

IMCO RECYCLING INC
Form 10-Q/A
October 21, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2004

.. 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)

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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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on July 30, 2004.

Common Stock, \$0.10 par value, 15,545,308

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**EXPLANATORY NOTE TO FORM 10-Q/A AMENDMENT TO FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2004**

This Form 10-Q/A (Amendment No. 1) is being filed by IMCO Recycling Inc. with the Securities and Exchange Commission solely for the purpose of reflecting revised and additional disclosures in response to comments received from the staff of the Division of Corporation Finance with the SEC, as well as for the purposes of enhancing our disclosures following discussions with the staff. These amendments principally revise and supplement certain portions of Item 1. Financial Statements, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 3. Quantitative and Qualitative Disclosures About Market Risk of Part I of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 filed with the SEC on August 9, 2004.

This Amendment No. 1 provides revised and additional disclosures under the following captions as follows:

The amendments restate the Consolidated Balance Sheet at June 30, 2004 and December 31, 2003 and the notes related thereto as contained under Item 1. Financial Statements

To reverse a gain recognized in the fourth quarter of fiscal 2003 related to the redemption of the Company's former joint venture partner's share interest in VAW-IMCO Guss und Recycling GmbH (VAW-IMCO), IMCO's German subsidiary. As a result, the consolidated balance sheets have been restated to reflect a reduction in goodwill; and

To reduce accounts receivable by \$566,000, for legal fees which should have been expensed in the third quarter of 2003.

The amendments revise the Consolidated Balance Sheets and disclosures under Note D Long-Term Debt of Notes to Consolidated Financial Statements (Unaudited) under Item 1. Financial Statements to reclassify borrowings under our senior revolving credit facility as a current liability, revise the Consolidated Balance Sheet to reclassify restricted cash from current assets to long-term assets at June 30, 2004 and reclassify deferred tax assets from current assets to reduce long-term deferred tax liabilities at June 30, 2004.

The amendments also revise the Consolidated Statements of Cash Flows and Note M Condensed Consolidating Financial Statements under Item 1. Financial Statements and the applicable disclosures under Liquidity and Capital Resources under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, in order to reflect the decrease in restricted cash as a financing cash flow instead of an investing cash flow.

The amendments revise Note D Long-Term Debt and Note M Condensed Consolidating Financial Statements to clarify the nature of the guarantees by the company's subsidiaries guaranteeing the debt, reconcile the equity accounts of the Company in the Guarantor Condensed Consolidating Balance Sheets and reflect other changes to the Guarantor Condensed Consolidating Balance Sheets and Consolidating Statements of Cash Flows in the condensed consolidating financial statements shown in Note M.

The amendments further revise Note D Long-Term Debt to show the calculation of the specific undrawn availability tests.

The amendments revise Note L Income Taxes to revise the statutory tax rate reconciliation provided, and Note F Commitments and Contingencies to disclose our inability to make an estimate of any reasonably possible losses resulting from those contingencies listed.

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The amendments revise Credit Facilities under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations to add disclosures regarding certain of the covenants contained in the company's senior revolving credit facility.

The amendments revise the first paragraph under Item 3. Quantitative and Qualitative Disclosures About Market Risk to add language regarding our limitations on fully benefiting from future price changes in prices for natural gas and metals due to its use of hedging instruments.

The amendments revise the presentation under Contractual Obligations under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations to clarify the treatment of interest payments in the table.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), new certifications by our principal executive officer and principal financial officer are being filed as exhibits to this Form 10-Q/A under Item 6 of Part II.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Exchange Act, each item of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 that was affected by this Amendment No. 1 has been amended and restated in its entirety.

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No attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the original Form 10-Q, except as required to reflect such amendments. This Amendment No. 1 continues to speak as of the date of filing the original Form 10-Q, and we have not updated the disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the original Form 10-Q (including disclosures relating to risks, uncertainties and other factors that may affect our future performance). You should read this Amendment No. 1 together with other documents that we have filed with the Securities and Exchange Commission subsequent to the filing of our original Form 10-Q in August 2004. Information contained in such reports and documents updates and supersedes certain information contained in this Form 10-Q/A.

