IMCO RECYCLING INC
Form 10-Q
November 14, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly Period September 30, 2003

¨ Transition Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Commission File No. 1-7170

IMCO Recycling Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2008280

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

5215 North O Connor Blvd., Suite 1500

Central Tower at Williams Square

Irving, Texas 75039

(Address of principal executive offices) (Zip Code)

(972) 401-7200

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the close of business on October 31, 2003.

Common Stock, $0.10 par value, 15,399,785

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2003 (unaudited)	December 31, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 31,391	$ 6,875
Accounts receivable (net of allowance of $1,582 and $1,205 at September 30, 2003 and December 31, 2002, respectively)	64,274	24,501
Inventories	66,133	42,730
Deferred income taxes	3,809	3,355
Other current assets	8,909	13,210
Total Current Assets	174,516	90,671
Property and equipment, net	213,281	187,451
Goodwill	67,664	51,118
Investments in joint ventures	1,039	17,467
Other assets, net	6,670	4,703
	$ 463,170	$ 351,410
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 80,747	$ 77,682
Accrued liabilities	22,738	18,589
Notes payable		7,420
Current maturities of long-term debt	25	94,075
Total Current Liabilities	103,510	197,766
Long-term debt	192,305	14,550
Deferred income taxes	18,541	10,883
Other long-term liabilities	27,023	11,347
STOCKHOLDERS EQUITY		
Preferred stock; par value $.10; 8,000,000 shares authorized; none issued		
Common stock; par value $.10; 40,000,000 shares authorized; 17,150,162 issued at September 30, 2003; 17,142,404 issued at December 31, 2002	1,715	1,714
Additional paid-in capital	102,638	103,958
Deferred stock compensation	(3,806)	(3,099)
Retained earnings	49,662	46,218
	(8,755)	(9,830)

Accumulated other comprehensive loss from foreign currency translation adjustments and deferred hedging gains/losses		
Treasury stock, at cost; 1,843,403 shares at September 30, 2003; 2,049,941 shares at December 31, 2002	(19,663)	(22,097)
Total Stockholders Equity	121,791	116,864
	$ 463,170	$ 351,410

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues	$ 219,552	$ 180,866	$ 654,087	$ 519,276
Cost of sales	206,314	167,491	611,103	483,340
Gross profits	13,238	13,375	42,984	35,936
Selling, general and administrative expense	9,616	6,426	27,073	19,185
Interest expense	3,466	2,737	9,519	7,492
Fees on receivables sale	240	460	821	1,312
Other (income) expense, net	405	99	427	(194)
Equity in net (earnings) loss of affiliates	64	(460)	(847)	(1,103)
Earnings (loss) before income taxes, minority interest, and cumulative effect of accounting change	(553)	4,113	5,991	9,244
Provision for (benefit from) income taxes	(319)	1,443	2,174	3,426
Earnings (loss) before minority interests and cumulative effect of accounting change	(234)	2,670	3,817	5,818
Minority interests, net of provision for income taxes	108	177	373	409
Earnings (loss) before cumulative effect of accounting change	(342)	2,493	3,444	5,409
Cumulative effect of accounting change (after tax benefit of $7,132)				(58,730)
Net earnings (loss)	$ (342)	$ 2,493	$ 3,444	$ (53,321)
Net earnings (loss) per common share:				
Basic before accounting change	$ (0.02)	$ 0.17	$ 0.24	$ 0.37
Cumulative effect of accounting change				(4.03)
Basic earnings (loss) per share	(0.02)	0.17	0.24	(3.66)
Diluted before accounting change	(0.02)	0.17	0.24	0.37
Cumulative effect of accounting change				(4.00)
Diluted earnings (loss) per share	(0.02)	0.17	0.24	(3.63)
Weighted average shares outstanding:				
Basic	14,463	14,492	14,474	14,565
Diluted	14,539	14,594	14,534	14,685

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(in thousands)

	For the nine months ended September 30,	
	2003	**2002**
OPERATING ACTIVITIES		
Earnings before accounting change	$ 3,444	$ 5,409
Depreciation and amortization	20,000	17,741
Provision for (benefit from) deferred income taxes	3,144	(1,851)
Equity in earnings of affiliates	(847)	(1,103)
Other non-cash charges	5,800	3,069
Changes in operating assets and liabilities:		
Accounts receivable	11,323	(14,495)
Accounts receivable sold	(15,000)	1,600
Inventories	(2,761)	(937)
Other current assets	4,094	(1,453)
Accounts payable and accrued liabilities	(28,853)	21,862
Net cash from operating activities	344	29,842
INVESTING ACTIVITIES		
Payments for property and equipment	(13,577)	(9,232)
Redemption of shares by VAW-IMCO, net of cash acquired	15,670	
Other	828	3,357
Net cash from (used by) investing activities	2,921	(5,875)
FINANCING ACTIVITIES		
Net (payments of) proceeds from long-term revolving credit facility	24,300	(18,500)
Net (payments of) proceeds from long-term debt	(1,789)	(110)
Debt issuance costs	(1,386)	(975)
Other	(414)	163
Net cash from (used by) from financing activities	20,711	(19,422)
Effect of exchange rate differences on cash and cash equivalents	540	(476)
Net increase in cash and cash equivalents	24,516	4,069
Cash and cash equivalents at January 1	6,875	3,301
Cash and cash equivalents at September 30	$ 31,391	$ 7,370
SUPPLEMENTARY INFORMATION		
Cash payments for interest	$ 6,468	$ 5,574
Cash payments for (proceeds from) income taxes	$ (378)	$ 193

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2003

(Dollars in tables are in thousands, except per share data)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The accompanying financial statements include the accounts of IMCO Recycling Inc. and all of its majority-owned subsidiaries (which, collectively, except where the context otherwise requires, are referred to herein as we, us or our). All significant intercompany accounts and transactions have been eliminated. For further information, you should refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002. Certain reclassifications have been made to prior period statements to conform to the current period presentation.

