

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Quarter Ended March 31, 2001
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 333-29141

MMI PRODUCTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

74-1622891

(I.R.S. Employer
Identification No.)

515 West Greens Road, Suite 710

Houston, Texas

(Address of Principal Executive Offices)

77067

(Zip Code)

Registrant's telephone number, including area code: **(281) 876-0080**

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 No

There were 252,000 shares of the Registrant's Class A Common Stock outstanding as of the close of business on May 7, 2001, all of which are held by Merchants Metals Holding Company.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

**MMI PRODUCTS, INC.
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MMI PRODUCTS, INC.
BALANCE SHEETS
(In Thousands, except share information)

| | <u>March 31,</u> 2001 <u>(Unaudited)</u> | <u>December 30,</u> 2000 <u>(Note 1)</u> |
|---|--|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,642 | \$ 3,015 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,431 and \$1,164, respectively | 63,006 | 61,906 |
| Inventories | 82,569 | 83,428 |
| Deferred income taxes | 2,882 | 2,232 |
| Prepaid expenses | 2,823 | 2,559 |
| Total current assets | 153,922 | 153,140 |
| Property, plant and equipment | | |
| Land | 5,911 | 5,911 |
| Buildings and improvements | 28,872 | 28,555 |
| Machinery and equipment | 92,623 | 90,792 |
| Rental equipment | 4,954 | 4,954 |
| | 132,360 | 130,212 |
| Less accumulated depreciation | 48,424 | 45,969 |
| Property, plant and equipment, net | 83,936 | 84,243 |
| Intangible assets | 53,043 | 52,915 |
| Deferred charges and other assets | 5,277 | 5,390 |
| Total assets | \$ 296,178 | \$ 295,688 |
| LIABILITIES AND STOCKHOLDER'S DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 39,499 | \$ 44,830 |
| Accrued interest | 8,338 | 4,177 |
| Accrued liabilities | 12,376 | 14,447 |
| Current maturities of long-term obligations | 71,839 | 67,397 |
| Total current liabilities | 132,052 | 130,851 |
| Long-term obligations | 154,728 | 154,687 |
| Deferred income taxes | 14,131 | 14,099 |
| Stockholder's deficit: | | |
| Common stock, \$1 par value; 500,000 shares authorized; 252,000 shares issued and outstanding | 252 | 252 |
| Additional paid-in capital | 15,450 | 15,450 |
| Accumulated other comprehensive income, net of tax of \$241 | (376) | (376) |
| Retained deficit | (20,059) | (19,275) |
| Total stockholder's deficit | (4,733) | (3,949) |
| Total liabilities and stockholder's deficit | \$ 296,178 | \$ 295,688 |

The accompanying notes are an integral part of the financial statements.

MMI PRODUCTS, INC.
STATEMENTS OF OPERATIONS
(In Thousands)
(Unaudited)

| | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2001 | April 1, 2000 |
| Net sales | \$ 106,022 | \$ 119,791 |
| Cost of sales | 89,369 | 96,661 |
| Gross profit | 16,653 | 23,130 |
| Selling, general and administrative expenses | 11,934 | 11,456 |
| Other (income) expense, net | 77 | (56) |
| Income before interest and income taxes | 4,642 | 11,730 |
| Interest expense | 5,927 | 5,349 |
| Income (loss) before income taxes | (1,285) | 6,381 |
| Provision (benefit) for income taxes | (501) | 2,690 |
| Net income (loss) | \$ (784) | \$ 3,691 |

The accompanying notes are an integral part of the financial statements.