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INTRODUCTORY NOTE

On July 21, 2004, IMCO Recycling Inc. (IMCO) filed a Registration Statement on Form S-4 with the Securities and Exchange Commission (SEC) containing a preliminary joint proxy statement/prospectus regarding a proposed merger between IMCO and Commonwealth Industries, Inc. (Commonwealth). Information concerning IMCO and the proposed merger with Commonwealth is contained in the Registration Statement, which, along with other filings containing information about IMCO, can be found at the SEC's Internet site (<http://www.sec.gov>). The information contained in the Registration Statement on Form S-4 as filed on July 21, 2004 is subject to amendment. See NOTE B - IMCO RECYCLING INC. AND COMMONWEALTH INDUSTRIES, INC. PROPOSED MERGER of the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

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	June 30, 2004	December 31, 2003
	Restated (unaudited)	Restated
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,934	\$ 14,760
Accounts receivable (net of allowance of \$1,540 and \$1,228 at June 30, 2004 and December 31, 2003, respectively)	131,972	111,562
Inventories	82,514	78,270
Deferred income taxes	1,916	11,444
Other current assets	12,434	12,382
	<hr/>	<hr/>
Total Current Assets	242,770	228,418
Property and equipment, net	212,829	219,668
Goodwill	63,807	63,617
Restricted cash	18,917	24,846
Investments in joint ventures	831	976
Other assets, net	14,225	13,209
	<hr/>	<hr/>
Total Assets	\$ 553,379	\$ 550,734
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 88,870	\$ 96,207
Accrued liabilities	37,384	30,955
Current maturities of long-term debt	43,316	33,017
	<hr/>	<hr/>
Total Current Liabilities	169,570	160,179
Long-term debt	223,230	223,176
Deferred income taxes	9,241	20,390
Other long-term liabilities	25,705	25,244
STOCKHOLDERS' EQUITY		
Preferred stock; par value \$0.10: 8,000,000 shares authorized; none issued		
Common stock; par value \$0.10: 40,000,000 shares authorized; 17,159,026 issued at June 30, 2004; 17,155,211 issued at December 31, 2003	1,716	1,716
Additional paid-in capital	103,607	103,264

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Deferred stock compensation	(3,154)	(4,153)
Retained earnings	48,405	45,406
Accumulated other comprehensive loss	(6,892)	(4,825)
Treasury stock, at cost; 1,692,076 shares at June 30, 2004; 1,843,403 shares at December 31, 2003	(18,049)	(19,663)
	<u> </u>	<u> </u>
Total Stockholders' Equity	125,633	121,745
	<u> </u>	<u> </u>
	\$ 553,379	\$ 550,734
	<u> </u>	<u> </u>

See Notes to Consolidated Financial Statements.

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IMCO RECYCLING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Revenues	\$ 292,439	\$ 239,452	\$ 570,947	\$ 434,535
Cost of sales	270,023	221,613	525,384	404,789
Gross profit	22,416	17,839	45,563	29,746
Selling, general and administrative expense	14,717	9,452	26,648	17,457
Fees on receivables sale		291		581
Interest expense	6,861	3,704	13,305	6,053
Other (income) expense, net	41	(45)	184	22
Equity in net loss (earnings) of affiliates	62	14	45	(911)
Earnings before provision for income taxes and minority interests	735	4,423	5,381	6,544
Provision for income taxes	387	1,847	2,295	2,493
Earnings before minority interests	348	2,576	3,086	4,051
Minority interests, net of provision for income taxes	60	113	87	265
Net earnings	\$ 288	\$ 2,463	\$ 2,999	\$ 3,786
Net earnings per common share:				
Basic	\$ 0.02	\$ 0.17	\$ 0.20	\$ 0.26
Diluted	0.02	0.17	0.20	0.26
Weighted average shares outstanding:				
Basic	14,814	14,457	14,658	14,480
Diluted	15,313	14,519	15,097	14,533

See Notes to Consolidated Financial Statements.

