IMCO RECYCLING INC
Form 10-Q
May 15, 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 Ended March 31, 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 April 30, 2003.

Common Stock, $0.10 par value, 15,297,712

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2003 (unaudited)	December 31, 2002
ASSETS		

Current Assets		
Cash and cash equivalents	$ 25,044	$ 6,875
Accounts receivable (net of allowance of $1,889 and $1,205 at March 31, 2003 and December 31, 2002, respectively)	74,342	24,501
Inventories	61,167	42,730
Deferred income taxes	3,390	3,355
Other current assets	14,167	13,210
Total Current Assets	178,110	90,671
Property and equipment, net	214,321	187,451
Goodwill	67,961	51,118
Investments in joint ventures	1,175	17,467
Other assets, net	6,209	4,703
	$ 467,776	$ 351,410
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 103,451	$ 77,682
Accrued liabilities	24,538	18,589
Notes payable	9,000	7,420
Current maturities of long-term debt	136,354	94,075
Total Current Liabilities	273,343	197,766
Long-term debt	34,408	14,550
Deferred income taxes	15,754	10,883
Other long-term liabilities	25,359	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; 17,144,618 issued at March 31, 2003; 17,142,404 issued at December 31, 2002	1,714	1,714
Additional paid-in capital	103,793	103,958
Deferred stock compensation	(2,806)	(3,099)
Retained earnings	47,541	46,218
Accumulated other comprehensive loss from foreign currency translation adjustments and deferred hedging gains/losses	(9,342)	(9,830)
Treasury stock, at cost; 2,039,827 shares at March 31, 2003; 2,049,941 shares at December 31, 2002	(21,988)	(22,097)
Total Stockholders Equity	118,912	116,864
	$ 467,776	$ 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 March 31,	
	2003	**2002**
Revenues	$ 195,083	$ 157,901
Cost of sales	183,176	149,312
Gross profits	11,907	8,589
Selling, general and administrative expense	8,005	5,667
Interest expense	2,349	2,251
Fees on receivables sale	290	419
Interest and other income	67	(102)
Equity in net earnings of affiliates	(925)	(272)
Earnings before provision for income taxes and minority interests	2,121	626
Provision for income taxes	646	194
Earnings before minority interests	1,475	432
Minority interests, net of provision for income taxes	152	50
Earnings before accounting change	1,323	382
Cumulative effect of accounting change (net of tax) for goodwill impairment		(58,730)
Net earnings (loss)	$ 1,323	$ (58,348)
Net earnings (loss) per common share:		
Basic before accounting change	$ 0.09	$ 0.03
Cumulative effect of accounting change	$	$ (4.01)
Basic earnings (loss) per share	$ 0.09	$ (3.98)
Diluted before accounting change	$ 0.09	$ 0.03
Cumulative effect of accounting change	$	$ (3.98)
Diluted earnings (loss) per share	$ 0.09	$ (3.95)
Weighted average shares outstanding:		
Basic	14,502	14,651
Diluted	14,548	14,762

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(in thousands)

	For the three months ended March 31, 2003	2002
OPERATING ACTIVITIES		
Earnings before accounting change	$ 1,323	$ 382
Depreciation and amortization	6,305	6,094
Provision for (benefit from) deferred income taxes	416	(130)
Equity in earnings of affiliates	(925)	(272)
Other non-cash charges	995	(75)
Changes in operating assets and liabilities:		
Accounts receivable	(10,973)	(6,485)
Accounts receivable sold	(4,400)	(2,200)
Inventories	1,081	1,451
Other current assets	613	(4,409)
Accounts payable and accrued liabilities	(3,200)	7,631
Net cash from (used by) operating activities	(8,765)	1,987
INVESTING ACTIVITIES		
Payments for property and equipment	(2,392)	(1,310)
Redemption of shares by VAW-IMCO, net of cash acquired	15,669	
Other	121	2,524
Net cash from investing activities	13,398	1,214
FINANCING ACTIVITIES		
Net (payments of) proceeds from long-term revolving credit facility	12,500	(3,300)
Net proceeds of long-term debt	1,181	
Other	(93)	78
Net cash from (used by) financing activities	13,588	(3,222)
Effect of exchange rate differences on cash and cash equivalents	(52)	47
Net increase in cash and cash equivalents	18,169	26
Cash and cash equivalents at January 1	6,875	3,301
Cash and cash equivalents at March 31	$ 25,044	$ 3,327
SUPPLEMENTARY INFORMATION		
Cash payments for interest	$ 1,540	$ 1,279
Cash payments for income taxes, net of refunds	$ 1,106	$ 48