MMI PRODUCTS, INC.
STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

| | <u>Three Months Ended</u> | |
|--|---------------------------|-----------------|
| | <u>March 31,</u> | <u>April 1,</u> |
| | <u>2001</u> | <u>2000</u> |
| Net income (loss) | \$ (784) | \$ 3,691 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 3,500 | 2,935 |
| Deferred income taxes | (618) | (371) |
| Other | 200 | 129 |
| Changes in operating assets and liabilities: | | |
| Increase in operating assets, net of liabilities | (3,726) | (6,690) |
| Other | 57 | (390) |
| Net cash used in operating activities | <u>(1,371)</u> | <u>(696)</u> |
| Investing activities: | | |
| Capital expenditures | (1,227) | (1,756) |
| Acquisitions | (1,926) | (40,143) |
| Other | 56 | 120 |
| Net cash used in investing activities | <u>(3,097)</u> | <u>(41,779)</u> |
| Financing activities: | | |
| Proceeds from (payment of) revolving credit facility, net | 4,948 | 45,792 |
| Debt costs | (71) | (265) |
| Payment of capital leases | (449) | (444) |
| Payment of other long-term debt | (333) | (2,636) |
| Net cash provided by financing activities | <u>4,095</u> | <u>42,447</u> |
| Net change in cash and cash equivalents | (373) | (28) |
| Cash and cash equivalents, beginning of period | 3,015 | 2,430 |
| Cash and cash equivalents, end of period | <u>\$ 2,642</u> | <u>\$ 2,402</u> |

The accompanying notes are an integral part of the financial statements.

MMI PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

MMI Products, Inc. ("MMI") is a wholly owned subsidiary of Merchants Metals Holding Company ("MMHC"). MMI is a manufacturer and distributor of products used in the residential, commercial and infrastructure construction industries within the United States. The manufactured products in each of MMI's product lines are produced primarily from the same raw material, steel rod. MMI's customers include contractors, fence wholesalers, industrial manufacturers, highway construction contractors and fabricators of reinforcing bar. The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These financial statements should be read in conjunction with MMI's annual financial statements for the fiscal year ended December 30, 2000 included in the Form 10-K filed with the Securities and Exchange Commission on March 5, 2001.

In the opinion of management, the financial statements contain all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position of MMI as of March 31, 2001 and the results of its operations and its cash flows for the respective periods ended March 31, 2001 and April 1, 2000. Interim results for the three months ended March 31, 2001 are not necessarily indicative of results that may be expected for the fiscal year ending December 29, 2001.

2. Acquisitions

On February 1, 2001, MMI purchased certain assets of Page Two, Inc. and Kewe 3, Inc. for cash of approximately \$2 million, which was funded by the revolving credit facility. The assets primarily consist of a production line located in Bartonville, Illinois which applies an aluminum coating on strand wire. The acquisition was accounted for as a purchase. The excess purchase price over the preliminary estimate of the fair value of the assets acquired of \$0.8 million will be amortized over 20 years.

3. Revolving Credit Facility

The classification of the revolving credit facility changed from long-term debt to current maturities in December 2000 as the maturity date is December 12, 2001. The lenders under the revolving credit facility have expressed their continuing interest in MMI as a credit. While there is no assurance that it will be able to do so, management believes that it will readily be able to extend or replace the revolving credit facility at or prior to its maturity.

MMI PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Unaudited)

4. Inventories

Inventories consisted of the following:

| (In Thousands) | March 31, 2001 (Unaudited) | December 30, 2000 |
|-----------------|-------------------------------|----------------------|
| | <hr/> | <hr/> |
| Raw materials | \$ 20,880 | \$ 20,554 |
| Work-in-process | 488 | 343 |
| Finished goods | 61,201 | 62,531 |
| | <hr/> | <hr/> |
| | \$ 82,569 | \$ 83,428 |

5. Segment Reporting

MMI has four operating units that are aggregated into two reportable segments; Fence and Concrete Construction Products. The Fence Segment has two operating units that offer similar products and services. The Concrete Construction Products Segment has two operating units that offer complimentary products and services within the concrete construction industry.

Summarized financial information concerning the reportable segments is shown in the following table. The Corporate column for earnings before interest and income taxes represents amortization of intangibles and nonrecurring items. Corporate general and administrative expenses are allocated to the segments based upon proportional net sales.