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IMCO RECYCLING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(in thousands)

	For the six months ended June 30,	
	2004	2003
OPERATING ACTIVITIES		
Net earnings	\$ 2,999	\$ 3,786
Depreciation and amortization	14,197	13,291
Provision for (benefit from) deferred income taxes	(2,134)	331
Equity in loss (earnings) of affiliates	45	(911)
Non-cash retirement charge	1,576	
Other non-cash charges	3,459	2,869
Changes in operating assets and liabilities:		
Accounts receivable	(22,127)	(1,460)
Accounts receivable sold		(5,000)
Inventories	(5,011)	(3,737)
Other current assets	(131)	2,309
Accounts payable and accrued liabilities	4,565	(5,227)
Net cash from (used by) operating activities	(2,562)	6,251
INVESTING ACTIVITIES		
Payments for property and equipment	(12,563)	(7,723)
Net cash acquired in acquisition of remaining 50% of VAW-IMCO		15,669
Acquisition costs	(1,889)	
Other	30	486
Net cash from (used by) investing activities	(14,422)	8,432
FINANCING ACTIVITIES		
Net proceeds from long-term revolving credit facility	10,295	4,000
Net payments of long-term debt		(694)
Decrease in restricted cash	5,929	
Debt issuance costs	(510)	(757)
Other	622	(371)
Net cash from financing activities	16,336	2,178
Effect of exchange rate differences on cash and cash equivalents	(178)	595
Net increase (decrease) in cash and cash equivalents	(826)	17,456
Cash and cash equivalents at January 1	14,760	6,875
Cash and cash equivalents at June 30	\$ 13,934	\$ 24,331

SUPPLEMENTARY INFORMATION

Cash payments for interest	\$ 12,728	\$ 4,388
Cash payments for income taxes, net of refunds received	\$ 2,146	\$ 1,508

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IMCO RECYCLING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2004

(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 and six month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The accompanying financial statements include the accounts of IMCO Recycling Inc. and all of its subsidiaries (collectively, except where the context otherwise requires, referred to as IMCO, the Company, we, us, our or similar terms). All significant intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes, as amended, thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2003. Certain reclassifications have been made to prior period statements to conform to the current period presentation.

NOTE B IMCO RECYCLING INC. AND COMMONWEALTH INDUSTRIES INC. PROPOSED MERGER

On June 16, 2004, we announced the execution of a definitive merger agreement for a business combination of IMCO with Commonwealth Industries, Inc. Under the merger, we will acquire each outstanding share of Commonwealth common stock in exchange for 0.815 shares of IMCO common stock. The merger is expected to give IMCO and Commonwealth approximately equal representation on the combined company's board of directors, and IMCO's stockholders are expected to own approximately 54% of the combined company immediately following the merger. The transaction is expected to close in the fourth quarter of 2004, and its completion is subject to regulatory approval, successful completion of the refinancing of certain indebtedness of the two companies, and stockholder approval by both companies, as well as other customary closing conditions. We have capitalized \$1,889,000 in acquisition costs related to this transaction as of June 30, 2004. More information on the proposed merger transaction is available in IMCO's Current Report on Form 8-K filed with the SEC on June 18, 2004.

Commonwealth is one of North America's leading manufacturers of aluminum sheet for distributors, transportation, construction and consumer durables end-use markets. Commonwealth has direct-chill casting facilities in Kentucky and continuous casting mini-mills in Ohio and California. The combination is expected to create a new vertically integrated company that can be a strong competitor in the global aluminum recycling and production industries, having benefits from procurement savings and cost synergies, an enhanced competitive position, increased scope and scale, greater technological capabilities, and improved access to capital.

NOTE C INVENTORIES

The components of inventories are:

	June 30, 2004	December 31, 2003
Finished goods	\$ 38,215	\$ 36,329
Raw materials	37,623	33,428
Work in process	3,981	4,613
Supplies	2,695	3,900
	\$ 82,514	\$ 78,270

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Our long-term debt is summarized as follows:

	June 30,	December 31,
	2004	2003
	Restated	Restated
Senior Credit Facility, expiring in October 2007	\$ 43,286	\$ 32,991
10 ³ / ₈ % Senior Secured Notes, due October 6, 2010 (net of discount)	208,802	208,751
7.65% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1996 Series, Due May 1, 2016 (net of discount)	5,706	5,705
7.45% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1997 Series, Due May 1, 2022	4,600	4,600
6.00% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1998 Series, Due May 1, 2023	4,100	4,100
Other	52	46
Subtotal	266,546	256,193
Less current maturities	43,316	33,017
Total	\$ 223,230	\$ 223,176

Senior Secured Notes

In October 2003, we issued \$210,000,000 principal amount of senior secured notes as part of a refinancing of our debt facilities. The issue was priced at 99.383% to yield 10.50% and provided \$208,704,000 of gross proceeds, after offering discount. Interest is payable semi-annually, on April 15 and October 15 of each year, commencing on April 15, 2004. In addition, in October 2003 we established a new four-year \$120,000,000 senior secured revolving credit facility (senior credit facility). Our former senior credit facility and former receivables sale facility, which were both scheduled to expire by their terms in the fourth quarter of 2003, were replaced by the senior secured notes and the new senior credit facility.