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2002

(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 period ended March 31, 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 subsidiaries (collectively, except where the context otherwise requires, the Company). All significant intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s 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 SALE OF RECEIVABLES

The net proceeds under the Company s Receivables Sale Agreement were $56,900,000 and $61,300,000 at March 31, 2003 and December 31, 2002, respectively. During the first quarter of 2003, the Company incurred fees on the sale of its receivables in the amount of $290,000. During the same quarter of 2002, the Company incurred fees in the amount of $419,000.

Under the receivables sales facility, the Company and certain of its originating subsidiaries agreed to sell, from time to time, their interest in certain trade accounts receivable and other related assets to a wholly-owned subsidiary of the Company. In turn, this subsidiary sells 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 can be sold) is $75,000,000. This facility is scheduled to expire in November 2003. If the receivables sale facility is not renewed or if a replacement facility through another financial institution is not obtained by November 2003, the Company would be required to borrow additional funds. If the Company were to borrow funds for these purposes under its senior revolving credit facility, the costs of funds under this facility are not as favorable to the Company as those under the receivables sales facility.

NOTE C INVENTORIES

The components of inventories are:

	March 31, 2003	December 31, 2002
Finished goods	$ 23,839	$ 19,711
Raw materials	31,385	21,297
Supplies	5,943	1,722
	$ 61,167	$ 42,730

NOTE D INCOME TAXES

After excluding the effects of equity income from the Company s interest in the VAW-IMCO joint venture, which is reported on an after tax basis, and before the cumulative effect of the change in accounting principle, the Company recorded an effective tax rate of 39% for the three month period ended March 31, 2003 compared to an effective tax rate of 41% for the comparable period in 2002. The Company s tax provision for the three-month period ended March 31, 2003 includes the foreign tax provision for VAW-IMCO effective March 1, 2003. (See NOTE K VAW-IMCO regarding the acquisition of the remaining interest in the VAW-IMCO joint venture.)

NOTE E LONG-TERM DEBT

Company Credit Facilities. The Company currently has in place a senior secured revolving credit facility and a receivables sale facility. (See NOTE B SALE OF RECEIVABLES for information regarding the receivables sales facility.)

The Company uses its senior revolving credit facility to provide funding for its short-term liquidity requirements and for letters of credit. As of March 31, 2003, the Company had $106,500,000 of indebtedness outstanding under the Credit Agreement and had $6,500,000 currently available for borrowing based on the terms of the amended agreement. At March 31, 2003, the Company had standby letters of credit outstanding of $7,423,000 with several banks. The term of the Credit Agreement expires on December 31, 2003, therefore, the $106,500,000 in indebtedness outstanding under this facility is classified as a current liability.

On April 28, 2003, the Company s management and lenders agreed on an amendment to the Company s revolving credit agreement that, among other things, eases certain restrictive financial covenants effective March 31, 2003 and for the remainder of 2003.

This Fifth Amendment to the Second Amended and Restated Credit Agreement, dated as of April 28, 2003, added new provisions to and modified existing provisions of the Credit Agreement, principally to ease certain financial covenants effective March 31, 2003 and for the remainder of 2003. The allowable total debt to EBITDA ratio was raised to 4.0:1.0 and the interest coverage ratio was reduced to 2.7:1.0 for March 31, 2003 with further easing of both ratios through the remainder of 2003. The maximum amount under the Credit Agreement which the Company can borrow under the facility was reduced to $150,000,000 and requires the Company to submit financial statements monthly.

