

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

NOBLE INTERNATIONAL LTD
Form 10-Q
May 15, 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 March 31, 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 March 31, 2001 was 6,611,950.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

2

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 cyclicity 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.

PART I - FINANCIAL INFORMATION.....

Item 1. Financial Statements.....

Consolidated Balance Sheets as of March 31, 2001
(unaudited) and December 31, 2000.....

Consolidated Statements of Operations (unaudited) for the
Three Month Periods Ended March 31, 2001 and 2000.....

Consolidated Statements of Cash Flows (unaudited) for the
Three Month Periods Ended March 31, 2001 and 2000.....

Consolidated Statements of Comprehensive Income (unaudited)
for the Three Month Periods Ended March 31, 2001 and 2000.....

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.....

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NOBLE INTERNATIONAL, LTD.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS)

| ASSETS | MARCH 31, 2001 |
|--|-------------------|
| ----- | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 307 |
| Accounts receivable, trade | 14,064 |
| Inventories | 3,107 |
| Prepaid expenses and other assets | 1,910 |
| Deferred income taxes | 1,435 |
| ----- | |
| Total Current Assets | 20,823 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 46,648 |
| OTHER ASSETS | |
| Goodwill - net | 42,436 |
| Covenants not to compete - net | 1,323 |
| Sundry | 2,815 |
| Investment in SET | 3,050 |
| Note Receivable - SET | 27,202 |
| ----- | |
| Total Other Assets | 76,826 |
| ----- | |
| | \$ 144,297 |
| ===== | |
| LIABILITIES AND EQUITY | |
| CURRENT LIABILITIES | |
| Current maturities of long-term debt | \$ 80 |
| Accounts payable | 5,468 |
| Accrued liabilities | 9,869 |
| Income taxes payable | 1,431 |
| ----- | |
| Total Current Liabilities | 16,848 |
| LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES | 61,486 |
| CONVERTIBLE SUBORDINATED DEBENTURES | 16,727 |
| JUNIOR SUBORDINATED NOTES | 3,359 |

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

| | |
|--|------------|
| 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 6,611,950 and 7,234,319 shares in 2001 and 2000, respectively | 21,948 |
| Retained earnings | 20,513 |
| Accumulated comprehensive loss | (505) |
| | ----- |
| | 42,077 |
| | ----- |
| | \$ 144,297 |
| | ===== |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

3

4

NOBLE INTERNATIONAL, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Net Sales
 Products
 Services

Net sales
Cost of Goods Sold
 Product
 Services

Cost of goods sold

Gross profit

Selling, general and
 administrative expenses

Operating profit

Other income (expense)
 Interest income

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Interest expense
Income from unconsolidated subsidiary
Sundry, net

Earnings from continuing operations before income taxes
and extraordinary item
Income tax expense

Net earnings (loss) from continuing operations before extraordinary item
Preferred stock dividends

Net earnings (loss) from continuing operations on common shares
before extraordinary item

Net loss from discontinued operations - net of tax

Gain on sale of discontinued operations - net of tax

Net earnings (loss) before extraordinary item

Extraordinary item - loss from extinguishment of debt

Net earnings (loss) on common shares

BASIC EARNINGS (LOSS) PER COMMON SHARE:

Earnings (loss) per common share from continuing operations before extraordinary item

Earnings per common share - discontinued operations

Extraordinary item - loss from extinguishment of debt

Earnings (loss) per common share

Dividends declared and paid

EARNINGS (LOSS) PER COMMON SHARE - ASSUMING DILUTION:

Net earnings (loss) from continuing operations and before extraordinary item
Proforma reduction in interest on convertible debentures

Proforma net earnings (loss) from continuing operations before extraordinary item

Net earnings (loss) from discontinued operations

Gain on sale of discontinued operations (less income tax of \$6,660)

Proforma net earnings (loss) before extraordinary item

Extraordinary item - loss from extinguishment of debt (less income tax of \$203)

Proforma net earnings (loss) on common shares assuming dilution

Earnings (loss) per common from continuing operations before extraordinary item

Earnings per common share - discontinued operations

Extraordinary item - loss from extinguishment of debt

Earnings (loss) per common share

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Basic weighted average common shares outstanding -----
 Diluted weighted average common shares and equivalents -----

