
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended September 29, 2012

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 1-3834

CONTINENTAL MATERIALS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-2274391

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

200 South Wacker Drive, Suite 4000, Chicago, Illinois

(Address of principal executive offices)

60606

(Zip Code)

(312) 541-7200

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 or the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
Common Stock, \$0.25 par value, shares outstanding at November 10, 2012: 1,634,278.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CONTINENTAL MATERIALS CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 29, 2012 and DECEMBER 31, 2011
 (000's omitted except share data)

	SEPTEMBER 29, 2012 (Unaudited)	DECEMBER 31, 2011
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 677	\$ 840
Receivables, net	18,083	18,176
Current portion of long-term note receivable – related party	—	35
Receivable for insured losses	185	439
Inventories:		
Finished goods	9,065	7,477
Work in process	1,030	950
Raw materials and supplies	8,202	8,970
Prepaid expenses	1,336	1,264
Cash deposit for self-insured claims	—	4,340
Deferred income taxes	1,760	1,624
Real Estate held for resale – related party	723	723
Total current assets	<u>41,061</u>	<u>44,838</u>
Property, plant and equipment, net	<u>19,694</u>	<u>21,086</u>
Goodwill	7,229	7,229
Amortizable intangible assets, net	193	242
Prepaid royalties	1,742	1,646
Deferred income taxes	832	—
Long-term note receivable – related party	352	317
Other assets	513	513
	<u>\$ 71,616</u>	<u>\$ 75,871</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 625	\$ 500
Accounts payable and accrued expenses	14,039	11,823
Liability for unpaid claims covered by insurance	185	439
Total current liabilities	<u>14,849</u>	<u>12,762</u>
Revolving bank loan payable	3,800	8,150
Long-term debt	3,408	3,783
Deferred income taxes	—	179
Other long-term liabilities	1,859	1,691
<u>SHAREHOLDERS' EQUITY</u>		
Common shares, \$0.25 par value; authorized 3,000,000 shares; issued 2,574,264 shares	643	643
Capital in excess of par value	1,815	1,870
Retained earnings	61,244	62,999
Treasury shares, 939,986 and 951,986, at cost	(16,002)	(16,206)
	<u>47,700</u>	<u>49,306</u>
	<u>\$ 71,616</u>	<u>\$ 75,871</u>

See notes to condensed consolidated financial statements.

CONTINENTAL MATERIALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
FOR THE THREE MONTHS ENDED SEPTEMBER 29, 2012 AND OCTOBER 1, 2011
(Unaudited)
(000's omitted except per-share amounts)

	<u>SEPTEMBER 29, 2012</u>	<u>OCTOBER 1, 2011</u>
Net sales	\$ 29,166	\$ 25,501
Costs and expenses:		
Cost of sales (exclusive of depreciation, depletion and amortization)	23,636	19,944
Depreciation, depletion and amortization	825	1,012
Selling and administrative	4,874	4,937
Gain on disposition of property and equipment	4	29
	<u>29,331</u>	<u>25,864</u>
Operating loss	(165)	(363)
Interest expense, net	(135)	(141)
Amortization of deferred financing fees	—	(51)
Other income, net	3	—
Loss from continuing operations before income taxes	(297)	(555)
Benefit for income taxes	(106)	(239)
Net loss from continuing operations	(191)	(316)
Income (loss) from discontinued operation net of income tax benefit of \$0 and \$5	—	(6)
Net loss	(191)	(322)
Retained earnings, beginning of period	61,435	63,672
Retained earnings, end of period	<u>\$ 61,244</u>	<u>\$ 63,350</u>
Net loss per basic and diluted share:		
Continuing operations	\$ (.11)	\$ (.20)
Discontinued operation	(.00)	(.00)
Net income per basic and diluted share	<u>\$ (.11)</u>	<u>\$ (.20)</u>
Average shares outstanding	<u>1,634</u>	<u>1,623</u>

See notes to condensed consolidated financial statements

CONTINENTAL MATERIALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2012 AND OCTOBER 1, 2011
(Unaudited)
(000's omitted except per-share amounts)

	<u>SEPTEMBER 29, 2012</u>	<u>OCTOBER 1, 2011</u>
Net sales	\$ 83,309	\$ 78,244
Costs and expenses:		
Cost of sales (exclusive of depreciation, depletion and amortization)	67,466	62,304
Depreciation, depletion and amortization	2,938	3,193
Selling and administrative	15,255	14,817
Gain on disposition of property and equipment	21	169
	<u>85,638</u>	<u>80,145</u>
Operating loss	(2,329)	(1,901)
Interest expense, net	(400)	(443)
Amortization of deferred financing fees	(60)	(154)
Other income, net	17	25
Loss from continuing operations before income taxes	(2,772)	(2,473)
Benefit for income taxes	(1,026)	(920)
Net loss from continuing operations	(1,746)	(1,553)
Loss from discontinued operation net of income tax benefit of \$5 and \$26	(9)	(44)
Net loss	(1,755)	(1,597)
Retained earnings, beginning of period	62,999	64,947
Retained earnings, end of period	<u>\$ 61,244</u>	<u>\$ 63,350</u>
Net loss per basic and diluted share:		
Continuing operations	\$ (1.07)	\$ (.96)
Discontinued operation	(—)	(.03)
Net loss per basic and diluted share	<u>\$ (1.07)</u>	<u>\$ (.99)</u>
Average shares outstanding	<u>1,634</u>	<u>1,615</u>

See notes to condensed consolidated financial statements

CONTINENTAL MATERIALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2012 AND OCTOBER 1, 2011
(Unaudited)
(000's omitted)

	<u>SEPTEMBER 29, 2012</u>	<u>OCTOBER 1, 2011</u>
Net cash provided by operating activities	\$ 1,554	\$ 547
Investing activities:		
Capital expenditures	(1,487)	(1,258)
Loan to subsidiary executive – related party	—	(336)
Cash proceeds from sale of property and equipment	30	169
Net cash used in investing activities	<u>(1,457)</u>	<u>(1,425)</u>
Financing activities:		
(Repayments) borrowings on the revolving bank loan, net	(4,350)	1,400
Repayment of long-term debt	(250)	(875)
Refund of cash deposit for self-insured claims	4,340	500
Net cash (used in) provided by financing activities	<u>(260)</u>	<u>1,025</u>
Net (decrease) increase in cash and cash equivalents	(163)	147
Cash and cash equivalents:		
Beginning of period	840	1,032
End of period	<u>\$ 677</u>	<u>\$ 1,179</u>
Supplemental disclosures of cash flow items:		
Cash paid during the nine months for:		
Interest, net	\$ 435	\$ 492
Income taxes paid	244	363

