--	50
Other Income (expense)		
Interest income	244	514
Interest expense	(818)	(1,205)
Other, net	--	515
	-----	-----
	(574)	(176)
	-----	-----
Earnings (loss) before income taxes	2,539	1,495
Income tax expense	919	1,672
	-----	-----
Earnings (loss) before preferred stock dividends	1,620	(177)
Preferred stock dividends	10	19
	-----	-----
EARNINGS (LOSS) ON COMMON SHARES	1,610	(196)
BASIC EARNINGS (LOSS) PER COMMON SHARE:	\$ 0.24	\$ (0.03)

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

DILUTED EARNINGS (LOSS) PER COMMON SHARE	\$ 0.23	\$ (0.03)
DIVIDENDS DECLARED AND PAID	\$ 0.080	\$ 0.075
Basic weighted average common shares outstanding	6,729,905	6,704,478
Diluted weighted average common shares outstanding	6,986,368	6,704,478

The accompanying notes are an integral part of these financial statements

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

	THREE MO MA
	----- 2002 -----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net earnings (loss)	\$ 1,620
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operations	
Interest paid in kind	8
Loss on sale of assets	6
Depreciation of property, plant and equipment	1,349
Amortization of intangible assets	64
Deferred income taxes	--
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable	402
(Increase) decrease in inventories	541
(Increase) decrease in prepaid expenses	323
Decrease in other assets	58
Increase (decrease) in accounts payable	4,861
Increase in income taxes payable	817
Increase (decrease) in accrued liabilities	(4,638)

Net cash provided by (used in) operations	5,411
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(3,046)
Proceeds from sale of property, plant and equipment	704
Investment in SET	--
Increase in other long term assets	(520)

Net cash (used in) investing activities	(2,862)
CASH FLOWS FROM FINANCING ACTIVITIES	
Redemption of common stock	(31)
Dividends paid	(550)

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Redemption of preferred stock of subsidiary	(250)
Payments on long-term debt	(157)
Net borrowings (repayments) on note payable to bank	(1,618)

Net cash provided by (used in) financing activities	(2,606)
Effect of exchange rate changes on cash	(243)

Net decrease in cash	(300)
Cash at beginning of period	943

Cash at end of period	\$ 643
	=====
SUPPLEMENTAL CASH FLOW DISCLOSURE	
Cash paid for:	
Interest	\$ 990
	=====
Taxes	\$ --
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
Net earnings (loss)	\$ 1,610	\$ (196)
Other comprehensive income (loss), equity adjustment from foreign currency translation, net of tax	\$ (243)	(151)
	-----	-----
Comprehensive income (loss), net of tax	\$ 1,367	\$ (347)
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

NOBLE INTERNATIONAL, LTD.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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 financial statements as of March 31, 2002 and for the year ended December 31, 2001, include Noble International, Ltd. and its wholly-owned subsidiaries, Noble Component Technologies ("NCT"); Monroe Engineering Products, Inc. ("Monroe"), Skandy Corp. ("Skandy"), Noble Metal Forming, Inc. ("NMF"), Noble Metal Processing, Inc. ("NMP"), Noble Land Holdings, Inc. ("Land Holdings"), and Noble Metal Processing-Midwest, Inc. (formerly H&H Steel Processing, Inc.) ("NMPM"), Noble Manufacturing Group, Inc. ("NMG"), (formerly Noble Technologies, Inc.), Noble Metal Processing Canada, Inc. ("NMPC"), Noble Metal Processing -- Kentucky, LLC ("NMPK"), Noble Logistic Services, Inc. ("NLS"), Noble Logistic Services, Inc. (formerly Assured Transportation & Delivery, Inc. and Central Transportation & Delivery, Inc.) ("NLS-CA"), Noble Logistic Services, Inc. (formerly Dedicated Services, Inc.) ("NLS-TX"), Pro Motorcar Products, Inc. ("PMP"), Pro Motorcar Distribution, Inc. ("PMD") and Noble Construction Equipment, Inc. ("NCE") (formerly Construction Equipment Direct, Inc. ("CED")), (collectively, "Noble" or the "Company") from the date of acquisition to the date of disposition, if applicable.

Results for interim periods should not be considered indicative of results for a full year. The December 31, 2001 consolidated balance sheet was derived from audited financial statements, but does not include 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, 2001.

In February 2002, the market price requirement of 107,452 shares of the Company's putable common stock that was issued in connection with the acquisition of Dedicated Services, Inc. in 2000 was met, resulting in the put option expiring. Therefore, common stock was reclassified from long-term debt to stockholders' equity.

Basic earnings per share are based upon the weighted average number of shares outstanding during each quarter. Diluted earnings per share assumes the exercise of common stock options and warrants when dilutive and the impact of restricted stock.