The amendment to the Second Amended and Restated Credit Agreement also contained provisions requiring the Company to engage by June 2, 2003 a financial advisory firm regarding a total refinancing of the indebtedness under the facility, and to have in place by June 30, 2003 satisfactory evidence of progress in effecting a total refinancing of the facility indebtedness, or a binding agreement for a transaction that would result in a total refinancing of that indebtedness by October 6, 2003. The amendment also modified certain financial covenants and reporting provisions, as noted above, and added a new provision requiring minimum cumulative EBITDA accrued during 2003 (beginning with the second quarter) to be satisfied on a monthly basis. If the facility is not refinanced by October 6, 2003, additional fees will be owed to the lenders and higher interest rate margins over base rate and LIBOR will be imposed.

The Company is required to prepay indebtedness under this facility from the proceeds of certain debt or equity financings. The facility indebtedness must be reduced by an amount equal to 100% of the proceeds from any permitted debt issuance, and 25% of the proceeds from any equity offering.

The Credit Agreement also imposes on the Company: (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. Funding of acquisitions by the Company will be permitted from future equity offerings, so long as 25% of the proceeds from the equity offering are applied to reduce the credit facility. Cash dividends on and cash repurchases of the Company s capital stock are restricted. Domestic capital expenditures for the Company and its restricted subsidiaries are limited to those funded by the Company s internally generated cash and its international operations, plus up to $15,000,000 per year for maintenance and replacement of existing assets and for new assets deemed necessary by the Company for the health and safety of its employees or as required by law.

The Credit Agreement classifies certain of the Company s existing foreign subsidiaries and permit other subsidiaries as unrestricted subsidiaries. The Company s unrestricted

subsidiaries are not subject to certain covenants and other restrictions to which the Company and its other subsidiaries are subject to under the Credit Agreement, but revenues and earnings from these unrestricted subsidiaries will generally not be included in calculating the Company s compliance with certain financial covenants under the Credit Agreement (except to the extent that cash distributions are received by the Company or its restricted subsidiaries). VAW-IMCO was deemed an unrestricted subsidiary beginning in March 2003.

The indebtedness under this facility is secured by substantially all of the Company s personal property (except for the receivables and certain related assets subject to sale under the Company s receivables sale facility), and first lien mortgages on 19 of the Company s operating facilities, plus a pledge of the capital stock of substantially all of the Company s subsidiaries.

If the Company s receivables sales facility commitment terminates, or if the total amount of the commitment or availability under the receivables sales facility is reduced by an amount greater than 30% of its availability or commitment as of October 26, 2001, then any such event will be an event of default under the Credit Agreement.

The Company s revolving credit facility and its receivables sales facility both expire in the fourth quarter of 2003. The Company is exploring various alternatives to obtain satisfactory financing arrangements in sufficient amounts to meet the Company s financing requirements, and expects to complete this process by the end of the third quarter of 2003. While no assurances can be made, management believes the Company will be successful in negotiating a replacement or replacements for its existing credit facilities. The replacement of these existing facilities is, however, expected to increase the Company s future borrowing costs.

Giving effect to the amendment to the credit agreement, the Company believes that its cash on hand, the receivables sales facility, the availability of funds from various financing sources and the Company s anticipated internally-generated funds will be sufficient to fund its operational needs during 2003. In the event the Company is unable to meet the new financial covenant requirements during 2003, the Company will be required to request a waiver or an additional amendment for such noncompliance. No assurances can be given that a waiver or further amendments will be granted or entered into. Furthermore, if new or additional sources of credit financing prove not to be available, or not available on terms advantageous to the Company, then the Company may, among other things, have to further curtail its growth and expansion plans until economic or credit market conditions improve, and resort to alternative means to obtain funds to retire its outstanding credit facility indebtedness, such as selling assets or equity securities.

