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UPDATE 2-AK Steel profit up; CEO talks tough on union

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(Updates with CEO comments, stock up, adds byline)

By Steve James

NEW YORK, July 25 (Reuters) - The head of AK Steel Holding Corp. <AKS.N> said on Tuesday that second-quarter profit rose sharply, proving it could achieve targets at its main steel-making plant where temporary crews have replaced locked-out union workers.

"Production at every unit is at, or above pre-lockout levels," Chairman, President and Chief Executive Officer James Wainscott told Wall Street analysts via conference call.

"It is an amazing accomplishment. We are doing more with less -- fewer workers and more flexibility," he said, warning that the company was prepared to stick with replacement workers until it got a competitive labor contract.

AK Steel locked out union workers at its Middletown, Ohio plant in March after talks to reach a new contract broke down. Wainscott said by the end of the second quarter, the temporary workforce, including staff and managers, numbered about 1,800 compared with approximately 2,700 independent AEIF union members who operated it before.

However, analyst Michael Locker, a business consultant who specializes in the steel industry, said the Middletown situation weighed heavily on AK Steel's results. They were disappointing compared to U.S. Steel's <X.N>, which also reported a big jump on Tuesday, he said.

"The market is doing well and they are not, because of the (labor) problems at Middletown," he said.

Noting the company recently negotiated labor contracts with United Steelworkers and United Auto Workers members at its Zanesville, Ohio and Butler, Pennsylvania steel plants, Wainscott said the AEIF was the only holdout union at AK Steel.

"We are prepared to operate (with replacements) for as short or as long as it takes to achieve a new contract that makes us more competitive with our peers," he said. "All other unions understand that."

The company said that despite some movement by the AEIF, the parties remain apart on issues such as wages, retiree benefits and workforce restructuring.

In its earnings release, AK Steel said profits rose on higher prices and the absence of a large charge that weighed down results in the year-earlier quarter.

Net earnings were \$29.1 million, or 26 cents per share, compared with \$9 million, or 8 cents per share, a year earlier, the steelmaker said. In the year-ago period, AK Steel included a non-cash charge associated with state tax law changes of \$29.5 million, or 27 cents per share.

Net sales in this year's second quarter were a record \$1.50 billion, a 3 percent increase from the year-ago quarter,

on shipments of 1,599,100 tons, down from 1,610,500 tons shipped in the second quarter of 2005.

Analysts on average were expecting earnings of 23 cents on revenue of \$1.48 billion, according to Reuters Estimates.

AK Steel said its average selling price was \$936 per ton, up from \$903 per ton in the second quarter of 2005.

AK Steel said it expects improved third quarter results compared to second quarter. Third-quarter shipments are expected to be approximately 1,600,000 tons.

The company expects contract and spot prices to increase, and operating costs to decline from second quarter levels as a result of higher production levels at the Middletown Works.

The lower operating costs and higher selling prices are expected to be partially offset by higher raw material and energy costs. As a result, AK Steel expects to report an operating profit for the third quarter in the range of \$45 to \$50 per shipped ton.

AK Steel also said its board of directors has authorized the company to make a voluntary \$50 million contribution to its pension trust. The \$50 million contribution follows an \$84 million early payment AK Steel made in May, and a \$150 million voluntary contribution the company made in January 2005.

AK Steel stock rose on the results. In afternoon trading on the New York Stock Exchange it was up 36 cents, or 2.94 percent, at \$12.62.

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