The senior 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 senior 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 senior secured notes, together with accrued and unpaid interest, if any, to the date of the redemption.

The senior secured notes are jointly and severally, unconditionally guaranteed on a senior basis by all of our existing 100% owned domestic subsidiaries that are co-borrowers under the senior credit facility and by any future domestic restricted subsidiaries. The senior secured notes are not guaranteed by any of our current foreign subsidiaries. See NOTE M CONDENSED CONSOLIDATING FINANCIAL STATEMENTS. The senior 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 and on the fixtures and equipment relating to substantially all of our leased domestic operating plants. The liens securing the senior secured notes do not extend to any of our inventory, accounts receivable and related property (which secure the 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 senior secured notes), we are required to offer to purchase the senior secured notes at a price equal to 101% of the principal amount of the outstanding senior secured notes plus accrued interest. The proposed merger of IMCO and Commonwealth is not expected to cause a change of control of IMCO under the indenture.

The indenture governing the senior secured notes, among other things, contains covenants limiting our ability and the ability of our restricted subsidiaries to incur additional debt; grant liens; make restricted payments, including 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. The proposed merger of IMCO and Commonwealth is not expected to violate any covenants under the indenture.

Senior Credit Facility

As of June 30, 2004, we had \$43,286,000 of indebtedness outstanding under our senior credit facility. Under this facility, we are subject to a borrowing base limitation based on eligible domestic inventory and receivables. As of June 30, 2004, we estimated that our borrowing base would have supported additional borrowings of \$38,801,000 after giving effect to outstanding borrowings of \$43,286,000 and outstanding letters of credit of \$6,805,000. As of June 30, 2004, our total borrowing base was estimated to be approximately \$88,892,000.

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The terms of our senior credit facility include, among other covenants, (i) prohibitions against incurring certain indebtedness and granting liens, (ii) limitations on dividends and repurchases of shares of capital stock, and (iii) limitations on capital expenditures, investments and acquisitions. The indebtedness under the senior secured credit facility is secured by the Company's and its co-borrowers' inventories, receivables, general intangibles and the proceeds thereof. We are subject to the terms of a lockbox arrangement with the administrative agent bank under the senior credit facility, whereby funds deposited from collections of receivables are applied by the lenders to reduce outstanding balances of the borrowings under the senior credit facility. If at any time during specified periods, 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 of June 30, 2004, our undrawn availability was less than \$50,000,000, requiring us to be in compliance with these two financial covenants. In addition, under our senior credit facility, we are currently unable to pay cash dividends to our stockholders. As of June 30, 2004, we were in compliance with all applicable debt covenants.

The terms of our senior credit facility also include covenants prohibiting certain mergers and acquisitions (including the completion of the proposed merger of IMCO and Commonwealth) without the consent of the lenders under the facility. However, the indebtedness under the senior credit facility is expected to be refinanced and replaced by a new facility or facilities at or before the completion of the proposed merger. Completion of this merger is conditioned upon, among other things, the refinancing of certain outstanding indebtedness of the two companies. See NOTE B IMCO RECYCLING INC. AND COMMONWEALTH INDUSTRIES, INC. PROPOSED MERGER.

On May 26, 2004, IMCO and its co-borrower subsidiaries under our senior credit facility entered into a First Amendment to Revolving Credit and Security Agreement with the lenders parties thereto. This amendment revised the definitions of EBITDA and Fixed Charge Ratio contained in the senior credit facility. The changes were made to enable IMCO to make withdrawals from a cash collateral account established under the terms of our senior secured notes indenture without having the amounts withdrawn being deemed capital expenditures for purposes of complying with the fixed charge coverage ratio covenant. In addition, the covenant restricting annual capital expenditures was amended to permit capital expenditures in fiscal 2004 of up to \$25 million for IMCO and its co-borrowers, and then up to \$20 million for IMCO and its co-borrowers for fiscal 2005 and each fiscal year thereafter during the term of the facility.