See notes to condensed consolidated financial statements

CONTINENTAL MATERIALS CORPORATION
SECURITIES AND EXCHANGE COMMISSION FORM 10-Q
NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED SEPTEMBER 29, 2012
(Unaudited)

1. The unaudited interim condensed consolidated financial statements included herein are prepared pursuant to the Securities and Exchange Commission rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures normally accompanying the annual consolidated financial statements have been omitted. The condensed consolidated balance sheet of the Company as of December 31, 2011 has been derived from the audited consolidated balance sheet of the Company as of that date. The interim condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's latest annual report on Form 10-K. In the opinion of management, the condensed consolidated financial statements include all adjustments (none of which were other than normal recurring adjustments) necessary for a fair statement of the results for the interim periods. Discontinued operation refers to the residual activity related to Rocky Mountain Ready Mix (RMRM), a Colorado corporation sold by the Company on July 17, 2009.
2. Income taxes are accounted for under the asset and liability method that requires deferred income taxes to reflect the future tax consequences attributable to differences between the tax and financial reporting bases of assets and liabilities. Deferred tax assets and liabilities recognized are based on the tax rates in effect in the year in which differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, based on available positive and negative evidence, it is "more likely than not" (greater than a 50% likelihood) that some or all of the net deferred tax assets will not be realized.

The Company has established a valuation reserve related to the carry-forward of all charitable contributions deductions arising from prior years and the portion of contributions in 2012 that the Company believes it will be unable to utilize prior to the expiration of their carry-forward periods. At January 1, 2011, the Company also established a valuation reserve of \$1,474,000 against the carry-forward of the long-term capital loss related to the sale of the stock of RMRM due to the uncertainty that the Company will be able to generate offsetable long-term capital gains prior to the expiration of the carry-forward period. For Federal purposes, net operating losses can be carried forward for a period of 20 years while alternative minimum tax credits can be carried forward indefinitely. For state purposes, net operating losses can be carried forward for periods ranging from 5 to 20 years for the states that the Company is required to file in. California Enterprise Zone credits can be carried forward indefinitely while Colorado credits can be carried forward for 7 years. As of September 29, 2012, the Company did not consider it necessary to establish a valuation reserve related to the net operating losses.

The Company's income tax returns are subject to audit by the Internal Revenue Service (IRS) and state tax authorities. The amounts recorded for income taxes reflect the Company's tax positions based on research and interpretations of complex laws and regulations. The Company accrues liabilities related to uncertain tax positions taken or expected to be taken in its tax returns. The IRS has completed examinations for the periods through 2010. Various state income tax returns also remain subject to examination.

3. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:
 - Level 1 Quoted prices in active markets for identical assets or liabilities.
 - Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
 - Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the assumptions that market participants would use when pricing the asset or liability including assumptions about risk.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheet.

Cash and Cash Equivalents: The carrying amount approximates fair value and was valued as Level 1.

Notes Receivables with Related Parties: It was not practical to estimate the fair value of long-term receivables and payables with related parties. The terms of the amounts reflected in the balance sheet at September 29, 2012 are more fully discussed in the 10-K for the fiscal year ended December 31, 2011.

Notes Payable and Long-term Debt: Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities and determined through the use of a discounted cash flow model. The carrying amount of long-term debt represents a reasonable estimate of the corresponding fair value as the Company's debt is held at variable interest rates and was valued as Level 2.

4. There are currently no significant prospective accounting pronouncements that are expected to have a material effect on the Company's consolidated financial statements.
5. Operating results for the first nine months of 2012 are not necessarily indicative of performance for the entire year due to the seasonality of most of the Company's products. Historically, sales of the Evaporative Cooling segment are higher in the first and second quarters, sales of the Concrete, Aggregates and Construction Supplies (CACS) segment are higher in the second and third quarters and sales of the Heating and Cooling segment are higher in the third and fourth quarters. The sales of the Door segment are more evenly spread throughout the year. The economic recession and financial market turmoil that began in the latter part of 2008 has had a significant detrimental effect on the construction industry in general and on the Company's construction related businesses in particular since that time and is expected to continue to do so for the foreseeable future.
6. There is no difference in the calculation of basic and diluted earnings per share (EPS) for the three-month or nine-month periods ended September 29, 2012 and October 1, 2011 as the Company does not have any dilutive instruments.
7. The Company operates primarily in two industry groups, Heating, Ventilation and Air Conditioning (HVAC) and Construction Products. Within each of these two industry groups, the Company has identified two reportable segments: the Heating and Cooling segment and the Evaporative Cooling segment in the HVAC industry group and the CACS segment and the Door segment in the Construction Products industry group.

The Heating and Cooling segment produces and sells gas-fired wall furnaces, console heaters and fan coils from the Company's wholly-owned subsidiary, Williams Furnace Co. of Colton, California (WFC). The Evaporative Cooling segment produces and sells evaporative coolers from the Company's wholly-owned subsidiary, Phoenix Manufacturing, Inc. of Phoenix, Arizona (PMI). Sales of these two segments are nationwide but are concentrated in the southwestern United States. Concrete, Aggregates and Construction Supplies are offered from numerous locations along the Southern Front Range of Colorado operated by the Company's wholly-owned subsidiaries collectively referred to as Transit Mix Concrete Co. (TMC). Doors are fabricated and sold along with the related hardware from Colorado Springs and Pueblo, Colorado through the Company's wholly-owned subsidiary, McKinney Door and Hardware, Inc. of Pueblo (MDHI). Sales of these two segments are highly concentrated in the Southern Front Range area in Colorado although door sales are also made throughout the United States.