NOTE B RECEIVABLES SALE

The receivables sold under our receivables sale facility totaled $46,300,000 and $66,900,000 at September 30, 2003 and September 30, 2002, respectively.

Under the receivables sale facility, we and certain of our originating subsidiaries had agreed to sell, from time to time, our interest in certain trade accounts receivable and other related assets to one of our wholly-owned subsidiaries. In turn, this subsidiary sold an undivided interest in the receivables and assets to unaffiliated third-party financial institutions and other entities. The purchase limit (the aggregate amount of receivables that could be sold) was $75,000,000.

In connection with the issuance of our 10-3/8% senior secured notes and the establishment of our new senior secured revolving credit facility (see NOTE D LONG TERM DEBT), we repurchased $46,300,000 in receivables outstanding under the receivables sale facility and terminated the receivables sale facility in October 2003. This facility was scheduled to expire in November 2003.

NOTE C INVENTORIES

The components of inventories are:

	2003	2002
Finished goods	$ 29,057	$ 19,711
Raw materials	29,797	21,297
Work in process	3,349	67
Supplies	3,930	1,655
	$ 66,133	$ 42,730

NOTE D LONG TERM DEBT

Subsequent Event Refinancing Transactions: To refinance our existing indebtedness, on October 6, 2003, we issued $210,000,000 principal amount of 10-3/8% senior secured notes (new secured notes), due on October 15, 2010. The issue was priced at 99.383% to yield 10.50% and provided $208,704,000 of proceeds. Interest is payable semi-annually, on April 15 and October 15, commencing on April 15, 2004. In addition, on October 6, 2003, we established a new, four-year $120,000,000 senior secured revolving credit facility (new senior credit facility), and borrowings under this facility amounted to $27,959,000 as of that date. Our former senior credit facility and receivables sale facility were both scheduled to expire by their own terms in the fourth quarter of 2003.

The proceeds from the new secured note offering and initial borrowings under the new senior credit facility were or will be used as follows: repayment of the former senior credit facility, $122,600,000; repurchase of receivables outstanding under the receivables sale facility and termination of such facility, $46,300,000; repayment of certain Brazilian loans, $7,541,000; Additionally, approximately $51,400,000 in proceeds have been or will be applied toward outstanding loans and obligations owed by VAW-IMCO Guss und Recycling GmbH (VAW-IMCO), our German subsidiary, to commercial banks and to Hydro Aluminium Deutchland GmbH (Hydro), our former joint venture partner, with regards to VAW-IMCO s redemption liability. Fees and expenses of the new secured note offering and the establishment of the new senior credit facility are expected to be approximately $9,500,000. The fees and expenses of the new secured note offering and new senior credit facility are considered deferred charges and will be amortized and expensed as additional interest over the terms of the new secured notes and new senior credit facility.

Based on the terms of the new secured notes and the new senior credit facility, the amount of current maturities at September 30, 2003 relating to debt repaid has been classified as long-term. Including our initial borrowings under the new senior credit facility, annual maturities of long-term debt for each of the five succeeding years are $25,000, $20,000, $5,000, $27,959,000 and $0.

The following table provides a comparison between our debt outstanding as of September 30, 2003 and our pro forma debt outstanding as of October 6, 2003, the date of our refinancing:

Our debt is comprised of the following:	**October 6, 2003 (pro forma)**	**September 30, 2003**
Notes payable	$	$ 7,196
Capital lease obligations	51	51
Former senior secured credit facility, expiring December 2003		118,300
New senior secured credit facility, expiring October 2007	27,959	
VAW-IMCO credit facilities and share redemption liability (credit facilities expire in May, 2008) (share redemption liability due annually until December 2006)		52,379
Senior secured notes due in October 2010, interest rate at 10-3/8% per annum	210,000	
Industrial revenue bonds, due in 2016, 2022 and 2023, interest rates range from 6.0% to 7.65% per annum	14,404	14,404
Total	$ 252,414	$ 192,330

The new secured notes are redeemable at our option, in whole, or in part, at any time after October 15, 2007. At any time prior to October 15, 2006, we may redeem up to 35% of the aggregate principal amount of the new secured notes with the proceeds of one or more equity offerings of our common shares at a redemption price of 110.375% of the principal amount of the new secured notes, together with accrued and unpaid interest, if any, to the date of the redemption.

The new secured notes are guaranteed on a senior basis by all of our existing wholly-owned domestic subsidiaries that are co-borrowers under the new senior credit facility and by any future restricted domestic subsidiaries. The new secured notes are not guaranteed by any of our current foreign subsidiaries. See NOTE N GUARANTORS FINANCIAL STATEMENTS.

The new secured notes and guarantees are secured by first-priority liens, subject to permitted liens, on the real property, fixtures and equipment relating to our wholly-owned domestic operating plants, on the fixtures and equipment relating to substantially all of our leased domestic operating plants and in an intercompany note issued by VAW-IMCO to us. The liens securing the new secured notes do not extend to any of our inventory, accounts receivable and related property (which secure the new senior credit facility) or to any of our foreign real or personal property.