On July 16, 2004, IMCO and its co-borrower subsidiaries entered into a Second Amendment to Revolving Credit and Security Agreement. This amendment modified a section of the senior credit facility that had provided that any change in the condition or affairs of IMCO or its co-borrowers which, in the lenders' agent's reasonable opinion, has a material adverse effect (as defined in the senior credit facility), would be deemed an event of default under the senior credit facility. The Second Amendment to Revolving Credit and Security Agreement revised this provision so that it now provides that such an event of default would not be applicable and that the agent and the lenders would have no rights under the provision, so long as IMCO was in compliance with certain undrawn availability tests under the senior credit facility. If the level of undrawn availability falls below \$3,000,000 for three consecutive business days or below an average of \$10,000,000 per day for any calendar month, then the lenders' rights under this provision would be reinstated.

The amounts outstanding under the new senior secured credit facility are classified as a current liability because the terms of the facility contain contractual provisions that require the cash receipts of the Company be used to repay amounts outstanding under the revolving credit facility.

VAW-IMCO credit facilities

Our German subsidiary, VAW-IMCO Guss und Recycling GmbH (VAW-IMCO), has two lines of credit available for its working capital needs. The total amount of credit available under these facilities is 15,000,000 Euros (\$18,294,000 U.S. Dollars). During the second quarter of 2004, the terms of these credit facilities were renewed and extended, and these facilities now are scheduled to expire in April and May of 2006. As of June 30, 2004, no amounts were outstanding under these lines of credit.

Other

In February 2004, VAW-IMCO paid IMCO approximately 20,000,000 Euros (U.S. \$24,846,000, including interest), repaying in full its indebtedness owed to IMCO under an intercompany note that IMCO had pledged in October 2003 as part of the collateral security for the senior secured notes. The prepayment of this intercompany note, which was denominated in U.S. Dollars, resulted in a recognized gain of \$278,000 for the first quarter of 2004. The funds were deposited in a collateral account held by the trustee under the indenture governing the senior secured notes, which permits us for a one-year period to use these funds for acquisitions and construction of assets and properties to be used in our domestic business, which will be added to and form a part of the collateral security for the senior secured notes. For the six months ended June 30, 2004, we have withdrawn \$5,929,000 for capital expenditures relating to manufacturing equipment, pollution control equipment and buildings. These assets now form part of the collateral security for the senior secured notes.

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
(dollars in thousands, except per-share amounts)				
Numerators for basic and diluted earnings per share:	\$ 288	\$ 2,463	\$ 2,999	\$ 3,786
Denominator:				
Denominator for basic earnings per share-weighted-average shares	14,814,096	14,457,108	14,657,534	14,479,607
Dilutive potential common shares- stock options	499,004	61,681	438,986	53,548
Denominator for diluted earnings per share	15,313,100	14,518,789	15,096,520	14,533,155
Net earnings per share:				
Basic	\$ 0.02	\$ 0.17	\$ 0.20	\$ 0.26
Diluted	\$ 0.02	\$ 0.17	\$ 0.20	\$ 0.26

As of June 30, 2004, we had a total of 330,000 shares of restricted stock outstanding. All outstanding shares of restricted stock are unvested and therefore are excluded from our basic earnings per share calculation. We also had stock options outstanding to purchase up to 386,572 shares that were considered anti-dilutive.

NOTE F COMMITMENTS AND CONTINGENCIES**General**

Our operations, like those of other basic industries, are subject to federal, state, local and foreign laws, regulations and ordinances. These laws and regulations (i) 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 (ii) 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 here.

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

Environmental proceedings

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 had sent zinc oxide for processing and resale. The site has not been fully investigated and final estimated cleanup costs have not yet been determined. Because of the nature of this matter, we cannot make an estimate of reasonable possible losses. We have been informed by the 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. Once we receive this information, we may seek, possibly in connection with other PRPs, an agreed resolution of the IEPA's claims.

