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Tin soldiers How many bullets can Weirton Steel duck?

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PITTSBURGH -- After more than three years of struggling to avoid filing for federal bankruptcy protection, Weirton Steel Corp., Weirton, W.Va., finally succumbed May 19 following a lengthy fight against cheap imports, high costs and the rapidly consolidating North American steel industry.

The real battle for the 94-year-old steelmaker might just be starting, though, as Weirton tries to reposition itself and emerge from Chapter 11 as a company that can participate in the consolidation game--a pre-bankruptcy strategy that never came to fruition.

John Walker, who took over as president of the company in March 2000, believes his company is at a critical point. "Weirton Steel is at a crossroads in its history," he said. "We must become as competitive as possible and return to profitability so that we can invest in our facilities and pursue strategic growth. Reorganization will stabilize our financial outlook, achieve vital cost savings and help us become a stronger, more competitive company."

Those outside Weirton see the company on an island rather than at a crossroads. Weirton is one of only five U.S. integrated steel producers--along with WCI Steel Inc., Warren, Ohio; AK Steel Corp., Middletown, Ohio; Wheeling-Pittsburgh Steel Corp., Wheeling, W.Va.; and Rouge Steel Co., Dearborn, Mich.--not to have been swept up in the consolidation craze that began last year.

That movement has seen International Steel Group Inc., Cleveland, acquire the assets of the former LTV Steel Co., Cleveland, Acme Steel Co., Riverdale, Ill., and Bethlehem Steel Corp., Bethlehem, Pa., while U.S. Steel Corp., Pittsburgh, has acquired the assets of National Steel Corp., Mishawaka, Ind., paring the number of integrated steel producers in the United States to seven and leaving Weirton the sixth-largest in the field.

"Those companies now are orphan steel companies," said Christopher Plummer, managing director of Metal Strategies Inc., a steel consulting firm based in West Chester, Pa. "The main hurdle for many of them remains the legacy costs. I don't see any way that another company is going to be interested in taking those companies over unless those legacy costs are addressed."

Weirton Steel is hoping to address the legacy albatross around its neck via the bankruptcy route. By entering Chapter 11, Weirton could wash away the legacy-cost burden, leaving it to the Pension Benefit Guaranty Corp. (PBGC)--and individual retirees--to address.

"That's not a good situation for the retirees," said steel industry analyst and consultant Michael Locker, president of Locker Associates Inc., New York. "But it does help companies alleviate that cost burden."

Weirton has tried several means to lower its cost burden during the past several years and while some have worked well, other avenues failed to deliver the needed results. The company got a temporary reprieve in late 1999 when then-chief executive officer Richard Riederer sold the company's interest in e-commerce unit MetalSite to Internet Capital Group Inc., Philadelphia, for about $180 million. That sale helped Weirton post net income of $30.3 million for the year, and in March 2000 it distributed profit-sharing checks totaling some $15.2 million--about 33 percent of its after-tax income for the year--to employees.

Riederer warned then that the good times appeared only temporary, and advised the company to remain vigilant against low-priced imports flooding the United States. Weirton's steel operations that year lost $76 million, a figure the company attributed mostly to the import surge.

The losses never really stopped. Weirton has lost close to $800 million during the past five years, including some $75 million in the first quarter of 2003.

Those losses have mounted despite considerable cost-reduction efforts. The company has achieved some $278 million in cost savings from workers, suppliers and lenders--including a 5-percent pay cut agreed to by the Independent Steelworkers Union (ISU), which represents most of the company's 3,500 employees--and is asking retirees to pick up a portion of the cost of their benefits, which could amount to another $200 million in savings.

The restructuring during 2001-02 netted a $50-million cost reduction through job eliminations, a $40-million improvement in liquidity through vendor investment programs, an additional $35-million liquidity boost via a new senior credit facility and a $115-million reduction in public debt via two exchange offers. Weirton also saved some $38 million via the new labor contracts.

The company went the Employee Stock Ownership route in 1984, becoming at that time the largest employee-owned company in the country. Late last year, the ESOP agreed to cede control of the company in an attempt to attract new investment but a shareholder vote to change the company's charter and by-laws to that effect failed, edging the company closer to Chapter 11.

"Generally, they've been near the top of my bankruptcy list for 15 years. In the last year, they have done a lot of things to try to stay in business. But the fact of the matter is that their facilities are not very good," said Charles Bradford, president of Bradford Research, New York, and a long-time steel industry analyst.