In addition to the above reporting segments, an "Unallocated Corporate" classification is used to report the unallocated expenses of the corporate office which provides treasury, insurance and tax services as well as strategic business planning and general management services. Expenses related to the corporate information technology group are allocated to all locations, including the corporate office. An "Other" classification is used to report a real estate operation and the activity of a new business venture, Williams EcoLogix, Inc. The Company purchased the residence of and made a loan to an executive of one of the Company's subsidiaries in connection with his relocation. The residence is classified as "Real estate held for resale" on the condensed consolidated balance sheet. The residence and the loan receivable are included in the assets of the "Other" classification. The related party loan is secured by marketable securities and bears interest at 5%.

The Company evaluates the performance of its segments and allocates resources to them based on a number of criteria including operating income, return on investment and other strategic objectives. Operating income is determined by deducting operating expenses from all revenues. In computing operating income, none of the following has been added or deducted: unallocated corporate expenses, interest, other income or loss or income taxes.

The following table presents information about reported segments for the nine-month and three-month periods ended September 29, 2012 and October 1, 2011 along with the items necessary to reconcile the segment information to the totals reported in the financial statements (amounts in thousands):

	Construction Products			HVAC Products			Unallocated Corporate	Other	Total
	Concrete, Aggregates & Construction Supplies	Doors	Combined Construction Products	Heating and Cooling	Evaporative Cooling	Combined HVAC Products			
2012									
<u>Nine Months ended September 29, 2012</u>									
Net sales to external customers	\$ 29,332	\$ 9,535	\$ 38,867	\$ 22,545	\$ 21,628	\$ 44,173	\$ 11	\$ 258	\$ 83,309
Depreciation, depletion and amortization	2,169	100	2,269	316	282	598	71	—	2,938
Operating (loss) income	(3,208)	427	(2,781)	466	2,101	2,567	(1,928)	(187)	(2,329)
Segment assets	34,762	5,999	40,761	18,039	10,335	28,374	1,400	1,081	71,616
Capital expenditures (b)	697	26	723	330	425	755	9	—	1,487
<u>Quarter ended September 29, 2012</u>									
Net sales to external customers	\$ 12,659	\$ 3,083	\$ 15,742	\$ 7,672	\$ 5,662	\$ 13,334	\$ 4	\$ 86	\$ 29,166
Depreciation, depletion and amortization	579	33	612	108	97	205	8	—	825
Operating income (loss)	(187)	88	(99)	258	394	652	(672)	(46)	(165)
Segment assets	34,762	5,999	40,761	18,039	10,335	28,374	1,400	1,081	71,616
Capital expenditures (b)	500	9	509	135	206	341	3	—	853

	Construction Products			HVAC Products			Unallocated Corporate	Other	Total
	Concrete, Aggregates & Construction Supplies	Doors	Combined Construction Products	Heating and Cooling	Evaporative Cooling	Combined HVAC Products			
2011									
<u>Nine Months ended October 1, 2011</u>									
Net sales to external customers	\$ 24,719	\$ 9,164	\$ 33,883	\$ 22,920	\$ 21,173	\$ 44,093	\$ 10	\$ 258	\$ 78,244
Depreciation, depletion and amortization	2,452	103	2,555	314	273	587	51	—	3,193
Operating (loss) income	(3,500)	556	(2,944)	750	2,290	3,040	(1,837)	(160)	(1,901)
Segment assets (a)	32,289	5,827	38,116	19,600	11,967	31,567	5,106	1,082	75,871
Capital expenditures (b)	932	60	992	99	150	249	17	—	1,258
<u>Quarter ended October 1, 2011</u>									
Net sales to external customers	\$ 8,266	\$ 3,161	\$ 11,427	\$ 8,414	\$ 5,570	\$ 13,984	\$ 4	\$ 86	\$ 25,501
Depreciation, depletion and amortization	806	36	842	105	48	153	17	—	1,012
Operating income (loss)	(780)	72	(708)	586	373	959	(541)	(73)	(363)
Segment assets (a)	32,289	5,827	38,116	19,600	11,967	31,567	5,106	1,082	75,871
Capital expenditures (b)	452	4	456	29	12	41	3	—	500

(a) Segment assets are as of December 31, 2011.

(b) Capital expenditures are presented on the accrual basis of accounting.

There are no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from the last Annual Report on Form 10-K.

8. Identifiable amortizable intangible assets as of September 29, 2012 include a non-compete agreement, a restrictive land covenant and customer relationships. Collectively, these assets were carried at \$193,000, net of \$527,000 accumulated amortization. The pre-tax amortization expense for intangible assets during the quarter ended September 29, 2012 was \$16,000 compared to \$18,000 for the quarter ended October 1, 2011 and was \$49,000 for the nine months ended September 29, 2012 as compared to \$83,000 for the nine months ended October 1, 2011.

Based upon the intangible assets recorded on the balance sheet at September 29, 2012, amortization expense for the next five years is estimated to be as follows: 2012 – \$65,000; 2013 – \$59,000; 2014 – \$52,000; 2015 – \$45,000 and 2016 – \$21,000.

9. During the first quarter of 2012, the Company provided a letter of credit to replace the \$4,340,000 of cash deposited for self-insured claims with the Company's insurance carrier.
10. The Company issued a total of 12,000 shares to eight eligible board members effective January 6, 2012 as full payment for their 2012 base retainer fee. The shares were issued under the 2010 Non-Employee Directors Stock Plan.
11. The Company is involved in litigation matters related to its business, principally product liability matters related to the gas-fired heating products and fan coil products in the Heating and Cooling segment. In the Company's opinion, none of these proceedings, when concluded, will have a material adverse effect on the Company's consolidated results of operations, cash flows or financial condition as the Company has established adequate accruals for matters that are probable and estimable. The Company does not accrue estimated amounts for future legal costs related to the defense of these matters but rather expenses them as incurred.

In November 2010, the Company filed a lawsuit against an insurance company with regard to a business interruption claim and property damages resulting from an incident that led to the cessation of operations at the Pikeview Quarry in December of 2008. The discovery process has been completed and the case has been assigned a court date in the first quarter of 2013. No recovery

has been recorded in the Company's financial statements and all related costs have been expensed to date. The Company incurred expenses related to this litigation during the quarter ended September 29, 2012 of \$180,000 compared to \$421,000 for the quarter ended October 1, 2011 and \$406,000 and \$876,000 for the nine months ended September 29, 2012 and October 1, 2011, respectively. The Company has entered into a Contingent Fee Agreement with the two legal firms engaged with regard to the Pikeview insurance claim. Under the terms of this agreement the Company has agreed to pay a fixed amount of non-contingent legal fees. In addition to the non-contingent fees, the Company has agreed to pay a contingent fee of 33% of any settlement proceeds or court award in excess of the sum of the non-contingent legal fees, all other litigation expenses and \$500,000. The maximum compensation to the Company's legal counsel is limited to three times their normal billing rates. As of September 29, 2012 approximately 98% of the non-contingent legal fees have been paid. A director of the Company is a partner in one of the firms that has been engaged.