Upon the occurrence of a change of control, (as defined under the indenture governing the terms of the new secured notes), we are required to purchase all or a portion of the new secured notes at a price equal to 101% of the principal amount of the new secured notes plus accrued interest.

The indenture governing the new secured notes, among other things, contains covenants limiting our ability and the ability of our restricted subsidiaries to: incur additional debt; make restricted payments, including without limitation, paying dividends or making investments; sell or otherwise dispose of assets, including capital stock of subsidiaries; engage in sale-leaseback transactions; create liens on our or our subsidiaries assets; receive distributions; engage in transactions with affiliates; and merge or sell substantially all of our or our subsidiaries assets.

Under the new senior credit facility established on October 6, 2003, we will be subject to a borrowing base limitation based on eligible domestic inventory and receivables. As of October 6, 2003, we estimated that our borrowing base would have supported additional borrowings of $43,026,000 after giving effect to outstanding borrowings of approximately $27,959,000 and outstanding letters of credit of $7,423,000.

The terms of our new senior credit facility include, among other covenants, (i) prohibitions against incurring certain indebtedness, (ii) limitations on dividends and repurchases of shares of capital stock, and (iii) limitations on capital expenditures, investments and acquisitions. At any time during specified periods (including currently) our undrawn availability under this facility is less than $50,000,000, we will also be required to maintain a minimum fixed coverage ratio and minimum tangible net worth, as follows:

a minimum fixed charge coverage ratio of 1.0 to 1.0 (calculated based on our parent entity and wholly-owned domestic subsidiaries), and

a minimum tangible net worth of $44,500,000 plus 50% of future net income on a consolidated basis.

As a result of our new financing arrangements, our interest expense is expected to increase by approximately $11,000,000 on an annualized basis. This estimate is based upon assumed amounts outstanding of $210,000,000 and $27,959,000 and interest rates of 10.375% and 3.75% per annum for the new secured notes and our new senior credit facility.

***Former Credit Facilities*.** As of September 30, 2003, we had in place a senior secured revolving credit facility and a receivables sale facility. See NOTE B   RECEIVABLES SALE. Both facilities were scheduled to expire by their terms during the fourth quarter of 2003.

We had used our former senior credit facility to provide funding for our short-term liquidity requirements and for letters of credit. As of September 30, 2003, we had $118,300,000 of indebtedness outstanding under the former senior credit facility. At September 30, 2003, we had standby letters of credit of $7,423,000 outstanding issued by several banks. The term of the former senior credit facility was scheduled to expire on December 31, 2003.

***VAW-IMCO Credit Facilities*.** Our German subsidiary, VAW-IMCO Guss und Recycling GmbH (VAW-IMCO), has its own long-term debt facilities in place, which are independent from our debt facilities described above. VAW-IMCO has used its long-term debt financing primarily for its investments in processing equipment, as well as for its working capital needs. At September 30, 2003, VAW-IMCO s long-term debt outstanding was approximately $23,330,000.

On October 6, 2003, in conjunction with our 10-3/8% senior secured note issuance and new senior secured revolving credit facility, VAW-IMCO s former debt facilities were extinguished and new debt facilities were established.

NOTE E RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective January 1, 2003, we adopted Statement of Financial Accounting Standard (SFAS) No. 143, Accounting for Asset Retirement Obligations. This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. Under the provisions of this standard, we recorded the estimated fair value of liabilities for existing asset retirement obligations, as well as associated asset retirement costs, which were capitalized as increases to the carrying amounts of related long-lived assets. The amounts recorded are for legal obligations associated with the normal operation of our landfills and the retirement of those assets. Our asset retirement obligations consist primarily of environmental remediation costs associated with landfills that we own.

The amounts recognized for landfill asset retirement obligations, as of January 1, 2003, were $4,177,000 for our Morgantown, Kentucky landfill and $1,018,000 for our Sapulpa, Oklahoma landfill. The related asset retirement cost for each facility was capitalized as a long-lived asset (asset retirement cost) which is to be amortized over the remaining useful life of the landfills.

The landfill asset retirement obligation will be adjusted over time to recognize the current fair value of the obligation. Changes to the asset retirement obligation will be recognized as accretion expense as a component of cost of sales over the anticipated life of the landfill. Payments to prepare for the closures of these landfills reduce the asset retirement obligations. Examples of such payments include payments for retention ponds and groundwater drainage systems.

The asset retirement cost is to be amortized over the useful life of the asset. We had been previously accruing and expensing for the costs of the closure of the Morgantown, Kentucky and Sapulpa, Oklahoma landfills. The anticipated remaining lives of these landfills are 7 years and 4 years, respectively. These closure costs will continue to be expensed as a component of cost of sales over the estimated lives of these landfills, and reduced the amount of the asset retirement costs recognized in our balance sheet. The net amount of asset retirement costs recognized in our balance sheet as of January 1, 2003 was $2,058,000 ($5,195,000 in asset retirement cost, net of $3,137,000 of accumulated amortization).

No cumulative effect adjustment was recognized upon the adoption of SFAS 143 due to our previous accrual of costs related to such obligations. Net income for the nine months ended September 30, 2002 and for the full year of 2002 would not have been materially different if this standard had been adopted effective January 1, 2002.