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 arose 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 claimed injunctive relief and penalties for alleged non-compliance with and violations of federal and state environmental laws. The suit sought compliance by us, as well as potentially substantial monetary penalties. On January 14, 2004, the parties settled the lawsuit by entering a Consent Judgment with the State Circuit Court. The Consent Judgment requires that we (i) operate our Coldwater aluminum facilities in compliance with a permit compliance program, (ii) adhere to certain recordkeeping, notification and testing guidelines, (iii) install a baghouse and associated equipment at our Alchem facility in Coldwater; and (iv) pay a civil fine in the amount of \$300,000 to the State of Michigan. We have paid the civil fine and are currently in compliance with the Consent Judgment.

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.

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The NOV addressed the same instances of alleged non-compliance raised in the State of Michigan lawsuit, alleging that we had purportedly failed to obtain appropriate preconstruction air quality permits prior to conducting modifications to the Coldwater facilities and exceeded permitted emission levels. All issues raised in the NOV have been resolved through the State of Michigan lawsuit and Consent Judgment.

On March 17, 2004, we were named as a co-defendant in a lawsuit filed in the U.S. District Court for the Central District of California. The listed claimants are the current owners of a Corona, California property formerly owned by one of our subsidiaries. The petition seeks declaratory relief and damages in an unspecified amount in connection with an alleged release of hazardous substances on the property. Because of the nature of this matter, we cannot make an estimate of reasonable possible losses. We believe that we have meritorious defenses to the claims contained in the petition. We plan a vigorous defense against these claims and are seeking indemnification from certain of the other co-defendants.

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 and financial condition in future periods.

Other legal proceedings

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 an amended judgment in our favor in March 2004. We have reached a settlement, and in July 2004 we recovered \$568,000 in attorneys fees that had previously been expensed. We have withdrawn the motion. Based on the favorable amended judgment, we 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 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 G OTHER COMPREHENSIVE EARNINGS (LOSS)

The following table presents the components of other comprehensive earnings (loss). These items change equity during the reporting period, but are not included in earnings.

<u>Total</u>	Unrealized Gain (Loss) on Derivative Financial Instruments	Foreign Currency Translation, Unrealized Gain (Loss)
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Balance at December 31, 2003	\$ (4,825)	\$ 1,939	\$ (6,764)
Current period net change	(1,770)		(1,770)
Change in fair value of derivative financial instruments	2,115	2,115	
Reclassification of (gains) on derivative financial instruments into earnings	(2,593)	(2,593)	
Income tax effect	181	181	
Balance at June 30, 2004	\$ (6,892)	\$ 1,642	\$ (8,534)

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 stockholders' equity, other than for current intercompany accounts, as a component of other comprehensive earnings (loss). Foreign currency translation adjustments, unrealized gains or losses, accumulate in equity until the final disposition of their respective operations.

See NOTE O MARKET RISK MANAGEMENT USING FINANCIAL INSTRUMENTS for further information in regards to our deferred hedging activities.

Table of Contents**NOTE H SEGMENT REPORTING****Description of the Types of Products and Services from which Each Reportable Segment Derives its Revenues:**

With the consolidation of VAW-IMCO in 2003, we now have the following product lines: Aluminum Recycling, Specialty Alloy, Zinc and International Aluminum.

The Aluminum Recycling and Specialty Alloy product lines have been aggregated for reporting purposes into one business segment for financial reporting purposes Domestic Aluminum and represents all of our aluminum melting, processing, alloying, trading and salt cake recycling activities within the United States. We have aggregated these businesses because the products produced are identical, (except for minor differences in chemical composition), are delivered in the same manner (either molten or in bars), the raw materials used are very similar, the production processes and equipment used are identical, and they report to the same member of executive management. Our international aluminum segment represents all of our aluminum melting, processing, alloying and trading activities outside the United States. Our zinc segment represents all of our zinc melting, processing and trading activities.

Measurement of Segment Profit or Loss and Segment Assets:

The accounting policies of the reportable segments are the same as those described in NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES of our Form 10-K for the year ended December 31, 2003. We evaluate performance based on gross profit or loss from operations, net of selling expenses, which we title Segment Income. Provision for income taxes, interest expense, certain amounts of other (income) expense, net, corporate general and administrative costs, including depreciation of corporate assets and amortization of capitalized debt costs, are not allocated to the reportable segments. Intersegment sales and transfers are recorded at market value; net profits on intersegment sales and transfers were immaterial for the periods presented. Consolidated cash, net unamortized debt costs, net current deferred tax assets and assets located at our headquarters office in Irving, Texas are not allocated to the reportable segments.