NOTE B--INVENTORIES

Inventories at March 31, 2002 and December 31, 2001 consisted of the following (in thousands):

MARCH 31,
2002

DECEMBER
2001

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Raw materials and purchased parts	\$	14,088	\$	14,
Work in process		1,965		2,
Finished goods		3,901		3,
Unbilled customer tooling		-		
	\$	19,954	\$	20,

NOTE C--INDUSTRY SEGMENTS

The Company classifies its operations into three industry segments based on types of products and services: automotive (NMPK, NMPC, NMP, NMPM, NMF and Land Holdings), heavy equipment (NCE) and logistics (NLS-TX, NLS-CA, Monroe, PMP and PMD). The automotive group provides a variety of laser welding, metal blanking and die construction products and services utilizing proprietary laser weld and light die technology. The heavy equipment group designs and manufactures sub assemblies and final assemblies of heavy equipment used primarily in the construction industry. The logistics group provides same day package delivery services to a variety of customers and sells tooling components, paint and coatings related products to end users as well as distributors. The automotive group sells direct to automotive OEMs and Tier I suppliers. The heavy equipment group sells direct to OEMs and through an established network of dealers.

Transactions between the automotive, heavy equipment and logistics segments are not significant and have been eliminated. Interest expense is allocated to each segment based on the segment's 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 March 31, 2002 follows (in thousands):

	AUTOMOTIVE	HEAVY EQUIPMENT	LOGISTICS	S
Revenues from external customers	\$ 26,211	\$ 11,615	\$ 17,168	\$
Interest expense	368	92	473	
Depreciation and amortization	1,255	--	60	
Segment profit pre tax	2,056	297	285	
Segment assets	80,462	18,473	39,271	
Expenditures for segment assets	2,842	36	32	

RECONCILIATION TO CONSOLIDATED AMOUNTS
EARNINGS

Total earnings for reportable segments	\$ 2,638
Unallocated corporate headquarters loss	(99)

Earnings before income taxes	\$ 2,539
	=====

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

ASSETS

Total assets for reportable segments	\$138,206
Corporate headquarters	18,561

Total consolidated assets	\$156,767
	=====

OTHER SIGNIFICANT ITEMS

	SEGMENT TOTALS	ADJUSTMENTS	CONSOLIDATED TOTALS

Interest expense	\$ 933	\$ (115)	\$ 818
Expenditures for segment assets	2,910	136	3,046
Depreciation and amortization	1,315	98	1,413

GEOGRAPHIC INFORMATION

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$50,977	\$87,374
Canada	3,971	1,345
Other	46	-
	-----	-----
Total	\$54,994	\$88,719
	=====	=====

The Company's operations by business segment for the three months ended March 31, 2001 follows (in thousands):

	AUTOMOTIVE	HEAVY EQUIPMENT	LOGISTICS	S T

Revenues from external customers	\$ 11,916	-	\$ 15,607	\$
Interest expense	785	-	692	\$
Depreciation and amortization	1,140	-	268	\$
Segment profit pre tax	531	-	(744)	\$
Segment assets	59,101	-	39,737	\$
Expenditures for segment assets	1,213	-	68	\$

RECONCILIATION TO CONSOLIDATED AMOUNTS

EARNINGS

Total earnings for reportable segments	\$ (213)
Unallocated corporate headquarters income	1,708

Earnings before income taxes and extraordinary item	\$ 1,495
	=====

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

ASSETS

Total assets for reportable segments	\$ 98,838
Corporate headquarters	\$ 45,459

Total consolidated assets	\$ 144,297
	=====

OTHER SIGNIFICANT ITEMS

	SEGMENT TOTALS	ADJUSTMENTS	CONSOLIDATED TOTALS

Interest expense	\$1,477	\$ (272)	\$1,205
Expenditures for segment assets	1,281	160	1,441
Depreciation and amortization	1,612	(6)	1,606

GEOGRAPHIC INFORMATION

	REVENUES	LONG-LIVED ASSETS

United States	\$ 25,325	\$ 87,364
Canada	2,159	1,720
Other	39	-

Total	\$ 27,523	\$ 89,084
	=====	

NOTE D -- RESTRUCTURING RESERVE

The restructuring reserve of \$3.9 million recorded in December 2000 which had a balance of \$1.5 million at December 31, 2001 was reduced by \$0.75 million during the quarter for lease costs incurred on vacated property and losses incurred in connection with the sale of certain real estate. The balance in the restructuring reserve at March 31, 2002 was \$0.75 million and represents the expected costs associated with the repair of vacated leased facilities and real estate that is being marketed for sale. Resolution of these items is expected by December 31, 2002.