The Company is also involved in a lawsuit to recover a receivable. There has been no significant change since the discussion in the Form 10-K filed with the Securities and Exchange Commission for the 2011 fiscal year.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

See Note 7 for an overview of the Company.

Liquidity and Capital Resources

As noted above, various factors affect the sales of the Company's products. Historically, the Company has experienced operating losses during the first quarter except when construction activity is strong along the Southern Front Range of Colorado and the weather is mild. Operating results typically improve in the second and third quarters, reflecting more favorable weather conditions in Colorado and the seasonal sales of the Evaporative Cooling segment.

Fourth quarter results can vary based on weather conditions in Colorado as well as in the principal markets for the Company's heating equipment. While the CACS segment experienced increased demand in September and October, weather conditions can slow the pace of construction activity for November and the winter season.

The Company typically experiences operating cash flow deficits during the first half of the year reflecting operating results, the use of sales dating programs (extended payment terms) related to the Evaporative Cooling segment and payments of the prior year's accrued incentive bonuses and Company profit-sharing contributions, if any. As a result, the Company's borrowings against its revolving credit facility tend to peak during the second quarter and then decline over the remainder of the year. This trend has continued during the first nine months of 2012.

Cash provided by operations was \$1,554,000 during the first nine months of 2012 compared to the \$547,000 of cash provided by operations during the first nine months of 2011. The Company's operating cash flow was positive despite the operating loss primarily due to a net reduction in working capital during the first nine months of 2012.

During the nine months ended September 29, 2012, investing activities used \$1,457,000 of cash compared to the \$1,425,000 of cash used in the prior year's period. The Company continued to closely monitor capital expenditures during the first nine months of 2012 despite the growth in sales volume. Capital purchases during the 2012 period were made by all reporting segments and related primarily to routine replacements in the HVAC companies and permits and development costs in the CACS segment. As discussed in Note 7, during the 2011 period the Company also made a loan to an officer of one of the Company's subsidiaries in conjunction with his relocation.

Financing activities during the first nine months of 2012 used \$260,000. During the first quarter of 2012, the Company provided a bank letter of credit to replace the \$4,340,000 of cash deposited with the Company's casualty insurance provider for self-insured claims. The returned cash was used to reduce the outstanding revolving bank loan. The third quarter payment of \$125,000 due September 30, 2012 on the long-term debt was not taken by the bank until October 1, 2012, after the close of the Company's fiscal third quarter. Financing activities provided \$1,025,000 during the first nine months of 2011 through borrowings of \$1,400,000 against the revolving credit facility as well as receipt of \$500,000 resulting from the reduction of the amount deposited with our insurance carrier to secure the Company's self-insured claims under its casualty insurance program. All scheduled term debt payments were made during the 2011 period. During the first nine months of 2012, the highest amount of Company borrowings outstanding under the revolving credit line was \$8,150,000 and the average amount outstanding was \$4,179,000.

The Company believes that its existing cash balance, anticipated cash flow from operations and borrowings available under its credit agreement will be sufficient to cover expected cash needs, including servicing debt and planned capital expenditures for the next 12 months. The Company was in compliance with all loan covenants as of the fiscal quarter ended September 29, 2012. The Company has begun discussions with the bank to amend the Company's credit agreement principally as it relates to covenants which will commence during 2013. The bank has indicated that it is willing to accommodate the Company and the amendment is expected to be in place prior to the end of the fiscal year.

Results of Operations - Comparison of Quarter Ended September 29, 2012 to Quarter Ended October 1, 2011

In the ensuing discussions of the results of operations the term gross profit means the amount determined by deducting cost of sales (exclusive of depreciation, depletion and amortization) from sales. The gross profit ratio is gross profit divided by sales.

Consolidated sales in the third quarter of 2012 were \$29,166,000, an increase of \$3,665,000 (14.4%) compared to the third quarter of 2011. Sales in the Concrete, Aggregates and Construction Supplies ("CACS") segment increased by \$4,393,000 (53.1%) as the construction markets in southern Colorado are beginning to show some signs of recovery from the very depressed conditions that prevailed over the past three years. Net sales in the Company's Heating & Cooling segment declined by \$742,000 (8.8%) as furnace shipments in September, generally the beginning of the furnace selling season, got off to a slow start due to very warm weather in California and the Southwest. Sales in the Door and Evaporative Cooling segment were substantially the same as the year ago quarter. The consolidated gross profit ratio declined from 21.8% in the third quarter of 2011 to 19.0% in the current year quarter. The CACS segment experienced the most significant decline in the gross profit ratio due to stagnant prices for ready-mix concrete coupled with higher cement and fuel prices. In addition, higher costs and an unfavorable shift to lower priced products in the aggregates division contributed to the diminished gross profit rate. Depreciation expense was \$825,000 in the third quarter of 2012 compared to \$1,012,000 in the prior year third quarter. The lower expense reflects the reduced capital spending in the past few years throughout the Company. Consolidated selling and administrative expenses were \$63,000 lower in the 2012 third quarter compared to the third quarter in 2011. Litigation expenses associated with the Pikeview Quarry insurance claim were \$241,000 lower in the third quarter of 2012 compared to the prior year. Selling and administrative expenses in the other segments and the corporate office were moderately higher in 2012. Consolidated selling and administrative expenses as a percentage of consolidated sales decreased from 19.4% to 16.7%. The Company incurred an operating loss of \$165,000 in the third quarter of 2012 compared to a \$363,000 operating loss in the third quarter of 2011.

A discussion of operations by segment follows.