VAW-IMCO Credit Facilities. For information concerning credit facilities in place to finance VAW-IMCO s operations, see Note 6 Long Term Debt of the audited financial statements of VAW-IMCO Guss und Recycling GmbH for the three years ended December 31, 2002 contained in the Company s Annual Report of Form 10-K for its fiscal year ended December 31, 2002 (Part IV, Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K).

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VAW-IMCO had its own long-term debt financing in place prior to its consolidation in the Company s accounts. This financing is independent from that described above. VAW-IMCO uses its long-term debt financing primarily for its investments in furnaces, as well as for its working capital needs. As of March 31, 2003, VAW-IMCO s long-term debt of approximately $23,000,000 was classified as a current maturity due to the long-term debt expiring on May 15, 2003. As of May 7, 2003, VAW-IMCO was able to secure a new long-term financing arrangement with a German bank for 10,000,000 euros ($11,400,000). The agreement is for five years and will expire in May of 2008. The interest rate is a floating rate calculated by taking the Europaische Zentralbank (EZB rate), plus 125 basis points. In addition, VAW-IMCO has been in discussions with one of its current lenders to refinance another 10,000,000 euros ($11,400,000) of its outstanding debt. It is anticipated that this negotiation process will culminate in another five year agreement between VAW-IMCO and this lender. Both lending agreements will contain financial covenant requirements for VAW-IMCO, that include the net equity ratio, minimum net equity and the interest coverage ratio.

NOTE F RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective January 1, 2003, the Company 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, the Company 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 the Company s landfills and the retirement of those assets. The Company s asset retirement obligations consist primarily of environmental remediation costs associated with Company owned landfills.

The amounts recognized for landfill asset retirement obligations, as of January 1, 2003, were $4,177,000 for its Morgantown, Kentucky landfill and $1,018,000 for its 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 in the period of the change in the asset retirement obligation.

The asset retirement cost is to be amortized over the useful life of the asset as items are added to the respective landfills. The Company 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 over the estimated lives of these landfills. These accumulated closure costs reduced the amount of the asset retirement costs recognized in the Company s balance sheet. The net amount of asset retirement costs recognized in the Company s balance sheet as of January 1, 2003 was $1,912,000 ($5,195,000 in asset retirement cost, net of $3,283,000 of accumulated amortization).

No cumulative effect adjustment was recognized upon the adoption of SFAS 143 due to the Company previously accruing costs related to such obligations.

NOTE G NET EARNINGS 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 March 31,	
	2003	2002
Numerators for basic and diluted earnings (loss) per share:		
Net earnings before cumulative effect of account change	$ 1,323	$ 382
Cumulative effect of accounting change		(58,730)
Net earnings (loss)	$ 1,323	$ (58,348)
Denominator:		
Denominator for basic earnings (loss) per share-weighted-average shares	14,502,356	14,651,052
Dilutive potential common shares-stock options	45,416	110,638
Denominator for diluted earnings (loss) per share	14,547,772	14,761,690
Net earnings (loss) per share:		
Basic before cumulative effect	0.09	0.03
Basic after cumulative effect	0.09	(3.98)
Diluted before cumulative effect	0.09	0.03
Diluted after cumulative effect	0.09	(3.95)

NOTE H OPERATIONS

The Company s 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 the Company to make substantial expenditures, in addition to those described in this Form 10-Q and the Company s Form 10-K for the year ended December 31, 2002.

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

In 1997, the Illinois Environmental Protection Agency (IEPA) notified the Company that two of the Company s zinc subsidiaries are 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. These subsidiaries have joined a group of PRPs that are planning to negotiate with the IEPA regarding the cleanup of the site. The site has not been fully investigated and final cleanup costs have not yet been determined.