The changes in our Asset Retirement Obligations and Asset Retirement Costs for the nine months ended September 30, 2003 are shown in the table below:

Carrying Amount of Asset Retirement Obligations	**Nine months ended September 30, 2003**
Balance at beginning of period January 1, 2003	$ 5,195
Accretion expense	320
Payments	(275)
Balance at end of period September 30, 2003	$ 5,240

Carrying Amount of Asset Retirement Cost	**Nine months ended September 30, 2003**
Balance at beginning of period January 1, 2003	$ 2,058
Accumulated depreciation	(255)
Balance at end of period September 30, 2003	$ 1,803

NOTE F NET EARNINGS (LOSS) PER SHARE

The following table sets forth the reconciliation between weighted average shares used for calculating basic and diluted earnings per share (EPS):

	Three months ended September 30,		**Nine months ended September 30,**	
	2003	**2002**	**2003**	**2002**
Numerators for basic and diluted earnings (loss) per share:				
Net earnings (loss) before cumulative effect of accounting change	$ (342)	$ 2,493	$ 3,444	$ 5,409
Cumulative effect of accounting change				(58,730)
Net earnings (loss)	$ (342)	$ 2,493	$ 3,444	$ (53,321)
Denominator:				
Denominator for basic earnings (loss) per share-weighted-average shares	14,462,889	14,492,148	14,473,973	14,564,583
Dilutive potential common shares- stock options	75,871	101,660	60,221	120,655
Denominator for diluted earnings (loss) per share	14,538,760	14,593,808	14,534,194	14,685,238

Net earnings (loss) per share:				
Basic before cumulative effect	(0.02)	0.17	0.24	0.37
Basic after cumulative effect	(0.02)	0.17	0.24	(3.66)
Diluted before cumulative effect	(0.02)	0.17	0.24	0.37
Diluted after cumulative effect	(0.02)	0.17	0.24	(3.63)

NOTE G CONTINGENCIES

Our operations, like those of other basic industries, are subject to federal, state, local and foreign laws, regulations and ordinances. These laws and regulations (1) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous wastes and (2) impose liability for costs of cleaning up, and certain damages resulting from past spills, disposals or other releases of hazardous substances. It can be anticipated that more rigorous environmental laws will be enacted that could require us to make substantial expenditures in addition to those described in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2002.

From time to time, our operations have resulted, or may result, in certain noncompliance with applicable requirements under environmental laws. However, we believe that any such noncompliance under such environmental laws would not have a material adverse effect on our financial position or results of operations.

In 1997, the Illinois Environmental Protection Agency (IEPA) notified us that two of our zinc subsidiaries were potentially responsible parties (PRP) pursuant to the Illinois Environmental Protection Act for the cleanup of contamination at a site in Marion County, Illinois to which these subsidiaries, among others, in the past sent zinc oxide for processing and resale. The site has not been fully investigated and final cleanup costs have not yet been determined. We have been informed by IEPA that the agency is preparing a revised list of companies that may have sent materials to the site and the volume of materials sent by each company. After receiving this information, our subsidiaries presently plan to seek, possibly in connection with other PRPs, an agreed resolution of the IEPA s claim.

On February 15, 2001, the State of Michigan filed a lawsuit against us in the State Circuit Court for the 30th District, Ingham County, Michigan. The lawsuit arises out of disputes between our Alchem Aluminum Inc. subsidiary and Michigan environmental authorities concerning air emission control permits at Alchem s aluminum specialty alloy production facilities in Coldwater, Michigan. The State claims injunctive relief and penalties for alleged noncompliance with and violations of federal and state environmental laws. The suit seeks compliance by us as well as potentially substantial monetary penalties. We have filed an answer to the complaint and are in the discovery stage of the process. A motion for summary disposition has been granted regarding portions of the State s complaint. We are currently pursuing settlement negotiations with the State.

On April 27, 2001, the U. S. Environmental Protection Agency, Region V, issued to us a Notice of Violation (NOV) alleging violations of the federal Clean Air Act, primarily for violations of the Michigan State Implementation Plan at our Coldwater facilities. The NOV addresses the same instances of alleged noncompliance raised in the State of Michigan lawsuit, alleging that we purportedly failed to obtain appropriate preconstruction air quality permits prior to conducting modifications to the Alchem production facilities and exceeded permitted emission levels from two of our Coldwater facilities. In September 2001, we filed our response with Region V of the Environmental Protection Agency, and there have been no developments in this matter since that date.

Additionally, there is the possibility that expenditures could be required at our other facilities from time to time, because of new or revised regulations that could require that additional expenditures be made for compliance purposes. These expenditures could materially affect our results of operations in future periods.

In 1998 an employee filed a personal injury claim against us (*Bland v. IMCO Recycling Inc.*) in Missouri state court. In August 2002 the trial court entered a final judgment against us for $4,000,000. We are also involved in litigation with the surety for the appeal bond that was levied to secure the judgment in the *Bland* case (*IMCO Recycling Inc. v. American Guarantee & Liability Insurance Company)*, currently pending in the Missouri Circuit Court of Appeals. To date, we have not paid any portion of the *Bland* judgment or reimbursed the surety. In a lawsuit between us and our umbrella coverage insurer to resolve a dispute as to coverage in the *Bland* case (*Twin City Fire Insurance Company v. IMCO Recycling Inc.*), a federal district court in Missouri entered a judgment in our favor in July 2003. We have filed post-trial motions seeking the award of our attorneys fees and to clarify the terms of the favorable judgment. When judgment is entered, to clarify these points an appeal may be filed by one or both parties. We currently believe that there is insurance coverage for the *Bland* claim and that we will be indemnified for any payments that we must make. We have not established any reserves for the *Bland* case. We have deferred expensing certain legal fees and expenses incurred during the third quarter in connection with this matter.