Construction Products

The table below presents a summary of operating information for the two reportable segments within the Construction Products group for the quarters ended September 29, 2012 and October 1, 2011 (amounts in thousands):

	Concrete, Aggregates and Construction Supplies		Doors	
<u>Quarter ended September 29, 2012</u>				
Revenues from external customers	\$	12,659	\$	3,083
Gross profit		1,475		653
Gross profit as a percent of sales		11.7%		21.2%
Segment operating income		(187)		88
Operating income as a percent of sales		(1.5)%		2.9%
Segment assets as of September 29, 2012	\$	34,762	\$	5,999
Return on assets		(0.5)%		1.5%
<u>Quarter ended October 1, 2011</u>				
Net sales to external customers	\$	8,266	\$	3,161
Gross profit		1,311		599
Gross profit as a percent of sales		15.9%		18.9%
Segment operating income		(780)		72
Operating income as a percent of sales		(9.4)%		2.3%
Segment assets as of October 1, 2011	\$	33,568	\$	6,224
Return on assets		(2.3)%		1.2%

Concrete, Aggregates and Construction Supplies Segment

As discussed above there was some increase in the level of construction activity in the southern Colorado markets, particularly in Colorado Springs during the third quarter of 2012. Concrete yardage and tons of aggregate sold or consumed internally were 35.2% and 80.9% higher, respectively, compared to the third quarter of 2011. The aggregate sales volume was assisted by a crushed concrete job serviced by the Company in the third quarter of 2012. Selling prices for concrete declined compared to the prior year while cement prices, a key ingredient of ready-mix concrete, rose. A shift in product mix at some of the aggregate operations to lower priced secondary products and some higher costs also contributed to the reduced gross profit rate in the CACS segment. The gross profit rate for the CACS segment as a whole was 11.7% in the third quarter of 2012 compared to 15.9% in the prior year third quarter. Depreciation expenses fell by \$227,000 reflecting the reduced level of capital spending over the last few years. Selling and administrative expenses for this segment declined by approximately \$229,000 due to the litigation expenses related to the Pikeview Quarry insurance claim.

Door Segment

Sales during the third quarter of 2012 in the Door segment were only \$78,000 (2.5%) lower than in the third quarter of 2011. The gross profit percentage in 2012 improved reflecting higher prices and product mix factors.

HVAC Products

The table below presents a summary of operating information for the two reportable segments within the HVAC products group for the quarters ended September 29, 2012 and October 1, 2011 (amounts in thousands):

	Heating and Cooling		Evaporative Cooling	
<u>Quarter ended September 29, 2012</u>				
Net sales to external customers	\$	7,672	\$	5,662
Gross profit		2,147		1,224
Gross profit as a percent of sales		28.0%		21.6%
Segment operating income		258		394
Operating income as a percent of sales		3.4%		7.0%
Segment assets as of September 29, 2012	\$	18,039	\$	10,335
Return on assets		1.4%		3.8%
<u>Quarter ended October 1, 2011</u>				
Net sales to external customers	\$	8,414	\$	5,570
Gross profit		2,449		1,166
Gross profit as a percent of sales		29.1%		20.9%
Segment operating income		586		373
Operating income as a percent of sales		7.0%		6.7%
Segment assets as of October 1, 2011	\$	19,411	\$	10,094
Return on assets		3.0%		3.7%

Heating and Cooling Segment

Sales in the Heating and Cooling segment decreased \$742,000 (8.8%) in the third quarter of 2012 from the 2011 third quarter. Sales of furnaces were lower in 2012 due to weak sales in September when California and other principal markets experienced unusually high temperatures. Fan coil sales improved from rather weak market conditions in 2011. The gross profit ratio for this segment declined from 29.1% to 28.0% due to product sales mix and a lower level of furnace production. Selling and administrative expenses were substantially unchanged.

Evaporative Cooling Segment

Sales in the Evaporative Cooling segment were just \$92,000 (1.7%) higher in the third quarter of 2012 compared to the prior year quarter. The gross profit ratio improved from 20.9% to 21.6% primarily due to increased selling prices which made up some of the erosion in the gross profit rate that occurred in the prior year.

Operations - Comparison of Nine Months Ended September 29, 2012 to Nine Months Ended October 1, 2011

In the ensuing discussions of the results of operations the term gross profit means the amount determined by deducting cost of sales (exclusive of depreciation, depletion and amortization) from sales. The gross profit ratio is gross profit divided by sales.

Consolidated sales in the first nine months of 2012 increased \$5,065,000 (6.5%) compared to the first nine months of 2011. Most of the increase in sales took place in the CACS segment. The Door and Evaporative Cooling segment posted modestly higher sales. The Heating and Cooling segment experienced just a \$375,000 (1.6%) decline in sales. The consolidated gross profit ratio was 19.0% in the first nine months of 2012 compared to 20.4% for the same period in 2011. All but the Heating and Cooling segment experienced some reduction in their gross profit ratio. Depreciation expense decreased by \$255,000 reflecting the reduced capital spending in the years since the economic recession and financial crisis of 2008/2009. Consolidated selling and administrative expenses were \$438,000 higher in the first nine months of 2012 compared to the comparable period in the prior year. The reduced expenses related to the Pikeview litigation were more than offset by increased spending in the other segments including new product research and development efforts at the Company's HVAC businesses. The first of the new products is expected to be ready for sale during the second quarter of 2013. Product liability defense costs were also higher in the Heating and Cooling segment. Selling and administrative expenses as a percentage of net sales dropped from 18.9% from 18.3%.

The operating loss for the first nine months of 2012 was \$2,329,000 compared to a \$1,901,000 operating loss in the comparable period in 2011. The operating loss for the first nine months of 2012 includes \$21,000 in gains from the sale of equipment compared to gains of \$169,000 in the prior year period.

A discussion of operations by segment follows.