NOTE E -- ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. 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 financial position at that date, regardless of when those assets were initially recognized. The Company is currently evaluating the effects of this statement. The Company adopted this statement on January 1, 2002, and goodwill will no longer be amortized; however,

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

tests for impairment will be performed annually or when a triggering event occurs. For the three months ended March 31, 2001, our reported net loss and basic and diluted loss per share were \$0.2 million and \$0.03 per share, respectively. Adjusted for the non-amortization provisions of SFAS No. 142, our reported net income and basic and diluted earnings per share would have been \$0.1 million and \$0.02 per share, respectively, resulting in an increase in earnings of \$0.3 million, or \$0.05 per share for the first quarter. The after-tax impact in 2002 of the non-amortization provisions of SFAS No. 142 is expected to be \$0.5 million (\$0.07 per share) for each of the succeeding three quarters.

A reconciliation of previously reported net income (loss) and earnings (loss) per share related to the amounts adjusted for the exclusion of goodwill amortization net of the related income tax effect follows:

GOODWILL AND ADOPTION OF STATEMENTS NO. 142

(in thousands, except per share data)

	March 31,	
	2002	2001
Reported net income (loss)	\$ 1,610	\$ (196)
Add: Goodwill amortization, net of tax	--	317
Adjusted net income	\$ 1,610	\$ 121
Reported basic earnings (loss) per share	\$ 0.24	\$ (0.03)
Add: Goodwill amortization, net of tax	--	0.05
Adjusted basic earnings per share	\$ 0.24	\$ 0.02
Reported diluted earnings (loss) per share	\$ 0.23	\$ (0.03)
Add: Goodwill amortization, net of tax	--	0.05
Adjusted diluted earnings per share	\$ 0.23	\$ 0.02

For the three months ended March 31, 2002 no goodwill or other intangible assets were acquired, impaired or disposed.

Covenants not to compete are amortized over the life of the agreement, typically three to ten years. Amortization expense for the three months ended March 31, 2002 and 2001 were \$0.1 million and \$0.1 million, respectively. Annual pre-tax amortization of covenants not to compete are estimated as follows:

(in thousands)	
2003	\$ 285
2004	267
2005	76
2006	65
2007	65
Thereafter	122

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

NOTE F--SUBSEQUENT EVENTS

On April 1, 2002, the Company converted its \$7.6 million note receivable, including interest, from SET Enterprises ("SET") into preferred stock of SET. The preferred stock has no dividend, is non-voting and is redeemable at the Company's option in 2007. The Company agreed to convert the subordinated promissory note to preferred stock in order to assist SET in obtaining capital without appreciably decreasing the Company's repayment rights or jeopardize SET's minority status. Management believes that continued support of SET furthers the joint strategic objectives of the two companies.

On April 22, 2002 the Company completed a sale and leaseback transaction of its Shelbyville, KY facility to the Company's Chief Executive Officer. The sale price was \$6.2 million. The sale price was the book value of the property. The proceeds of the transaction were used to reduce the Company's debt under its current credit facility.

On May 9, 2002 the Company's current credit facility was increased to a \$60.0 million facility from \$52.5 million. The credit facility expires in September 2002. The Company has a binding commitment from its lender on a new \$60.0 million credit facility that will take effect in

September 2002 and will expire in 2005. Therefore, the Company has reclassified its current credit facility from current liabilities to long-term liabilities. The Credit Facility 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. 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 three months ended March 2002 bore interest at the rate of approximately 4.01% 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. The Company currently guarantees \$10.0 million of SET Enterprises, Inc. senior debt. As of the date of this report, the Company does not believe the lender will call the guarantee.

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 March 31, 2002 increased \$27.5 million, or 99.8%, to \$55.0 million from \$27.5 million for the comparable quarter of 2001. The increase in sales is attributable to increased revenue from all operating segments. The automotive group increased sales by 120%. This increase was primarily the result of increased value-added sales resulting from the utilization of laser-welded components on more vehicle models and platforms. In addition, our automotive group's revenue was positively impacted by increased steel sales. The logistics group experienced increased sales of 10.0% as this group continues to execute its strategy. Sales were also positively impacted by the inclusion of the heavy equipment group, which was acquired in December 2001.

Cost of Sales. Cost of sales increased by \$25.2 million, or 123.0%, to \$45.7 million for the three-month period ended March 31, 2002, from \$20.5 million for the same period in 2001. This increase was primarily the result of

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

increased steel sales within the automotive group. Steel is an increasing component of cost of sales as the automotive group transitions to a full service supplier from a toll processor. Cost of sales was also influenced by the inclusion of the heavy equipment group acquired in December 2001. The heavy equipment group has a higher cost of sales as a percentage of sales than our other operating segments. The logistics group experienced costs of sales consistent with historical results.