We are also a party from time to time to what we believe are routine litigation and proceedings considered part of the ordinary course of our business. We believe that the outcome of such proceedings would not have a material adverse effect on our financial position or results of operations.

NOTE H OTHER COMPREHENSIVE EARNINGS (LOSS)

The following table presents net earnings and the effect of adding components of other comprehensive earnings, which are items that change equity during the reporting period, but are not included in net earnings:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net earnings (loss)	$ (342)	$ 2,493	$ 3,444	$ (53,321)
Hedging, net of tax	(244)	695	197	4,657
Foreign currency translation adjustment and other	(1,395)	(4,351)	880	(4,702)
Comprehensive earnings (loss)	$ (1,981)	$ (1,163)	$ 4,521	$ (53,366)

We translate the balance sheets of our foreign subsidiaries using fiscal period-end exchange rates. The consolidated statements of earnings are translated using the average exchange rates for the period. The cumulative effect of such translations is included in shareholders equity, as a component of other comprehensive earnings (loss), as shown above.

NOTE I SEGMENT REPORTING

We have three reportable segments: aluminum-domestic, aluminum-international, and zinc. Reportable segments are defined as components of an enterprise about which separate, discrete financial information is available for evaluation. In March 2003, we reached an agreement to acquire the full ownership of our then 50 percent owned joint venture in Germany. See NOTE J VAW-IMCO below. Effective March 1, 2003, all of VAW-IMCO s accounts were consolidated into our financial statements. Previously, VAW-IMCO s financial results had been reported under the equity method of accounting which only recorded our 50 percent share of VAW-IMCO s after tax earnings. As a result of the consolidation of VAW-IMCO into our consolidated financial statements, and adjustments to our internal financial reporting structure, we now recognize an aluminum-international segment, in addition to our aluminum-domestic and zinc segments.

The aluminum-domestic segment represents all of our aluminum melting, processing, alloying, brokering and salt cake recovery activities, including investments in joint ventures, within the United States. Our aluminum-international segment represents all of our aluminum melting, processing, alloying and brokering activities outside of the United States. Our zinc segment represents all of our zinc melting, processing and brokering activities. Prior period results have been reclassified to reflect the aluminum-international segment. The table below shows our segment assets as of September 30, 2003 compared to December 31, 2002.

	September 30, 2003	December 31, 2002
Assets:		
Aluminum-Domestic	$ 195,783	$ 195,056
Aluminum-International	164,019	47,286
Zinc	82,986	80,277
Other unallocated assets	20,382	28,791
Total Assets	$ 463,170	$ 351,410

The following table shows our segment revenues and income for the three month and nine month periods ended September 30, 2003 and September 30, 2002, respectively:

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
REVENUES:				
Aluminum-Domestic	$ 110,402	$ 134,111	$ 359,376	$ 381,915
Aluminum-International	69,895	5,827	183,717	17,350
Zinc	39,255	40,928	110,994	120,011
Total revenues	$ 219,552	$ 180,866	$ 654,087	$ 519,276
INCOME:				
Aluminum-Domestic	$ 3,840	$ 10,271	$ 15,017	$ 26,845
Aluminum-International	2,392	119	11,616	691
Zinc	1,550	830	4,060	3,283
Total segment income	$ 7,782	$ 11,220	$ 30,693	$ 30,819
Unallocated amounts:				
General and administrative expenses	$ (4,224)	$ (3,811)	$ (13,935)	$ (12,965)
Amortization expense	(79)		(189)	
Interest expense	(3,466)	(2,737)	(9,519)	(7,492)
Fees on receivables sale	(240)	(460)	(821)	(1,312)
Interest and other income (expense)	(326)	(99)	(238)	194
Earnings before provision for income taxes and minority interests	$ (553)	$ 4,113	$ 5,991	$ 9,244

NOTE J VAW-IMCO

General: On March 14, 2003, one of our wholly-owned subsidiaries entered into an agreement with Hydro Aluminium Deutschland GmbH (Hydro) and VAW-IMCO, finalizing the terms and conditions under which VAW-IMCO would redeem its shares owned by Hydro. Due to the impracticality of creating mid-month financial statements, we chose to consolidate VAW-IMCO as of March 1, 2003.

VAW-IMCO owns and operates two aluminum recycling foundry alloy facilities in Grevenbroich and Töging, Germany, that together have an annual melting capacity of about 600 million pounds. VAW-IMCO supplies specialty alloys to the European automobile industry and serves other European aluminum markets.

Under this agreement, the redemption price for Hydro s share interest was 30,407,500 Euros (approximately U.S. $32,300,000), payable in Euros in five installments, plus interest. The first installment of 6,081,500 Euros, plus interest of 613,000 Euros, was paid by VAW-IMCO to Hydro on March 18, 2003.

Voting control of VAW-IMCO was effectively vested in one of our wholly-owned subsidiaries, and as a result, effective March 1, 2003, the results of operations of VAW-IMCO were consolidated with ours and reflected within our consolidated financial statements. Prior to that date, the results of operations of VAW-IMCO had been reflected in our financial statements under the equity method of accounting. For the two month period ended February 28, 2003, and the three month and nine month periods ended September 30, 2002, our equity in the net income of VAW-IMCO was stated at $734,000, $355,000 and $927,000, respectively. The following table represents the condensed income statements for VAW-IMCO for the two month period ended February 28, 2003, and the three month and nine month periods ended September 30, 2002.