Construction Products

The table below presents a summary of operating information for the two reportable segments within the Construction Products group for the nine months ended September 29, 2012 and October 1, 2011 (amounts in thousands):

	Concrete, Aggregates and Construction Supplies		Doors	
<u>Nine Months ended September 29, 2012</u>				
Net sales to external customers	\$	29,332	\$	9,535
Gross profit		2,059		2,123
Gross profit as a percent of sales		7.0%		22.3%
Segment operating (loss) income		(3,208)		427
Operating (loss) income as a percent of sales		(10.9)%		4.5%
Segment assets as of September 29, 2012	\$	34,762	\$	5,999
Return on assets		(9.2)%		7.1%
<u>Nine Months ended October 1, 2011</u>				
Net sales to external customers	\$	24,719	\$	9,164
Gross profit		2,386		2,206
Gross profit as a percent of sales		9.7%		24.1%
Segment operating (loss) income		(3,500)		556
Operating (loss) income as a percent of sales		(14.2)%		6.1%
Segment assets as of October 1, 2011	\$	33,568	\$	6,224
Return on assets		(10.4)%		8.9%

Concrete, Aggregates and Construction Supplies Segment

Sales in the CACS segment increased by \$4,613,000 (18.7%) in the first nine months of 2012 compared to the first nine months of 2011. The level of construction activity along the Front Range in southern Colorado has shown some improvement compared to very low levels in 2011. The increase in construction was especially evident beginning in the third quarter of 2012. The increase in sales in 2012 includes approximately \$1,057,000 of revenues associated with two projects that are not typically part of our core business. One of the jobs involved supplying flow fill material for a water pipeline being installed between Pueblo and Colorado Springs. The other project was a supply contract for crushed concrete. The concrete is being crushed by a third party contractor. Concrete yardages, excluding a job to supply flow fill material, increased by 4.6% compared to the first nine months of 2011. The average price of ready-mixed concrete remained virtually unchanged from the previous year. Cement prices were higher in 2012. Sales of aggregates (sand, crushed limestone and gravel), including those used internally and the crushed concrete, were approximately 17.9% higher in the first nine months of 2012 compared to the same period in 2011. The overall gross profit rate for the CACS segment decreased from 9.7% for the first nine months of 2011 to 7.0% in the comparable period of the current year. The lower gross profit rate is attributable to some higher costs and a shift in product mix at certain aggregate operations. Depreciation charges for this segment were \$283,000 lower in 2012 for the reasons cited in the discussion on the third quarter results. Selling and administrative expenses were \$487,000 lower in 2012. Nearly all of the reduction is related to the Pikeview insurance claim litigation.

Door Segment

Sales during the first nine months of 2012 in the Door segment increased \$371,000 or 4.0% from the comparable 2011 period. Sales in 2011 were depressed due to weak construction markets. The gross profit ratio in 2012 declined from 24.1% for the first nine months of 2011 to 22.3% due to more competitive pricing especially on jobs serviced in the first part of 2012.

HVAC Products

The table below presents a summary of operating information for the two reportable segments within the HVAC products group for the nine months ended September 29, 2012 and October 1, 2011 (amounts in thousands):

	Heating and Cooling	Evaporative Cooling
<u>Nine Months ended September 29, 2012</u>		
Net sales to external customers	\$ 22,545	\$ 21,628
Gross profit	6,582	4,987
Gross profit as a percent of sales	29.2%	23.1%
Segment operating income	466	2,101
Operating income as a percent of sales	2.1%	9.7%
Segment assets as of September 29, 2012	\$ 18,039	\$ 10,335
Return on assets	2.6%	20.3%
<u>Nine Months ended October 1, 2011</u>		
Net sales to external customers	\$ 22,920	\$ 21,173
Gross profit	6,290	4,965
Gross profit as a percent of sales	27.4%	23.4%
Segment operating income	750	2,290
Operating income as a percent of sales	3.3%	10.8%
Segment assets as of October 1, 2011	\$ 19,411	\$ 10,094
Return on assets	3.9%	22.7%

Heating and Cooling Segment

Sales in the Heating and Cooling segment decreased by a mere \$375,000 (1.6%) in the first nine month of 2012 from the comparable period in 2011. Furnace and heater sales were down 13.8% due to high temperatures in September in southern California and other principal market areas. Also, in 2011 the Heating and Cooling segment supplied furnaces for some rehabilitation projects at multifamily dwellings. We have not had a similar project yet this year. Fan coil sales increased 38.5% from a depressed level of commercial construction in 2011. The gross profit ratio for this segment improved by 1.8 points reflecting better margins on fan coils primarily related to the improved fan coil market and a more selective bidding process. Selling and administrative expenses increased by \$575,000 due primarily to new product development efforts, higher product liability defense expenses and incentive bonus provisions. Also, in 2011 the selling and administrative expenses were reduced by approximately \$85,000 due to a reversal of a loss contingency.

Evaporative Cooling Segment

Sales in the Evaporative Cooling segment increased \$455,000 or 2.1% in the first nine months of 2012 compared to the comparable period in 2011. The additional revenues reflect an increase in selling prices. The gross profit ratio decreased by only three tenths of a point. Production volume was 6.4 % lower in the first three quarters of 2012 compared to the prior year. Selling and administrative expenses were \$202,000 higher in the 2012 period due to increased salaries, sales promotion expenses and new product development efforts. As a percentage of net sales these expenses were 12.0% in the first nine months of 2012 compared to 11.3% for the first nine months of 2011.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of September 29, 2012 and December 31, 2011 and affect the reported amounts of revenues and expenses for the periods reported. Actual results could differ from those estimates.

Information with respect to the Company's critical accounting policies which the Company believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

OUTLOOK

The level of construction activity in southern Colorado has increased in recent months. As a result, the level of business in the CACS segment has substantially improved in September and October, 2012. The apparent recovery is exhibiting more strength in the Colorado Springs area than in Pueblo. The economy in Pueblo is still weak. Housing starts in Colorado Springs are expected to increase further in 2013 in part due to the replacement of homes destroyed by last summer's Waldo Canyon fire. Economic forecasts indicate that the level of commercial construction is expected to be meaningfully higher in 2013 compared to 2012. However, winter weather conditions that typically prevail along the Front Range in southern Colorado from November to March slow the pace of construction regardless of the underlying strength of the construction market. Three of the five Colorado Springs ready-mix producers, including the Company, have announced a general price increase for ready-mix concrete effective January 1, 2013. Two other two ready-mix producers have yet to make any announcement. Bid prices on larger jobs remains sharply competitive.

The Door segment's sales are also, to a significant degree, reliant on new construction. The sales backlog of the Door segment at the end of September 2012 is the highest it has been since January of 2009.

We are in the midst of the selling season for wall furnaces and heaters. Warm weather in southern California and in other principal market areas had a negative influence on furnace sales in September and October. Furnace sales for the remainder of the year and winter season will be largely weather dependent. After strengthening some earlier in the year fan coil orders have recently slowed somewhat. Some industry sources opine that bidding opportunities will increase after the November 6 election.