Gross Margin. Gross margin increased \$2.3 million, or 32.6%, to \$9.3 million for the three months ended March 31, 2002 from \$7.0 million for the comparable period of 2001. The increase was primarily the result of the inclusion of the heavy equipment group, as well as increased sales in the Company's other operating segments. As a percentage of sales gross margin decreased from 25.6% in the 2001 period to 17.0% in the 2002 period. The decrease in gross margin as a percentage of sales was primarily the result of increased steel sales within the automotive segment and the inclusion of the heavy equipment segment.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$0.8 million, or 14.8% to \$6.2 million for the three-month period ended March 31, 2002 as compared to \$5.4 million in the comparable period of 2001. This increase was primarily the result of the inclusion of the heavy equipment group, acquired in December 2001, partially offset by expense reductions in the logistics group. As a percentage of net sales, such expenses decreased to 11.3% for the three months ended March 31, 2002 from 19.7% for the three months ended March 31, 2001.

Operating Profit. As a result of the foregoing factors, operating profit increased \$1.5 million, or 92% to \$3.1 million for the three-month period ended March 31, 2002 from \$1.6 million for the same period in 2001. As a percentage of net sales, operating profit decreased slightly to 5.7% for the three months ended March 31, 2002 from 5.9% for the three months ended March 31, 2001.

Interest Income. Interest income decreased 52.5% to \$0.2 million for the period ended March 31, 2002 from \$0.5 million for the same period in 2001. The decrease was the result of lower notes receivable balances related to the sale of a business in 2001.

Interest Expense. Interest expense decreased 32.1%, to \$0.8 million, for the three months ended March 31, 2002 from \$1.2 million for the comparable quarter of the prior year. The reduction was the result of lower interest rates and, to a lesser extent lower borrowings.

Income Tax Expense. Income tax expense for the three-month period ended March 31, 2002 decreased 42.6%, or \$0.7 million, to \$0.9 million from \$1.6 million for the comparable period in 2001. This decrease was primarily the result of a one-time \$1.1 million tax expense in the 2001 quarter related to a difference between the tax and book bases for a business sold.

Net Earnings. As a result of the foregoing factors, net earnings from continuing operations for the three-month period ended March 31, 2002 increased to \$1.6 million from a loss of \$0.2 million for the comparable period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash requirements have historically been satisfied through a combination of cash flows from operations, equipment financing, bank

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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.

The Company generated cash from operations of \$5.4 million for the three months ended March 31, 2002. Net cash provided by operations was primarily the result of net income, increased accounts payable, depreciation, amortization, income taxes payable, and decreased accounts receivable, inventories and prepaid expenses, partially offset by decreased accrued liabilities. Cash used investing activities of \$2.9 million for the three months ended March 31, 2002 was primarily due to purchases of property, plant and equipment, partially offset by the sale of real estate. The Company used cash in financing activities of \$2.6 million for the three months ended March 31, 2002 primarily for the reduction of senior debt and payment of dividends.

In February 2002, one of the Company's customers, National Steel, Inc. filed for Chapter 11 Bankruptcy protection. The Company has a pre-petition account receivable in the amount of approximately \$1.2 million. The Company is currently evaluating possible options for collection and therefore has not created a reserve for the possible uncollectible amounts of this receivable. The Company does not anticipate any loss of sales due to this event.

The amount of the Company's revolving credit facility with Comerica Bank (the "Credit Facility") was \$50.0 million at December 31, 2001, subsequently amended to a \$60.0 million facility in May 2002. The Credit Facility expires in September 2002. The Company has a commitment from its lender on a new \$60.0 million credit facility that will take effect in September 2002 and will expire in 2005. Therefore, the Company has reclassified its current Credit Facility from current liabilities to long-term liabilities. The Credit Facility 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. 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 three months ended March 31, 2002 bore interest at the rate of approximately 4.01% 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. The Company currently guarantees \$10.0 million of SET Enterprises, Inc. senior debt. As of the date of this report, the Company does not believe the lender will call the guarantee.

The liquidity provided by the Company's current credit facilities and committed 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

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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 7.1% of the total revenues for the three months ended March 2002. The Company's primary foreign currency exposure is the Canadian Dollar and Mexican Peso. The Company manages its exposures to foreign currency assets and earnings primarily by funding certain foreign currency denominated assets with liabilities in the 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).

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.

ITEM 5. OTHER INFORMATION

Inapplicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

(b) The following report on Form 8-K was filed during the period ending March 31, 2002

(i) Report on Form 8-K filed on January 3, 2002, concerning the purchase of Construction Equipment Direct, Inc. and the purchase of certain assets and assumption of certain liabilities of Eagle-Picher Industries, Inc.'s construction equipment division.

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: May 15, 2002

By: /s/ David V. Harper

David V. Harper,
Chief Financial Officer