MMI PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Unaudited)

5. Segment Reporting (continued)
(In Thousands)

| | Three months ended March 31, 2001 | | | |
|---|-----------------------------------|-----------|-----------|------------|
| | Fence | Concrete | Corporate | Total |
| | Products | Products | | |
| External sales | \$ 52,187 | \$ 53,835 | \$ - | \$ 106,022 |
| Earnings before interest and income taxes | (882) | 6,203 | (679) | 4,642 |
| Interest expense | - | - | 5,927 | 5,927 |
| Income tax benefit | - | - | (501) | (501) |
| Net income (loss) | (882) | 6,203 | (6,105) | (784) |
| Depreciation and amortization | 1,104 | 1,717 | 679 | 3,500 |
| EBITDA (1) | 222 | 7,920 | - | 8,142 |
| Segment Assets (2) | 100,411 | 129,411 | 66,356 | 296,178 |

| | Three months ended April 1, 2000 | | | |
|---|----------------------------------|-----------|-----------|------------|
| | Fence | Concrete | Corporate | Total |
| | Products | Products | | |
| External sales | \$ 62,661 | \$ 57,130 | \$ - | \$ 119,791 |
| Earnings before interest and income taxes | 2,859 | 9,366 | (495) | 11,730 |
| Interest expense | - | - | 5,349 | 5,349 |
| Income taxes | - | - | 2,690 | 2,690 |
| Net income | 2,859 | 9,366 | (8,534) | 3,691 |
| Depreciation and amortization | 1,047 | 1,393 | 495 | 2,935 |
| EBITDA (1) | 3,906 | 10,759 | - | 14,665 |
| Segment Assets (2) | 117,523 | 127,415 | 60,421 | 305,359 |

- (1) EBITDA is defined as the sum of income before interest expense, income taxes, depreciation, and amortization. EBITDA should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with accounting principles generally accepted in the United States or as a measure of a Company's profitability or liquidity.
- (2) Segment assets include accounts receivable, inventory and property, plant and equipment. Corporate assets include all other components of total consolidated assets.

6. Commitments and Contingencies

MMI is involved in a number of legal actions arising in the ordinary course of business. MMI believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position or future operating results, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

Results of Operations

Statement of Operations - Selected Data

(In Thousands)

| | Three Months Ended | | |
|---|--------------------|-------------|------------------|
| | March 31, 2001 | Change | April 1, 2000 |
| Fence Products | \$ 52,187 | \$ (10,474) | \$ 62,661 |
| Percentage of net sales | 49.2% | -3.1% | 52.3% |
| Concrete Construction Products | \$ 53,835 | \$ (3,295) | \$ 57,130 |
| Percentage of net sales | 50.8% | 3.1% | 47.7% |
| Net Sales | \$ 106,022 | \$ (13,769) | \$ 119,791 |
| Gross profit | \$ 16,653 | \$ (6,477) | \$ 23,130 |
| Percentage of net sales | 15.7% | -3.6% | 19.3% |
| Selling, general, administrative and other expenses | \$ 12,011 | \$ 611 | \$ 11,400 |
| Percentage of net sales | 11.3% | 1.8% | 9.5% |
| Income before interest and income taxes | \$ 4,642 | \$ (7,088) | \$ 11,730 |
| Percentage of net sales | 4.4% | -5.4% | 9.8% |
| Interest expense | \$ 5,927 | \$ 578 | \$ 5,349 |
| Percentage of net sales | 5.6% | 1.1% | 4.5% |
| Effective income tax rate | 39.0% | -3.2% | 42.2% |
| Net income (loss) | \$ (784) | \$ (4,475) | \$ 3,691 |
| Percentage of net sales | -0.7% | -3.8% | 3.1% |

Net sales for the three months ended March 31, 2001 decreased \$13.8 million or 11.5% to \$106.0 million from \$119.8 million for the same period of the prior fiscal year. The fence products segment contributed \$10.5 million of the total net sales decrease. The concrete construction products segment net sales decrease of \$3.3 million included the \$1.6 million increase from the January 2001 sales of the former Hallett Wire Products Company locations which were acquired in February 2000. The decrease in sales of both segments is due primarily to the return of normal winter weather patterns after three years of mild conditions and a general economic slowdown in construction activity. Additionally, there has been some price reductions in response to competitors' actions. Sales of certain product categories within the concrete accessories product line remained strong during the first quarter of 2001 resulting in a 2.2% increase for that product line over the same period of the prior fiscal year.

Gross profit as a percentage of sales decreased from 19.3% in the first quarter of 2000 to 15.7% in the first quarter of 2001. The percentage of sales decrease is primarily due to declining sales activity in fence and wire mesh products resulting in lower production levels and higher per unit manufacturing costs. In addition, both segments experienced higher steel rod prices, utility costs, and worker related insurance costs. Partially offsetting these increased costs was the

impact of a workforce reduction during the fourth quarter of 2000 in the fence products segment and a more favorable product mix for concrete accessories products.