Sales of evaporative coolers during the fourth quarter are preseason orders and are highly dependent upon when these orders are placed by our customers. In-season sales are substantially influenced by temperatures in the Southwest.

The Company's HVAC businesses are in the process of developing new products. The first of the new products is expected to be ready for sale during the second quarter of 2013, however, at this point it is too early to know if these efforts will be successful.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 4 for a discussion of recently issued accounting standards.

MATERIAL CHANGES TO CONTRACTUAL OBLIGATIONS

There were no material changes to contractual obligations that occurred during the quarter ended September 29, 2012.

FORWARD-LOOKING STATEMENTS

The foregoing discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. Such forward-looking statements are based on the beliefs of the Company's management as well as on assumptions made by and information available to the Company at the time such statements were made. When used in this Report, words such as "anticipates," "believes," "contemplates," "estimates," "expects," "plans," "projects," and similar expressions are intended to identify forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of factors including but not limited to: weather, interest rates, availability of raw materials and their related costs, national and local economic conditions, competitive forces and changes in governmental regulations and policies. Some of these factors are discussed in more detail in the Company's 2011 Annual Report on Form 10-K. Changes in accounting pronouncements could also alter projected results. Forward-looking statements speak only as of the date they were made, and the Company undertakes no obligation to publicly update them.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and as such, is not required to provide information in response to this item.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) as of September 29, 2012. The Chief Executive Officer and Chief Financial Officer, based on that evaluation, concluded that our disclosure controls and procedures were effective and were reasonably designed to ensure that all material information relating to the Company (including its subsidiaries) required to be disclosed in this quarterly report is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in Internal Control Over Financial Reporting.

The Company continually reassesses its internal control over financial reporting and makes changes as deemed prudent. During the quarter ended September 29, 2012, there were no material weaknesses identified in our review of internal control over financial reporting and no significant changes in the Company's internal control over financial reporting occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to the September 29, 2012 third quarter-end and after the October 2012 termination of a corporate office employee, the Company discovered that beginning in January 2010, the former employee had charged approximately \$310,000 of personal expenditures to a Company credit card. The Company has now also determined that the former employee concealed the personal nature of the expenditures by preparing falsified credit card statements and supporting invoices. The Company believes that any impact of this matter on the results of operations for 2010, 2011 and 2012, or the net worth of the Company will not be material. The Company has filed an insurance claim under its employee dishonesty policy which has a \$50,000 deductible. The Company is also seeking reimbursement from the former employee and is consulting with its legal counsel to determine what other actions it may take against the former employee. The Company has already implemented procedures that provide reasonable assurance that this type of situation will not recur.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company has not purchased any of its common stock to become treasury stock during the period July 1, 2012 through September 29, 2012. However, the Company reserved 150,000 treasury shares representing the maximum number allowed to be granted under the 2010 Non-Employee Directors Stock Plan ("Plan") to non-employee directors in lieu of a cash base director retainer fee. The Company issued a total of 12,000 shares to eight eligible members of the Board of Directors effective January 6, 2012 as payment of the base director retainer fee for 2012. At September 29, 2012, 114,000 shares remained available for grant under the Plan.

On January 19, 1999, the Company initiated purchases under the current open-ended program to repurchase its common stock. Purchases are made on the open market or in block trades at the discretion of management. The dollar amount authorized for the program has been periodically increased by the Board of Directors and approved by the Company's lender under the Company's credit agreement. As of September 29, 2012, \$1,307,404 of the amount authorized by both the Board of Directors and the Company's lender remains available for stock purchases.

Item 4. Mine Safety Disclosure

The Company's aggregates mining operations, all of which are surface mines, are subject to regulation by the Federal Mine Safety and Health Administration (MSHA) under the Federal Mine Safety and Health Act of 1977 (as amended, the "Mine Act"). MSHA inspects these operations on a regular basis and issues various citations and orders when it believes a violation of the Mine Act has occurred. Information concerning mine safety violations and other regulatory matters required to be disclosed by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K is included in Exhibit 95 to this quarterly report on Form 10-Q.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3	Registrant's Restated Certificate of Incorporation dated May 28, 1975, as amended on May 24, 1978, May 27, 1987 and June 3, 1999 filed as Exhibit 3 to Form 10-K for the year ended January 1, 2005, incorporated by reference.
3a	Registrant's By-laws, as amended September 19, 1975 filed as Exhibit 6 to Form 8-K for the month of September 1975, incorporated herein by reference.
10	Amended and Restated Credit Agreement dated November 18, 2011 among Continental Materials Corporation, as the Company (borrower), The Various Financial Institutions Party Hereto, as Lenders, and The Private Bank and Trust Company, as Administrative Agent and Arranger, filed as Exhibit 10 to Form 10-Q for the quarter ended October 1, 2011.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) and Rule 13a-14(d)/15d-14(d) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) and Rule 13a-14(d)/15d-14(d) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
95	Mine Safety Disclosures filed herewith.
101	The following financial information from Continental Materials Corporation's Quarterly Report on Form 10-Q for the period ended September 29, 2012 filed with the SEC on November 13, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations and Retained Earnings for the three and nine-month periods ended September 29, 2012 and October 1, 2011, (ii) the Condensed Consolidated Balance Sheets at September 29, 2012 and December 31, 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the nine-month periods ended September 29, 2012 and October 1, 2011, and (iv) Notes to the Quarterly Condensed Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

SIGNATURE

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.

CONTINENTAL MATERIALS CORPORATION

Date: November 13, 2012

By: /s/ Joseph J. Sum
Joseph J. Sum, Vice President
and Chief Financial Officer

CERTIFICATION

I, James G. Gidwitz, certify that:

1. I have reviewed this Form 10-Q for the quarterly period ended September 29, 2012 of Continental Materials Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and materials weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2012

By: /s/ James G. Gidwitz
James G. Gidwitz
Chairman of the Board and
Chief Executive Officer

CERTIFICATION

I, Joseph J. Sum, certify that:

1. I have reviewed this Form 10-Q for the quarterly period ended September 29, 2012 of Continental Materials Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and materials weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2012

By: /s/ Joseph J. Sum
Joseph J. Sum
Vice President and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Continental Materials Corporation (the "Company") on Form 10-Q for the period ended September 29, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James G. Gidwitz, the Chairman of the Board and Chief Executive Officer of the Company, and I, Joseph J. Sum, the Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350, of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented in the Report.