Factors Management Used to Identify Our Reportable Segments:

Our reportable segments are business units that offer different types of metal products and services in different geographic locations. The reportable segments are each managed separately, because they produce distinct products and services and sell to different types of customers. The following table shows our segment assets for the indicated periods:

	June 30,	December 31,
	2004	2003
	Restated	Restated
Assets:		
Domestic Aluminum	\$ 265,684	\$ 232,209

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International Aluminum	159,553	175,345
Zinc	105,122	109,815
Other unallocated assets	23,020	33,365
	<u> </u>	<u> </u>
Total assets	\$ 553,379	\$ 550,734
	<u> </u>	<u> </u>

The following table shows our revenues and income for the three and six month periods ended June 30, 2004 and June 30, 2003, respectively.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2004	2003	2004	2003
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES:				
Domestic Aluminum	\$ 143,931	\$ 121,857	\$ 281,610	\$ 248,974
International Aluminum	92,594	80,558	183,267	113,822
Zinc	55,914	37,037	106,070	71,739
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	\$ 292,439	\$ 239,452	\$ 570,947	\$ 434,535
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
INCOME:				
Domestic Aluminum	\$ 9,267	\$ 5,363	\$ 15,887	\$ 11,176
International Aluminum	4,986	6,316	11,943	9,225
Zinc	2,884	1,404	6,777	2,510
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total segment income	\$ 17,137	\$ 13,083	\$ 34,607	\$ 22,911
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Unallocated amounts:				
General and administrative expenses	\$ (9,534)	\$ (4,709)	\$ (15,893)	\$ (9,701)
Interest expense	(6,861)	(3,704)	(13,305)	(6,053)
Fees on receivables sale		(291)		(581)
Interest and other income	(7)	44	(28)	(32)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Earnings before provision for income taxes and minority interests	\$ 735	\$ 4,423	\$ 5,381	\$ 6,544
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**NOTE I VAW-IMCO**

VAW-IMCO owns and operates two aluminum recycling foundry alloy facilities in Grevenbroich and Töging, Germany, that together have an annual melting capacity in excess of 700 million pounds. VAW-IMCO supplies specialty alloys to the European automobile industry and serves other European aluminum markets.

Through a wholly-owned subsidiary, we had previously owned a 50% share interest in VAW-IMCO, with Hydro Aluminium Deutschland GmbH (Hydro) owning the remaining 50% share interest. On March 14, 2003, we entered into an agreement with Hydro and VAW-IMCO, finalizing the terms and conditions whereby VAW-IMCO would redeem its shares owned by Hydro. As a result of this agreement, voting control of VAW-IMCO was effectively vested in a wholly-owned subsidiary of ours, and effective March 1, 2003, the accounts of VAW-IMCO were consolidated with those of ours and reflected within our consolidated financial statements. Prior to that date, the accounts of VAW-IMCO were reflected in our financial statements under the equity method of accounting. This effective acquisition of the remaining 50% interest in VAW-IMCO was an important step in the ongoing expansion of our international operations.

The following table represents our condensed unaudited pro forma statement of operations for the six months ended June 30, 2003. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been made at the beginning of the periods presented or the future results of the combined operations. The condensed unaudited pro forma statement of operations assumes that the consolidation of VAW-IMCO occurred on January 1, 2003.

	Six months ended June 30, 2003
Revenues	\$ 486,123
Gross profit	35,709
Net earnings	4,434
Net earnings per common share:	
Basic	\$ 0.31
Diluted	\$ 0.31
Weighted average shares outstanding:	
Basic	14,480
Diluted	14,533

NOTE J 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 (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. Our net earnings and earnings 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.

Our pro forma information below is presented as if we had applied the fair value recognition provision of SFAS 123 Accounting for Stock-Based Compensation.

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	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net earnings, as reported	\$ 288	\$ 2,463	\$ 2,999	\$ 3,786
Add: stock-based compensation expense included in reported net earnings, net of tax	1,118	88	1,284	179
Less: compensation cost determined under the fair value method, net of tax	(1,281)	(259)	(1,615)	(523)
Pro forma net earnings	\$ 125	\$ 2,292	\$ 2,668	\$ 3,442
Basic earnings per share:				
As reported	\$ 0.02	\$ 0.17	\$ 0.20	\$ 0.26
Pro forma	0.01	0.16		