Selling, general, administrative and other expenses as a percentage of net sales increased 1.8% for the three months ended March 31, 2001 from the corresponding period of the prior fiscal year. The increase is primarily due to higher goodwill amortization cost from recent business acquisitions, compensation and expenses for two senior management positions versus one in the prior year, and higher health care costs.

Interest expense increased \$0.6 million to \$5.9 million for the three months ended March 31, 2001 from \$5.3 million for the corresponding period of the prior fiscal year. The increase was principally due to using higher levels of borrowed capital as a result of dividend payments to MMHC.

Net loss for the three months ended March 31, 2001 was \$0.8 million compared to net income of \$3.7 million for the corresponding period of the prior fiscal year. The decrease was primarily a result of the factors discussed above.

Liquidity and Sources of Capital

Cash Flows. For the three months ended March 31, 2001, operating activities used net cash of approximately \$1.4 million. Seasonal increases in net operating assets of \$3.7 million were partially offset by operating cash flow of \$2.3 million provided by operations adjusted for non-cash items such as depreciation, amortization, and other non-cash charges and the increase in other long-term assets. Investing activities utilized approximately \$3.1 million of cash, principally consisting of the acquisition of Page Two and capital expenditures for expansion, improvement and replacement of property, plant, and equipment. Financing activities provided approximately \$4.1 million of cash, primarily for the purchase of Page Two and to fund operating needs.

EBITDA is a widely accepted financial indicator of a Company's ability to service and incur debt. MMI's EBITDA for the first three months of fiscal year 2001 and 2000 was \$8.1 million and \$14.7 million, respectively. The decrease in EBITDA is primarily due to lower income before interest and income taxes due to the changes in net sales, gross profit and selling, general and administrative expenses discussed in "Results of Operations" above. EBITDA should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with accounting principles generally accepted in the United States or as a measure of a Company's profitability or liquidity. EBITDA is defined as the sum of income before interest, income taxes, depreciation and amortization.

MMI expects that cash flows from operations and the borrowing availability under its revolving credit facility will provide sufficient liquidity to meet its normal operating requirements, capital expenditure plans and existing debt service. The classification of this revolving credit facility changed from long-term debt to current maturities in December 2000 as the maturity date is December 12, 2001. The lenders under the revolving credit facility have expressed their continuing interest in MMI as a credit. While there are no assurance that it will be able to do so, management believes that it will readily be able to extend or replace the revolving credit facility at or prior to its maturity.

MMI has pursued and intends to continue to pursue a strategy of business acquisitions that will broaden its distribution network, complement or extend its existing product lines or increase its production capacity. The borrowing availability under its revolving line of credit facility and its additional borrowing capability (which MMI believes is justified by its financial position and operating cash flows) are expected to be the financing sources for such acquisitions. It is possible that, depending on MMI's future operating cash flows and the size of potential acquisitions, MMI will seek additional sources of financing subject to limitations set forth in its senior subordinated notes indenture.

Seasonality

MMI's products are used in the commercial, infrastructure, and residential construction industries. These industries are both cyclical and seasonal, and changes in demand for construction services have a material impact on MMI's sales and profitability. The highest level of sales and profitability occur during the times of the year when climatic conditions are most conducive to construction activity. Accordingly, sales will typically be higher in the second and third quarters and will be lower in the first and fourth quarters.

Forward Looking Information

The statements contained in this report which are not historical facts, including, but not limited to, statements found under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" above, are forward looking statements that involve a number of risks and uncertainties. The actual results of the future events described in such forward looking statements in this report could differ materially from those contemplated by such forward looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in the report, including without limitations, the portions of such statements under the caption referenced above, and the uncertainties set forth from time to time in MMI's other public reports and filings and public statements.

Part II - Other Information

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

A. None.

B. Reports on Form 8-K None.

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.

MMI Products, Inc.

Date: May 8, 2001

By: /s/Robert N. Tenczar
Robert N. Tenczar, Vice President
and Chief Financial Officer