	Two months ended February 28,	Three months ended September 30,	Nine months ended September 30,
	2003	**2002**	**2002**
Revenues	$ 51,445	$ 61,407	$ 178,908
Gross Profit	$ 5,945	$ 4,829	$ 11,461
Net Income	$ 1,469	$ 704	$ 1,842

The redemption liability for Hydro s share interest plus the obligations assumed were allocated to the following assets at their fair value: approximately $22,400,000 in cash, $34,200,000 in accounts receivable net of an allowance for doubtful accounts, approximately $19,300,000 in inventories, and approximately $31,100,000 in property, plant and equipment. These asset additions caused our total assets to increase by more than $108,000,000.

We also included in our consolidated financial statements all of the obligations of VAW-IMCO. These include accounts payable and other accrued liabilities totaling approximately $33,300,000, as well as approximately $23,000,000 in current maturities of long-term debt and approximately $500,000 in long-term debt. We assumed a $10,000,000 liability for accrued pension costs and a deferred tax liability of approximately $4,200,000.

The redemption price allocation described above resulted in our recording approximately $16,800,000 in goodwill.

We believe that we have identified all necessary liabilities related to purchase price adjustments for the redemption of the Hydro shares. However, it is possible that we may further modify these purchase price adjustments.

The following table represents our condensed pro forma income statement for the three month period ended September 30, 2002 and the nine month periods ended September 30, 2003 and September 30, 2002, respectively. The condensed pro forma income statement assumes that the consolidation of VAW-IMCO occurred on January 1, 2002.

IMCO RECYCLING INC. AND SUBSIDIARIES

Pro Forma Statement of Income

(In thousands, except per share amounts)

	Three months ended September 30,	Nine months ended September 30,	
	2002	2003	2002
Revenues	$ 239,695	$ 705,532	$ 704,852
Gross Profit	16,778	48,929	43,888
Earnings before accounting change	2,543	4,088	5,852
Cumulative effect of accounting change (net of tax $7,132)			(58,730)
Net earnings (loss)	2,543	4,088	(52,878)
Net Earnings (loss) per common share:			
Basic before accounting change	$ 0.18	$ 0.28	$ 0.40
Cumulative effect of accounting change			(4.03)
Basic earnings (loss) per share	$ 0.18	$ 0.28	$ (3.63)
Diluted before accounting change	$ 0.17	$ 0.28	$ 0.40
Cumulative effect of accounting change			(4.00)
Diluted earnings (loss) per share	$ 0.17	$ 0.28	$ (3.60)
Weighted average shares outstanding:			
Basic	14,492	14,474	14,565
Diluted	14,594	14,534	14,685

NOTE K STOCK-BASED COMPENSATION

We follow Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations in accounting for our employee stock options. Under APB 25, if the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. We have adopted the pro forma disclosure features of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation , as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure . Our net earnings (loss) and earnings (loss) per share would have been reduced to the pro forma amounts shown below if compensation cost had been determined based on the fair value at the grant dates.

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net earnings (loss), as reported	$ (342)	$ 2,493	$ 3,444	$ (53,321)
Add: stock-based compensation expense included in reported net income (loss), net of tax	190		378	
Less: compensation cost determined under the fair value method, net of tax	169	104	513	288
Pro forma net earnings (loss)	$ (321)	$ 2,389	$ 3,309	$ (53,609)
Basic earnings (loss) per share:				
As reported	$ (0.02)	$ 0.17	$ 0.24	$ (3.66)
Pro forma	(0.02)	0.16	0.23	(3.68)
Diluted earnings (loss) per share:				
As reported	$ (0.02)	$ 0.17	$ 0.24	$ (3.63)
Pro forma	(0.02)	0.16	0.23	(3.65)

NOTE L STOCKHOLDERS EQUITY

In May 2003, we awarded a total of 80,000 shares of restricted common stock to one of our officers. These shares cannot be transferred or pledged and are subject to forfeiture if the officer s employment with us terminates under certain circumstances before the restriction period for the award expires. Dividends are not paid or earned on these shares unless and until they are vested. The restrictions lapse on May 7, 2010, or upon the death, disability, termination without cause, or resignation for good reason of the officer, or upon a change in control (as those terms are defined under the Employment Agreement of the officer), if earlier. These shares are not included in the calculation of earnings per share.

NOTE M INCOME TAXES

After excluding the effects of equity income from our interest in VAW-IMCO, which is reported on an after tax basis, we recorded an effective tax rate of 37% for the nine month period ended September 30, 2003, which was slightly lower than the tax rate in the comparable period in 2002. Our tax provision for the nine month period ended September 30, 2003 includes the foreign tax provision for VAW-IMCO s operations effective from March 1, 2003 at the effective German tax rates. See NOTE J VAW-IMCO.

