LIGHT FOR ALL
THE BALTIMORE SUN
Where Maryland Comes Alive.™

Sparrows Point Mill Owner Files for Bankruptcy

Chapter 11 will make steel mill's sale easier

May 31, 2012 | By **Andrea K. Walker** and **Lorraine Mirabella**, *The Baltimore Sun*

An empty Sparrows Point Road leads to RG Steel LLC's Sparrows (Karl Merton Ferron/Baltimore)

The Sparrows Point steel mill stumbled into bankruptcy for the second time in 11 years as its owner filed Thursday for Chapter 11 protection from creditors as it prepares to idle operations and cut nearly 2,000 jobs at the plant next week.

RG Steel LLC said in documents filed in U.S. Bankruptcy Court in Delaware that it owed more than $1 billion and had run out of cash, giving the first look at the privately held company's troubled finances. It also has $1 billion in assets.

The company is seeking a buyer for Sparrows Point as well as its two steel plants in Wheeling, W.Va., and Warren, Ohio, and other steel-related operations, as it copes with a "liquidity crisis." RG Steel executives said the bankruptcy would facilitate a sale.

The company, based at the Baltimore County facility, has struggled with weak demand for steel, high raw material costs and overcapacity of steel-making in the United States.

"The company has been unable to overcome the impact of the continued deterioration of the market and the inability of the industry to sustain a meaningful recovery," John Goodwin, chief executive of RG Steel, said in a statement.

In documents filed Thursday, RG Steel traced its cash crunch to a dispute with Severstal, the Russian steel company that sold the mills to Renco Group, a New York private investment firm, for $1.2 billion in March 2011. RG Steel alleges that Severstal did not provide $82.5 million of $450 million in promised working capital, said Richard D. Caruso, an RG Steel official, in a court filing in the bankruptcy. The dispute was ordered to arbitration by a New York federal judge on May 25.

The steel maker was never able to get out of the hole because of the shortfall, Caruso said. Default notices from equipment suppliers and utility providers piled up. The principal coke supplier for the RG Wheeling plant also claimed it defaulted and took legal action in a West Virginia court to block shipments to the plant. In Ohio, the company is in a dispute with a key supplier of iron ore.

Iron is superheated with coke — a coal byproduct — in blast furnaces to produce steel.

Since buying the mill, RG Steel had reduced costs and invested capital in the business, but those efforts weren't enough, Goodwin said. It made the decision to idle Sparrows Point and its other mills when its lenders cut off its access to the credit needed to maintain operations.

To help cover the costs of a sale and the preservations of its mills, the company asked the court to approve $50 million in emergency loans from Wells Fargo Capital Finance and General Electric Capital Corp. and to tap into $21 million in cash reserves set aside to pay back debts, according to court documents.

Without the temporary financing, the company said in court documents, it would have to "wind down the remaining operations through a value-depleting fire sale."

The company has also filed motions that would allow it to continue paying its 4,000 and employee-related programs.

The bankruptcy came a week after RG Steel alerted state officials that layoffs would start June 4 at Sparrows Point. The Maryland Department of Labor, Licensing and Regulation said the mill would lay off 1,714 hourly and 261 salaried workers. The company said it did not know whether the idling would be temporary or permanent.

The plant has changed hands four times over the past decade.

Court documents described RG Steel's largest debts, including $440 million on its existing credit facility, $218.7 million in "second lien obligations," $130.5 million in obligations to Renco and $100.7 million on a note from Severstal.

Severstal is the largest unsecured creditor, owed $36.5 million. Others include Baltimore County, Baltimore City, Baltimore Gas and Electric Co. and Kinder Morgan's bulk terminal at Sparrows Point.

The bankruptcy came as no surprise to analysts, given the company's finances and the weak state of the steel industry. They said selling under bankruptcy may make it more attractive for potential buyers who may be able to work out a deal without all of the company's current liabilities.

"They can get rid of some of the debt," said Michael Locker of Locker Associates, a consulting firm specializing in steel. "They could put a better balance sheet together and get a better price."

Still, years of problems at Sparrows Point may make some potential bidders skittish.

One analyst said the United States needs fewer steel plants.

"Given the state of demand and level of capacity, we need somebody to shut down," said Rick de los Reyes, a portfolio manager with Baltimore-based T. Rowe Price who follows the steel industry. "It should be the high-cost producers that shut down so that the lower-costs mills can still produce and make a reasonable profit. It makes economic sense."

German steelmaker ThyssenKrupp Steel has been marketing a recently built steel mill in Alabama that might mean more competition as RG Steel tries to sell Sparrows Point.

Baltimore County Executive Kevin Kamenetz believes there is still value in the plant.

"Our goal should be to try and find a buyer who has control over the prices of raw materials so there would be a more vertical operation," he said. "There are potential buyers out there who have that qualification."

andrea.walker@baltsun.com; lorraine.mirabella@baltsun.com