November 13, 2012

By: /s/ James G. Gidwitz
James G. Gidwitz
Chairman of the Board and
Chief Executive Officer

By: /s/ Joseph J. Sum
Joseph J. Sum
Vice President and Chief Financial Officer

Mine Safety Disclosures

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K, which require certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”).

Mine Safety Information. Whenever the Federal Mine Safety and Health Administration (“MSHA”) believes a violation of the Mine Act, any health or safety standard or any regulation has occurred, it may issue a citation which describes the alleged violation and fixes a time within which the mining operator must abate the alleged violation. In some situations, such as when MSHA believes that conditions pose a hazard to miners, MSHA may issue an order removing miners from the area of the mine affected by the condition until the alleged hazards are corrected. When MSHA issues a citation or order, it generally proposes a civil penalty, or fine, as a result of the alleged violation, that the operator is ordered to pay. Citations and orders can be contested and appealed, and as part of that process, are often reduced in severity and amount, and are sometimes dismissed. The number of citations, orders and proposed assessments vary depending on the size and type (underground or surface) of the mine as well as by the MSHA inspectors assigned.

Mine Safety Data. The following headings are used in the table below to describe the categories of violations, orders or citations issued by MSHA under the Mine Act with respect to the Company’s mines:

- *Section 104 S&S Citations:* Citations received from MSHA under Section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard.
- *Section 104(b) Orders:* Orders issued by MSHA under Section 104(b) of the Mine Act, which represents a failure to abate a citation under Section 104(a) within the period of time prescribed by MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until MSHA determines that the violation has been abated.
- *Section 104(d) Citations and Orders:* Citations and orders issued by MSHA under Section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
- *Section 110(b)(2) Violations:* Flagrant assessments issued by MSHA under Section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders:* Orders issued by MSHA under Section 107(a) of the Mine Act for situations in which MSHA determined an “imminent danger” existed.

The following table details the violations, citations and orders issued to us by MSHA during the fiscal quarter ended September 29, 2012 (Dollar amounts in thousands):

<u>Mine(1)</u>	<u>Section 104 S&S Citations(2) (#)</u>	<u>Section 104(b) Orders (#)</u>	<u>Section 104(d) Citations and Orders (#)</u>	<u>Section 110(b)(2) Violations (#)</u>	<u>Section 107(a) Orders (#)</u>	<u>Proposed Assessments(3) (\$)</u>	<u>Mining Related Fatalities (#)</u>
Snyder Quarry.....	—	—	—	—	—	\$ —	—
Grisenti Farms Gravel Pit.....	—	—	—	—	—	—	—
Daniels Sand Pit 1 & 2.....	—	—	—	—	—	—	—
Pueblo East.....	2	—	1	—	—	5	—
Pikeview Quarry.....	—	—	—	—	—	—	—

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- (1) The definition of “mine” found in Section 3 of the Mine Act includes the mine, as well as other items used in, or to be used in, or resulting from, the work of extracting minerals, such as land, structures, facilities, equipment, machines, tools and minerals preparation facilities. Unless otherwise indicated, any of these other items associated with a single mine have been aggregated in the totals for that mine. MSHA assigns an identification number to each mine and may or may not assign separate identification numbers to related facilities such as preparation facilities. We are providing the information in the table by mine rather than MSHA identification number because that is how we manage and operate our mining business and we believe this presentation will be more useful to the reader than providing information based on MSHA identification numbers.
 - (2) As of September 29, 2012 and the date of this filing, Transit Mix Concrete Co. has not yet received an assessment for the one citation under Section 104(d). The maximum assessment is \$10,000 however the condition has already been rectified and the company expects to contest the assessment, if it is made. There have been no deaths or injuries resulting from the condition cited.
 - (3) Represents the total dollar value of the proposed assessment from MSHA under the Mine Act pursuant to the citations and/or orders preceding such dollar value in the corresponding row. An assessment has not yet been issued on the Section 104(d) citation at the Pueblo East mine.

Pattern or Potential Pattern of Violations. During the fiscal quarter ended September 29, 2012, none of the mines operated by us received written notice from MSHA of (a) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under Section 104(e) of the Mine Act or (b) the potential to have such a pattern.

Pending Legal Actions. There were no legal actions pending before the Federal Mine Safety and Health Review Commission (the “Commission”) as of September 29, 2012, nor were any legal actions instituted and resolved during the fiscal quarter ended September 29, 2012. The Commission is an independent adjudicative agency established by the Mine Act that provides administrative trial and appellate review of legal disputes arising under the Mine Act. These cases may involve, among other questions, challenges by operators to citations, orders and penalties they have received from MSHA, or complaints of discrimination by miners under Section 105 of the Mine Act. The following provides additional information of the types of proceedings that may be brought before the Commission:

- *Contest Proceedings:* A contest proceeding may be filed by an operator to challenge the issuance of a citation or order issued by MSHA.
- *Civil Penalty Proceedings:* A civil penalty proceeding may be filed by an operator to challenge a civil penalty MSHA has proposed for a violation contained in a citation or order. We do not institute civil penalty proceedings based solely on the assessment amount of proposed penalties. Any initiated adjudications address substantive matters of law and policy instituted on conditions that are alleged to be in violation of mandatory standards of the Mine Act.
- *Discrimination Proceedings:* Involves a miner’s allegation that he or she has suffered adverse employment action because he or she engaged in activity protected under the Mine Act, such as making a safety complaint. Includes also temporary reinstatement proceedings involving cases in which a miner has filed a complaint with MSHA stating that he or she has suffered discrimination and the miner has lost his or her position.
- *Compensation Proceedings:* A compensation proceeding may be filed by miners entitled to compensation when a mine is closed by certain closure orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due to miners idled by the orders.
- *Temporary Relief:* Applications for temporary relief are applications filed under Section 105(b)(2) of the Mine Act for temporary relief from any modification or termination of any order.
- *Appeals:* An appeal may be filed by an operator to challenge judges’ decisions or orders to the Commission, including petitions for discretionary review and review by the Commission on its own motion.

During the fiscal quarter ended September 29, 2012, we had no legal actions instituted or resolved. As of September 29, 2012, we had no pending legal actions.