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED
 FINANCIAL STATEMENTS

5

4

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

| | | |
|--|-------|-------|
| | ----- | 200 |
| | ----- | |
| CASH FLOWS (USES) FROM OPERATING ACTIVITIES | | |
| Net earnings (loss) from continuing operations | \$ | |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operations | | |
| Interest paid in kind | | |
| Depreciation of property, plant and equipment | | 1 |
| Amortization of goodwill | | |
| Deferred income taxes | | |
| Changes in operating assets and liabilities, net of business acquisition | | |
| Decrease (increase) in accounts receivable | | (2) |
| Decrease (increase) in inventories | | |
| Decrease (increase) in prepaid expenses | | |
| Decrease (increase) in other assets | | |
| Increase (decrease) in accounts payable | | (1) |
| Increase (decrease) in income taxes payable | | 2 |
| Increase (decrease) in accrued liabilities | | |
| | | ----- |
| Net cash provided by (used in) continuing operations | | (1) |
| Net cash used by discontinued operations | | |
| Net cash from sale of discontinued operations | | |
| | | ----- |
| Net cash provided (used) by operations | | (1) |
| CASH FLOWS (USES) FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | | (1) |
| Investment in SET | | (3) |
| Increase in other long term assets | | |
| | | ----- |
| Net cash used in investing activities | | (5) |

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

CASH FLOWS (USES) FROM FINANCING ACTIVITIES

| | | |
|---|--|-------|
| Repayments of notes payable - related parties | | |
| Capital lease payments | | |
| Redemption of common stock | | (1) |
| Redemption of convertible subordinated debentures | | |
| Dividends paid | | |
| Redemption of preferred stock of subsidiary | | |
| Payments on long-term debt | | |
| Net proceeds (repayments) on note payable to bank | | 7 |
| | | ----- |
| Net cash provided (used) by financing activities | | 5 |
| | | |
| Effect of exchange rate changes on cash | | ----- |
| | | |
| Net decrease in cash | | |
| | | |
| Cash at beginning of period | | 1 |
| | | ----- |
| Cash at end of period | | \$ |
| | | ===== |
| | | |
| SUPPLEMENTAL CASH FLOW DISCLOSURE | | |
| Cash paid for: | | |
| Interest | | \$ |
| | | ===== |

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITY

The Company sold all of its capital stock in two subsidiaries in exchange for a note receivable of \$27.2 million.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED
FINANCIAL STATEMENTS

5

6

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

| | THREE MONTHS ENDED MARCH 31, | |
|---------------------|---------------------------------|----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net earnings (loss) | \$ (196) | \$12,985 |

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

| | | |
|---|----------|----------|
| Other comprehensive income (loss), | | |
| equity adjustment from foreign currency translation | (151) | (21) |
| | ----- | ----- |
| Comprehensive income (loss) | \$ (347) | \$12,964 |
| | ===== | ===== |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

6

7

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 three months ended March 31, 2001 and for the period 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"), DSI Holdings, Inc. ("DSI"), 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 all periods presented. The assets and liabilities of these operations have been reported in the Consolidated Balance Sheet as net assets of discontinued operations.

On February 16, 2001, the Company acquired a 49% interest in S.E.T. Steel, Inc. ("SET") for \$3.0 million. 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

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

wholly owned subsidiary NTI, sold all of the capital stock of NMPM and NMF to SET for \$27.2 million (the "SET Sale"). The Company currently holds a note receivable from SET in the amount of \$27.2 million that is due June 14, 2001. In addition, the Company is guarantor of \$1.0 million of debt for SET.

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.

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

Results for interim periods should not be considered indicative of results for a full year. The year-end consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. 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.

7

8

NOTE B--INVENTORIES

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

| | MARCH 31, 2001 ---- | DECEMBER 31, 2000 ---- |
|-----------------------------------|---------------------------|------------------------------|
| Raw materials and purchased parts | \$ 284 | \$2,615 |
| Work in process | 231 | 629 |
| Finished goods | 2,378 | 3,440 |
| Unbilled customer tooling | 214 | 1,501 |
| | ----- | ----- |
| | \$3,107 | \$8,185 |
| | ===== | ===== |

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 and Land Holdings), distribution (Monroe) and logistics (ATD, CTD and DSI). 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.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