The provision (benefit) for income taxes, excluding taxes on minority interests, was as follows:

	For the three months ended September 30, 2003	For the three months ended September 30, 2002	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
Current:				
Federal	$ (3,004)	$ 3,450	$ (3,111)	$ 4,271
State	(134)	194	(55)	263
Foreign	762	(27)	2,952	101
	(2,376)	3,617	(214)	4,635
Deferred:				
Federal	2,034	(2,347)	2,392	(1,383)
State	207	(1,113)	145	(220)
Foreign	(184)	1,286	(149)	394
	2,057	(2,174)	2,388	(1,209)
Provision (benefit) for income taxes	$ (319)	$ 1,443	$ 2,174	$ 3,426

The income tax expense, computed by applying the federal statutory rate to earnings before income taxes, differed from the provision (benefit) for income taxes as follows:

	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
Income taxes (benefit) at the federal statutory rate	$ (1,102)	$ 2,962
Foreign taxes at the statutory rate	3,315	(16)
Goodwill amortization, nondeductible		
State income taxes, net	132	212
Foreign income not currently taxable	(298)	(420)
Other, net	127	688
Provisions (benefit) for income taxes	$ 2,174	$ 3,426

NOTE N GUARANTORS FINANCIAL STATEMENTS

Presented below, for purposes of complying with the reporting requirements of the guarantor subsidiaries, are condensed consolidating financial statements of IMCO Recycling Inc., the issuer of the 10-3/8% senior secured notes due 2010, its guarantor subsidiaries and its non-guarantor subsidiaries. Condensed consolidating balance sheets are presented as of September 30, 2003. Condensed consolidating statements of operations are presented for the three and nine month periods ended September 30, 2003 and September 30, 2002. Condensed consolidating statements of cash flows are presented for the nine month periods ended September 30, 2003 and September 30, 2002.

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR CONSOLIDATED BALANCE SHEETS

	September 30, 2003				
	IMCO Recycling Inc.	**Combined Guarantor Subsidiaries(1)**	**Combined Non-guarantor Subsidiaries**	**Eliminations**	**Consolidated**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 379	$ 37	$ 30,975	$	$ 31,391
Accounts receivable, net	1,384	24,644	38,246		64,274
Inventories	2,688	44,503	18,942		66,133
Deferred income taxes	1,743	959	1,107		3,809
Other current assets	2,080	4,988	1,841		8,909
Total Current Assets	8,274	75,131	91,111		174,516
Property and equipment, net	37,945	112,171	65,067	(1,902)	213,281
Goodwill	3,660	46,848	17,156		67,664
Investments in joint ventures		1,039			1,039
Other assets, net	1,878	2,442	2,350		6,670
Investments in subsidiaries/ intercompany receivable (payable), net	237,277	(25,434)	(10,920)	(200,923)	
	$ 289,034	$ 212,197	$ 164,764	$ (202,825)	$ 463,170
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Accounts payable	$ 10,436	$ 50,599	$ 19,712	$	$ 80,747
Accrued liabilities	1,858	5,614	15,266		22,738
Current maturities of long-term debt		21	4		25
Total Current Liabilities	12,294	56,234	34,982		103,510
Long-term debt	132,703	17	59,585		192,305
Deferred income taxes	6,420	6,690	5,431		18,541
Other long-term liabilities	5,814	3,820	17,388	1	27,023
Total Stockholders Equity	131,803	145,436	47,378	(202,826)	121,791
	$ 289,034	$ 212,197	$ 164,764	$ (202,825)	$ 463,170

(1) Includes accounts receivables of our subsidiary, IMCO Funding Corporation, which is not a guarantor of the new secured notes. Effective upon termination of the receivables sales facility on October 6, 2003 (see NOTE B RECEIVABLES SALE) these receivables were purchased by the guarantors.

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2003				
	IMCO Recycling Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ 20,935	$ 131,776	$ 73,394	$ (6,553)	$ 219,552
Cost of sales	19,257	125,797	67,813	(6,553)	206,314
Gross profits	1,678	5,979	5,581		13,238
Selling, general and administrative expense	434	6,394	2,788		9,616
Interest expense	2,267	425	971	(197)	3,466
Fees on receivables sale		240			240
Interest and other income	1,886	(1,900)	393	26	405
Equity in net earnings of affiliates	(1,934)	64		1,934	64
Earnings (loss) before provision (benefit) for income taxes and minority interest	(975)	756	1,429	(1,763)	(553)
Provision (benefit) for income taxes	(633)	16	298		(319)
Earnings (loss) before minority interests	(342)	740	1,131	(1,763)	(234)
Minority interests, net of provision for income taxes			108		108
Net earnings (loss)	$ (342)	$ 740	$ 1,023	$ (1,763)	$ (342)

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2002				
	IMCO Recycling Inc.	**Combined Guarantor Subsidiaries**	**Combined Non-guarantor Subsidiaries**	**Eliminations**	**Consolidation**
Revenues	$ 25,846	$ 149,479	$ 14,353	$ (8,812)	$ 180,866
Cost of sales	21,958	140,954	13,391	(8,812)	167,491
Gross profits	3,888	8,525	962		13,375
Selling, general and administrative expense	487	5,751	188		6,426
Interest expense	2,010	387	631	(291)	2,737
Fees on receivables sale		460			460
Interest and other income	2,629	(2,897)	76	291	99
Equity in net earnings of affiliates	(5,077)	(105)	(355)	5,077	(460)
Earnings (loss) before provision (benefit) for income taxes and minority interest	3,839	4,929	422	(5,077)	4,113
Provision (benefit) for income taxes	1,346		97		1,443
Earnings (loss) before minority interests	2,493	4,929	325	(5,077)	2,670
Minority interests, net of provision for income taxes			177		177
Net earnings (loss)	$ 2,493	$ 4,929	$ 148	$ (5,077)	$ 2,493