"They have a 1930s-vintage hot-strip mill and it's simply not wide enough to let them compete for certain business. You've got 3,500 people there making about 2 million tons per year? They've got to compete against thin-slab mini-mills that have 600 to 800 employees and can make that much steel or more. The numbers just don't add up."

Despite a comprehensive restructuring undertaken last year and the additional cost savings achieved in 2003, Weirton still is dealing with declining market conditions and the post-retirement (legacy) obligations--including pension funding, retiree health-care benefits and life insurance. Walker estimated those costs at more than $750 million but was hopeful the bankruptcy filing could help eliminate that burden.

At the same time, Weirton is seeking increased financial flexibility and already has received debtor-in-possession financing to maintain control and possession of its assets.

Weirton hopes to use the bankruptcy process to become as competitive as possible. When it filed for protection, Weirton spoke of the new steel industry model, which it defined as fewer but larger steel companies that have consolidated production and reduced costs.

Weirton said the consolidated companies had gained significant cost advantages by reducing operating expenses, primarily by buying assets in bankruptcy with minimal or no legacy costs. In contrast, Weirton, by maintaining its traditional pension plan, has seen its pension liabilities grow dramatically due to the stock market downturn.

"The American steel industry is in a state of siege and transformation," Walker said. "The challenges facing Weirton Steel are the same as those affecting our entire industry. In the past five years, 36 domestic steel companies have filed for bankruptcy protection. As this trend continues, large, well-capitalized companies are creating a new industry model by acquiring assets, consolidating production, slashing costs and cutting jobs."

Mark Glyptis, ISU's president, reacted angrily when the company filed for Chapter 11 protection, saying he felt Weirton's management "surrendered" by not exploring all viable options to avoid the bankruptcy filing.

"Our strategy was to avoid a filing with the out-of-court restructuring, which we successfully completed. We took a 5-percent wage cut. We identified another $34 million in costs that could have been taken out of the system. Part of that was having the retirees pick up a portion of their health-care costs, and our retirees responded enthusiastically to that," said Glyptis, who as ISU president also is a member of Weirton's board of directors.

"I felt we could have stayed out of bankruptcy by ratifying some agreements on these matters that would have bought us some additional time. At the time of the filing, I felt there were more things that could have been done. A great deal has been done, and this is not over. We're just dealing with things in a different setting now."

Glyptis has long taken pride in the strong relationship and spirit of cooperation between Weirton's management and union. He said that relationship took a hit with the bankruptcy filing, but could be repaired by both sides working together to ensure the company's future.

"We believe we will emerge from bankruptcy as a stronger company," he said. "A lot of the steel companies that have gone in(to Chapter 11) haven't come out. But we believe we will. There needs to be a strong business plan in place. We have 27 percent of the tin market in the U. S. We need to do what we can to make sure we hold on to that market, and add to it."

Analysts believe Weirton's tin mill operations, which rank second to U. S. Steel in terms of domestic tin product market share, hold the key to the company's future. "The size of their market share, I would say, only precludes U.S. Steel from acquiring those tin assets (due to anti-trust considerations)," Plummer said. "But ISG and others may look at that. Whether they will remains to be seen."

Plummer credited Weirton management with the effort the company put forth to avoid bankruptcy, noting that Weirton was "ahead of the curve" in respect to reducing costs and establishing a successful labor-management relationship. "They did an admirable job of trying to restructure. The savings they achieved were quite phenomenal when you consider the market conditions they are operating in. I think Walker really has done an admirable job."

Locker believes better days are ahead for Weirton.

"I think they will survive this crisis, in part because their tin mill business is sound. Their problem is in competing in hot-rolled and cold-rolled. It's tough to make money in those products without a low cost structure," he said. "But I think there is a future for them--for steel in West Virginia, really--because of the tin mill assets they and Wheeling-Pitt have."

Walker said, "In the past year, we did everything we could do outside the bankruptcy venue before (filing for protection). Our previous initiatives strengthened the company, but it became increasingly evident in the current industry climate that Chapter 11 reorganization is the only remaining solution to address our liability issues. With the support of our employees, customers, vendors and other stakeholders, our goal is to preserve the value of our business and emerge from this voluntary process as a stronger and more competitive producer."

Walker wants that emergence to come as soon as possible. Weirton has 180 days from the May 19 filing to file its reorganization plan, and hopes to do so quickly.

"There is much work ahead," Walker said. "Time and time again, our employees have proven their ability to overcome challenges and handle change. By working together, we can succeed and preserve Weirton Steel and its future."

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