Transactions between the metal processing, distribution and logistics segments 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 March 31, 2001 follows (in thousands):

| | METAL PROCESSING ----- | DISTRIBUTION ----- | LOGISTICS ----- | |
|----------------------------------|------------------------------|-----------------------|--------------------|----|
| Revenues from external customers | \$ 11,916 | \$ 1,229 | \$ 14,378 | \$ |
| Interest income | - | - | - | |
| Interest expense | 785 | 43 | 649 | |
| Depreciation and amortization | 1,140 | 96 | 172 | |
| Segment profit pre tax | 531 | 177 | (921) | |
| Segment assets | 59,101 | 7,936 | 31,801 | |
| Expenditure for segment assets | 1,213 | 51 | 17 | |

RECONCILIATION TO CONSOLIDATED AMOUNTS

EARNINGS

| | |
|---|----------|
| Total loss for reportable segments | \$ (213) |
| Unallocated corporate headquarters expense | 1,708 |
| | ----- |
| Earnings from continuing operations before income taxes and extraordinary item | \$ 1,495 |
| | ===== |

8

9

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 |
|-------------------|-------------|------------------------|
|-------------------|-------------|------------------------|

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

| | | | |
|---------------------------------|----------|----------|----------|
| | ----- | ----- | ----- |
| Interest expense | \$ 1,477 | \$ (272) | \$ 1,205 |
| Expenditures for segment assets | 1,281 | 160 | 1,440 |
| Depreciation and amortization | 1,612 | 51 | 1,663 |

GEOGRAPHIC INFORMATION

| | | |
|---------------|-----------|-------------------|
| | REVENUES | LONG-LIVED ASSETS |
| | ----- | ----- |
| United States | \$ 25,325 | \$ 87,364 |
| Canada | 2,159 | 1,720 |
| Other | 39 | - |
| | ----- | ----- |
| Total | \$ 27,523 | \$ 89,084 |
| | ===== | ===== |

The Company's operations by business segment for the three months ended March 31, 2000 follows (in thousands):

| | | | |
|----------------------------------|------------------|--------------|----------------|
| | METAL PROCESSING | DISTRIBUTION | SEGMENT TOTALS |
| | ----- | ----- | ----- |
| Revenues from external customers | \$ 23,948 | \$ 1,116 | \$ 25,064 |
| Interest income | - | - | - |
| Interest expense | 1,461 | 35 | 1,496 |
| Depreciation and amortization | 1,659 | 74 | 1,733 |
| Segment profit pre-tax | 3,002 | 271 | 3,273 |
| Segment assets | 100,608 | 6,676 | 107,284 |
| Expenditure for segment assets | 4,452 | 12 | 4,464 |

RECONCILIATION TO CONSOLIDATED AMOUNTS

EARNINGS

| | |
|--|----------|
| Total earnings for reportable segments | \$ 3,273 |
| Unallocated corporate headquarters expense | 406 |
| | ----- |
| Earnings from continuing operations before income taxes and extraordinary item | \$ 3,679 |
| | ===== |

ASSETS

| | |
|---------------------------------------|-----------|
| Total assets for reportable segments | \$107,284 |
| Net assets of discontinued operations | 1,329 |
| Corporate headquarters | 3,385 |
| | ----- |
| Total consolidated assets | \$111,998 |

OTHER SIGNIFICANT ITEMS

| | SEGMENT TOTALS | ADJUSTMENTS | CONSOLIDATED TOTALS |
|---------------------------------|-------------------|-------------|------------------------|
| | ----- | ----- | ----- |
| Interest expense | \$ 1,496 | \$ (981) | \$ 515 |
| Expenditures for segment assets | 4,464 | (30) | 4,434 |
| Depreciation and amortization | 1,733 | 97 | 1,830 |

GEOGRAPHIC INFORMATION

| | REVENUES | LONG-LIVED ASSETS |
|---------------|-----------|----------------------|
| | ----- | ----- |
| United States | \$ 20,460 | \$ 79,115 |
| Canada | 4,572 | 2,915 |
| Mexico | 32 | - |
| | ----- | ----- |
| Total | \$ 25,064 | \$ 82,030 |
| | ===== | ===== |

NOTE D - RESTRUCTURING RESERVE

The restructuring reserve of \$3.9 million recorded in December 2000 was reduced by \$0.5 million to \$3.4 million during the quarter due primarily to a change in estimate regarding the holding period and carrying costs of some of the Company's real estate.