On February 15, 2001, the State of Michigan filed a lawsuit against the Company in the State Circuit Court for the 30th District, Ingham County, Michigan. The lawsuit arises out of disputes between the Company s Alchem Aluminum Inc. subsidiary and Michigan environmental authorities concerning air emission control permits at the subsidiary s aluminum specialty alloy production facilities in Coldwater, Michigan. The plaintiff claims injunctive relief and penalties for alleged noncompliance with and violations of federal and state environmental laws. The suit seeks compliance by the Company as well as potentially substantial monetary penalties. The Company has filed an answer to the complaint and is in the discovery stage of the process. A motion for summary disposition has been filed raising legal and factual defenses to portions of the State s complaint. The Company believes that it has meritorious defenses to the claims and plans a vigorous defense. The Company has been pursuing settlement negotiations with the State.

On April 27, 2001, the U. S. Environmental Protection Agency, Region V, issued to the Company a Notice of Violation (NOV) alleging violations of the federal Clean Air Act, primarily for violations of the Michigan State Implementation Plan at the Company s Coldwater facilities. The NOV addresses the same instances of alleged noncompliance raised in the State of Michigan lawsuit, alleging that the Company purportedly failed to obtain appropriate preconstruction air quality permits prior to conducting modifications to the Alchem production facilities and exceeded permitted emission levels from the two Company facilities located in Coldwater. In September 2001, the Company filed its 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 other Company 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 the Company s results of operations in future periods.

The Company was a defendant in a personal injury case in state court in Missouri. In August 2002, the trial court entered a final judgment against the Company for $4,000,000. On January 10, 2003, the Company posted a security bond of approximately $4,223,000. The Company is also currently involved in litigation with certain of its former insurance carriers and brokers with regards to its ultimate liability in this matter, and management currently believes that the Company will be reimbursed (subject to deductible limitations) for any losses related to this matter.

The Company is also a party from time to time to what it believes are routine litigation and proceedings considered part of the ordinary course of its business. The Company believes that the outcome of such proceedings would not have a material adverse effect on the Company s financial position or results of operations.

NOTE I OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three months ended March 31, 2003	Three months ended March 31, 2002
Net earnings (loss)	$ 1,323	$ (58,348)
Hedging, net of tax	237	(1,542)
Foreign currency translation adjustment and other	251	167
Total comprehensive earnings (loss)	$ 1,811	$ (59,723)

NOTE J SEGMENT REPORTING

The Company now has 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 of 2003, the Company reached an agreement to acquire the full ownership of its 50 percent owned joint venture in Germany (VAW-IMCO) (See NOTE K VAW-IMCO below). Effective March 1, all of VAW-IMCO s accounts were consolidated into the Company s financial statements. Previously, VAW-IMCO s financial results had been reported under the equity method of accounting which only recorded the Company s 50 percent share of VAW-IMCO s after tax earnings. As a result of the consolidation of the financial condition and results of operations of VAW-IMCO into the Company s consolidated financial statements, and adjustments to the Company s internal financial reporting structure, the Company now recognizes an international aluminum segment, in addition to its domestic aluminum and zinc segments.

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

	March 31, 2003	December 31, 2002
Assets:		
Aluminum-Domestic	$ 207,391	$ 195,056
Aluminum-International	158,650	47,286
Zinc	79,349	80,277
Other unallocated assets	22,386	28,791
Total Assets	$ 467,776	$ 351,410

The following tables shows the Company s segment revenues and income for the three months ended March 31, 2003 and 2002, respectively.

	Three months ended March 31,	
	2003	2002
REVENUES:		
Aluminum-Domestic	$ 127,117	$ 115,392
Aluminum-International	33,264	6,046
Zinc	34,702	36,463
Total revenues	$ 195,083	$ 157,901
INCOME:		
Aluminum-Domestic	$ 5,813	$ 6,226
Aluminum-International	2,909	149
Zinc	1,106	1,095
Total segment income	$ 9,828	$ 7,470
Unallocated amounts:		
General and administrative expenses	$ (4,992)	$ (4,282)
Interest expense	(2,349)	(2,251)
Fees on receivables sale	(290)	(419)
Interest and other income	(76)	108
Earnings before provision for income taxes and minority interests	$ 2,121	$ 626

NOTE K VAW-IMCO

On March 14, 2003, a wholly-owned subsidiary of IMCO Recycling Inc. (the Company) entered into an agreement (the Agreement) with Hydro Aluminium Deutschland GmbH (Hydro) and VAW-IMCO Guss und Recycling GmbH (VAW-IMCO), finalizing the terms and conditions under which VAW-IMCO will redeem its shares owned by Hydro. Due to the impracticality of creating mid-month financial statements, the Company has chosen 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 600 million pounds. VAW-IMCO supplies specialty alloys to the European automobile industry and serves other European aluminum markets.