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR STATEMENTS OF OPERATIONS

	Nine Months Ended September 30, 2003				
	IMCO Recycling Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ 70,380	$ 408,715	$ 195,525	$ (20,533)	$ 654,087
Cost of sales	64,100	391,001	176,535	(20,533)	611,103
Gross profits	6,280	17,714	18,990		42,984
Selling, general and administrative expense	1,356	19,508	6,209		27,073
Interest expense	6,193	1,028	2,807	(509)	9,519
Fees on receivables sale		821			821
Interest and other income	5,992	(6,416)	513	338	427
Equity in net earnings of affiliates	(9,867)	(113)	(734)	9,867	(847)
Earnings (loss) before provision (benefit) for income taxes and minority interest	2,606	2,886	10,195	(9,696)	5,991
Provision (benefit) for income taxes	(838)	16	2,996		2,174
Earnings (loss) before minority interests	3,444	2,870	7,199	(9,696)	3,817
Minority interests, net of provision for income taxes			373		373
Net earnings (loss)	$ 3,444	$ 2,870	$ 6,826	$ (9,696)	$ 3,444

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR STATEMENTS OF OPERATIONS

	Nine Months Ended September 30, 2002				
	IMCO Recycling Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ 72,591	$ 434,073	$ 33,709	$ (21,097)	$ 519,276
Cost of sales	64,437	409,101	30,899	(21,097)	483,340
Gross profits	8,154	24,972	2,810		35,936
Selling, general and administrative expense	2,025	16,523	637		19,185
Interest expense	6,284	1,092	804	(688)	7,492
Fees on receivables sale		1,312			1,312
Interest and other income	8,077	(8,904)	(55)	688	(194)
Equity in net earnings of affiliates	49,047	(176)	(927)	(49,047)	(1,103)
Earnings (loss) before provision (benefit) for income taxes and minority interest	(57,279)	15,125	2,351	49,047	9,244
Provision (benefit) for income taxes	3,174		252		3,426
Earnings (loss) before minority interests	(60,453)	15,125	2,099	49,047	5,818
Minority interests, net of provision for income taxes			409		409
Earnings (loss) before accounting change	(60,453)	15,125	1,690	49,047	5,409
Cumulative effect of accounting change (net of tax) for goodwill impairment	7,132	(64,942)	(920)		(58,730)
Net earnings (loss)	$ (53,321)	$ (49,817)	$ 770	$ 49,047	$ (53,321)

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2003				
	IMCO Recycling Inc.	**Combined Guarantor Subsidiaries**	**Combined Non-guarantor Subsidiaries**	**Elimin-ations**	**Consol-idated**
Operating Activities:					
Earnings before accounting change	$ 3,444	$ 2,870	$ 6,826	$ (9,696)	$ 3,444
Depreciation	4,307	11,741	3,952		20,000
Provision (benefit) for deferred income tax	2,643	(95)	596		3,144
Equity in earnings of affiliates	(9,696)	(113)	(734)	9,696	(847)
Net transfers with subsidiaries	20,107	(2,288)	(1)	(17,818)	
Other non-cash items	2,087	2,471	1,242		5,800
Changes in operating assets & liabilities:					
Accounts receivable	7,282	(3,384)	7,425		11,323
Accounts receivable sold	(15,000)				(15,000)
Inventories	(80)	(7,841)	5,160		(2,761)
Other current assets	280	3,234	580		4,094
Accounts payable & accrued liabilities	(36,118)	(3,125)	(7,428)	17,818	(28,853)
Net cash from (used by) operating activities	**(20,744)**	**3,470**	**17,618**		**344**
Investing Activities:					
Payments for property & equipment	(953)	(5,938)	(6,686)		(13,577)
Redemption of shares by VAW-IMCO		1	15,669		15,670
Other	(3,472)	1,006	3,294		828
Net cash from (used by) investing activities	**(4,425)**	**(4,931)**	**12,277**		**2,921**
Financing Activities:					
Net (payments of) proceeds from long-term revolving credit facility	24,300				24,300
Net (payments of) proceeds of long-term debt		(155)	(1,634)		(1,789)
New debt issuance costs	(1,386)				(1,386)
Other	216	1,470	(2,100)		(414)
Net cash from (used by) financing activities	**23,130**	**1,315**	**(3,734)**		**20,711**
Effect of exchange rate changes on cash			540		540
Net increase in cash and cash equivalents	(2,039)	(146)	26,701		24,516
Cash and cash equivalents at beginning of period	2,418	183	4,274		6,875
Cash and cash equivalents at end of period	**$ 379**	**$ 37**	**$ 30,975**	**$**	**$ 31,391**

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2002				
	IMCO Recycling Inc.	**Combined Guarantor Subsidiaries**	**Combined Non-guarantor Subsidiaries**	**Elimin-ations**	**Consol-idated**
Operating Activities:					
Earnings before accounting change	$ 5,409	$ 15,125	$ 1,690	$ (16,815)	$ 5,409
Depreciation	4,398	11,740	1,603		17,741
Provision (benefit) for deferred income tax	559	(2,410)			(1,851)
Equity in earnings of affiliates	(16,815)	(176)	(927)	16,815	(1,103)
Net transfers with subsidiaries	5,148		6	(5,154)	
Other non-cash items	1,966	532	571		3,069
Changes in operating assets & liabilities:					
Accounts receivable	(7,297)	(7,904)	706		(14,495)
Accounts receivable sold	1,600				1,600
Inventories	1,267	(3,355)	1,151		(937)
Other current assets	(36)	(989)	(428)		(1,453)
Accounts payable & accrued liabilities	28,658	(5,343)	(6,607)	5,154	21,862
Net cash from (used by) operating activities	**24,857**	**7,220**	**(2,235)**		**29,842**
Investing Activities:					
Payments for property & equipment	(1,694)	(3,798)	(3,740)		