



## Investors hope AK Steel can lower costs

### Lock out at local plant enters second month

**By Tracy Kershaw-Staley**

Dayton Business Journal

Updated: 8:00 p.m. ET April 9, 2006

Investors are hoping AK Steel Corp. can emerge from the lock-out at its Middletown plant as a smaller, financially stronger company.

Shareholders are more encouraged by the possibility of cost-shedding through a new labor agreement than they are concerned about short-term financial consequences from a lock-out, said David Martin, mining and materials analyst for Deutsche Bank Securities Inc. Cost-cutting contract measures are necessary to put AK Steel in line with the rest of the industry, which has dumped labor and legacy costs through bankruptcies and mergers, he said.

"It's reasonable to think they may have to endure short-term pain to get some long-term gain," Martin said.

But the company has several hurdles to cross. The steelmaker and the union at its Middletown plant have been tied up in a labor dispute for more than a month, and it has two additional labor contracts to negotiate this year. The most pressing deadline is in Zanesville, which expires in May, but one of its larger plants in Butler, Pa., ends in September.

That temporary pain -- potentially lower levels of steel production and extra costs for feeding, housing and transporting replacement workers brought in to run the plant -- could appear on the next quarterly filing. While the stock has traded high on the possibility of an acquisition, investors will be taking a close look at production levels, sales rates and inventory figures, Martin said.

AK Steel says production is adequate.

"We are meeting our customer's needs," said Alan McCoy, AK spokesman.

Its largest customer, General Motors Corp., has had no problems with steel supply from AK Steel, said GM spokesman Tom Hill.

Yet Martin, as well as union workers, believe that the company's production has slowed since the lock-out began.

"It's hard for me to understand how management and replacement workers can get up to speed that quickly and run that efficiently," Martin said.

The company has reached desirable contracts with mills in Coshoton and Mansfield, Ashland, Ky. and Rockport, Ind.

Two more contracts expire in coming months. The contract in Zanesville, a steel finishing mill with 150 hourly workers, ends on May 20; the agreement with 1,400 hourly workers at a stainless and electrical steel producing plant in Butler, Pa. expires Sept. 30. The company has not begun bargaining sessions with workers at either mill, McCoy said.

Brian Daley, president of Armco Employees Independent Federation, said he has been talking with union leaders in both cities. They are keeping a close eye on the Middletown lockout, he said.

Martin said he doesn't believe AK Steel can avoid financial harm if there are lock-outs at both Butler and Middletown, which make up 68 percent of the company's hourly workforce. Zanesville, because of its small size, isn't as important, he said.

"It would be that much more difficult to operate efficiently and profitably with that percent of their assets not operating at 100 percent," he said.

While AK Steel says the 2,400 workers could come back to work anytime by agreeing to their terms, union leaders are suspicious that the company is dragging out the lockout to work on a deal with a buyer, potentially U.S. Steel Corp.

"I am convinced that AK Steel has an agenda that does not currently include a settlement agreement with the AEIF," Daley said.

Martin said he doesn't believe U.S. Steel has anything to do with the situation. But steel industry analyst and AEIF consultant Michael Locker said he believes AK Steel needs to disclose information about a potential U.S. Steel deal, but neither company will comment.

AK steel wants to make a variety of cost-cutting moves, such as slashing jobs and passing several thousand dollars annually in health care costs to workers and retirees, Daley said. Retirees would be hard-pressed to pay large health care premiums on their fixed incomes, he said. Under the expired contract, retirees with 30 years of experience bring in \$1,695 per month and can earn more for each year worked beyond 30. And retirees get an extra \$300 per month before begin receiving Social Security benefits.

AK Steel cites pension and health care as its greatest burdens. This year, AK Steel expects to pay \$84 million to its pension trust and last year it made a \$150 million voluntary payment. AK Steel spent more than \$230 million in 2005 for health care. According to the company, half of all large employers have already capped their retiree contribution. Workers who retire before July 1 are covered under the old contract.

The union and company are also at odds over the union's request to be allowed to strike. Daley said the union needs the provision because the company has failed to honor arbitrators' rulings in the past, costing the union tens of thousands of dollars in legal fees.

Labor relations had appeared to be improving under AK Steel's Chief Executive Officer James Wainscott, said Locker, who has observed the situation for many years as a labor consultant.

"Wainscott prided himself --correctly -- on changing that atmosphere," he said. "But this has set things back dramatically."

© 2006 Dallas Business Journal

© 2006 MSNBC.com

URL: <http://msnbc.msn.com/id/12248821/>