Under the Agreement, the price for Hydro s share interest is 30,407,500 euros (approximately US $32.3 million), payable in euros in five installments. The first installment of 6,081,500 euros, plus interest, was paid by VAW-IMCO to Hydro on March 18, 2003. The remaining installments will be paid beginning in December 2003 and ending in December 2006. Installments will be paid from cash on hand and future cash flows of VAW-IMCO.

Until the final installment is made and the redemption price is fully paid, Hydro will continue to have certain shareholder rights as to VAW-IMCO, including limited voting and economic rights. Voting control of VAW-IMCO is currently effectively vested in a wholly-owned subsidiary of the Company, and as a result, effective March 1, 2003, the results of operations of VAW-IMCO were consolidated with those of the Company s and reflected within the consolidated financial statements of the Company. Prior to then, the results of operations of VAW-IMCO had been reflected in the Company s financial statements under the equity method of accounting. At February 28, 2003 and March 31, 2002, the Company s equity in the net income of VAW-IMCO was stated at $734,000 and $234,000, 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 period ended March 31, 2002.

	Two months ended February 28,	Three months ended March 31,
	2003	**2002**
Revenues	$ 51,445	$ 52,726
Gross Profit	$ 5,945	$ 3,153
Net Income	$ 1,469	$ 467

The Company recognized approximately $26,000,000 in additional long-term debt payable to Norsk Hydro Aluminium over the next four years and paid approximately $6,500,000 in March 2003. The liability recognizes the additional amounts payable to Norsk for the redemption of their shares. Approximately $6,500,000 of this amount is reflected as a current maturity of long-term debt because it is payable to Norsk Hydro in December of 2003.

The consideration described above and 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, inventories of approximately $19,300,000, property, plant and equipment of approximately $31,100,000. In conjunction with other assets, these asset additions caused total assets of the Company to increase by more than $108,000,000.

The Company also assumed all of the obligations of VAW-IMCO which were recorded at their fair value. 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. The Company assumed a $10,000,000 liability for accrued pension costs and a deferred tax liability of almost $4,200,000.

The purchase price allocation described above resulted in the Company recording approximately $16,800,000 in goodwill. The goodwill is not deductible for domestic or foreign taxes.

The Company believes that is identified all necessary liabilities related to purchase price adjustments for the redemption of the Norsk Hydro shares. It is possible that the Company may need to modify these adjustments for property, plant and equipment fair value adjustments, or, if unidentified liabilities are discovered in the next few months.

The following table represents the condensed pro forma income statement for the Company for the three month period ended March 31, 2003 and 2002. 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 for the Three Months Ended March 31 (unaudited)

(In thousands, except per share amounts)

	Three months ended March 31,	
	2003	**2002**
Revenues	$ 246,671	$ 214,791
Gross Profit	17,870	10,684
Earnings before cumulative effect of accounting change	1,972	865
Cumulative effect of accounting change (net of tax $7,132)		(58,730)
Net earnings (loss)	1,972	(57,865)
Net Earnings (loss) per common share:		
Basic before cumulative effect of accounting change	$ 0.14	$ 0.06
Cumulative effect of accounting change	$	$ (4.01)
Basic earnings (loss) per share	$ 0.14	$ (3.95)
Diluted before cumulative effect of accounting change	$ 0.14	$ 0.06
Cumulative effect of accounting change	$	$ (3.98)
Diluted earnings (loss) per share	$ 0.14	$