NOTE E - STOCKHOLDER'S EQUITY

On January 27, 2000 the Board of Directors approved a stock repurchase program of up to \$5.0 million of the Company's common stock, which was subsequently increased by \$5.0 million on January 31, 2001

On February 15, 2001 the Company repurchased 160,000 shares of its common stock from its Chief Executive Officer for \$880,000 in cash.

NOTE F - SUBSEQUENT EVENTS

On May 9, 2001 the stockholders of the Company approved the 2001 Non-Employee Director Stock Incentive Plan and the 2001 Stock Incentive Plan.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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 March 31, 2001 increased 9.8% to \$27.5 million from \$25.1 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, 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 due to lower volumes.

10

11

COST OF GOODS SOLD. As a percent of net sales, cost of goods sold for the three month period ended March 31, 2001 increased to 74.4% as compared with 67.9% for the prior year period. The increase in cost of goods sold as a percent of net sales for the three months ended March 31, 2001 is primarily due to the inclusion of the logistics group as this business has higher cost of goods sold and due to volume and product mix in the metal processing group.

GROSS PROFIT. The Company's gross profit decreased by 12.6% to \$7.0 million for the three months ended March 31, 2001 from \$8.1 million for the comparable period of 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by \$1.5 million, or 39.9% to \$5.4 million for the three month period ended March 31, 2001 as compared to the comparable period of 2000. The increase in selling, general and administrative expenses 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. In addition, for the period ending March 31, 2001, the Company reversed \$0.5 million of its restructuring reserve due primarily to a change in estimate related to its real estate holdings.

OPERATING PROFIT. As a result of the foregoing factors, operating profit decreased to \$1.6 million for the three months ended March 31, 2001 compared with \$4.2 million in the prior period, a decrease of 61.2%.

INTEREST EXPENSE. Interest expense increased 134.0% to \$1.2 million for the three months ended March 31, 2001 from \$0.5 million for the comparable quarter of the prior year. The increase was primarily due to increased borrowings due to the acquisition of the logistics group and investments in property, plant and equipment.

INCOME TAX EXPENSE. Income tax expense increased 22.0% to \$1.7 million primarily as a result of 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 (LOSS). As a result of the foregoing factors, net earnings (loss) from continuing operations decreased \$2.5 million and resulted in a loss of \$0.2 million for the three months ended March 31, 2001 compared to earnings of \$2.3 million for the prior period. The net loss was favorably impacted by other income which includes \$0.6 million of income due to an award received through binding arbitration.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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 the cash flow from operations, equipment financing and revolving credit borrowings. As of March 31, 2001, the Company had working capital of approximately \$4.0 million.

The Company used cash in continuing operations of \$1.2 million for the three months ended March 31, 2001. Net cash used by continuing operations was primarily the result of net loss, increased accounts receivable, inventories, prepaid expenses and lower accounts payable partially offset by increased income taxes payable, accrued liabilities, depreciation, amortization and interest paid in kind. Cash used in investing activities of \$5.4 million for the three months ended March 31, 2001 was primarily for the purchase of property, plant and equipment and the Company's investment in SET. The Company generated cash from financing activities of \$6.0 million for the three months ended March 31, 2001.

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. The

11

12

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. 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 eurocurrency rate or a base rate. Advances under the Credit Facility during the three months ended March 31, 2001 bore interest at the rate of approximately 7.35% 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 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.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

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% of the total revenues for the three months ended March 31, 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 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).

12

13

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

(b) Reports of Form 8-K. The following current reports on Form 8-K were filed during the first quarter of 2001.

Edgar Filing: NOBLE INTERNATIONAL LTD - Form 10-Q

- (i) Report on Form 8-K filed on February 23, 2001, concerning the termination of Grant Thornton as auditors after the completion of the 2000 fiscal year audit and the appointment of Deloitte & Touche as auditors for the 2001 fiscal year.
- (ii) Report on Form 8-K filed on March 1, 2001 concerning the sale of assets to S.E.T. Steel, Inc. by the Company's wholly owned subsidiaries, Noble Metal Processing, Inc. and Noble Technologies, Inc. and the investment in S.E.T. Steel, Inc. by the Company.
- (iii) Report on Form 8-K/A filed on April 6, 2001 concerning the completion of the 2000 fiscal audit by Grant Thornton and notification that no disagreements exist between the Company and Grant Thornton.

13

14

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, 2001

By: /s/ David V. Harper

David V. Harper, Chief Financial Officer

14