IMCO RECYCLING INC
Form 10-Q/A
October 21, 2004

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 March 31, 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)

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, 2004.

Common Stock, $0.10 par value, 15,443,674

EXPLANATORY NOTE TO FORM 10-Q/A AMENDMENT TO FORM 10-Q

FOR QUARTER ENDED MARCH 31, 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 March 31, 2004 filed with the SEC on May 10, 2004.

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

The amendments restate the Consolidated Balance Sheet at March 31, 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 C Long-Term Debt of Notes to Consolidated Financial Statements (Unaudited) under Item 1. Financial Statements to reclassify borrowings under our senior revolving credit facility we established in October 2003 as a current liability and revise the Consolidated Balance Sheets to reclassify restricted cash from current assets to long-term assets as of March 31, 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 C Long-Term Debt and Note L Condensed Consolidating Financial Statements to clarify the nature of the guarantees by the company s subsidiaries guaranteeing the debt, and 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 L.

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

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

The amendments revise Credit Facilities and Refinancing 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 March 31, 2004 that was affected by this Amendment No. 1 has been amended and restated in its entirety.

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 May 2004. Information contained in such reports and documents updates and supersedes certain information contained in this Form 10-Q/A.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2004	December 31, 2003
	Restated (unaudited)	Restated
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,759	$ 14,760
Accounts receivable (net of allowance of $1,304 and $1,228 at March 31, 2004 and December 31, 2003, respectively)	136,419	111,562
Inventories	75,000	78,270
Deferred income taxes	12,582	11,444
Other current assets	15,350	12,382
Total Current Assets	250,110	228,418
Property and equipment, net	216,172	219,668
Goodwill	63,919	63,617
Restricted cash	22,278	24,846
Investments in joint ventures	893	976
Other assets, net	12,798	13,209
	$ 566,170	$ 550,734
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 95,719	$ 96,207
Accrued liabilities	41,688	30,955
Current maturities of long-term debt	32,589	33,017
Total Current Liabilities	169,996	160,179
Long-term debt	223,188	223,176
Deferred income taxes	22,097	20,390
Other long-term liabilities	25,623	25,244
STOCKHOLDERS EQUITY		
Preferred stock; par value $.10; 8,000,000 shares authorized; none issued		
Common stock; par value $.10; 40,000,000 shares authorized; 17,157,437 issued at March 31, 2004; 17,155,211 issued at December 31, 2003	1,716	1,716
Additional paid-in capital	102,885	103,264
Deferred stock compensation	(5,480)	(4,153)
Retained earnings	48,117	45,406
Accumulated other comprehensive loss	(4,565)	(4,825)

Treasury stock, at cost; 1,631,863 shares at March 31, 2004; 1,843,403 shares at December 31, 2003	(17,407)	(19,663)
Total Stockholders Equity	125,266	121,745
	$ 566,170	$ 550,734

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,	
	2004	**2003**
Revenues	$ 278,508	$ 195,083
Cost of sales	255,361	183,176
Gross profits	23,147	11,907
Selling, general and administrative expense	11,931	8,005
Fees on receivables sale		290
Interest expense	6,444	2,349
Other (income) expense net	143	67
Equity in net earnings of affiliates	(17)	(925)
Earnings before provision for income taxes and minority interests	4,646	2,121
Provision for income taxes	1,908	646
Earnings before minority interests	2,738	1,475
Minority interests, net of provision for income taxes	27	152
Net earnings	$ 2,711	$ 1,323
Net earnings per common share:		
Basic	$ 0.19	$ 0.09
Diluted	$ 0.18	$ 0.09
Weighted average shares outstanding:		
Basic	14,501	14,502
Diluted	15,294	14,548

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, 2004	2003
OPERATING ACTIVITIES		
Earnings	$ 2,711	$ 1,323
Depreciation and amortization	7,115	6,305
Provision for deferred income taxes	675	416
Equity in earnings of affiliates	(17)	(925)
Other non-cash charges	1,290	995
Changes in operating assets and liabilities:		
Accounts receivable	(26,006)	(10,973)
Accounts receivable sold		(4,400)
Inventories	2,832	1,081
Other current assets	(1,467)	613
Accounts payable and accrued liabilities	15,032	(3,200)
Net cash from (used by) operating activities	2,165	(8,765)
INVESTING ACTIVITIES		
Payments for property and equipment	(7,626)	(2,392)
Net cash acquired in acquisition of remaining 50% of VAW-IMCO		15,669
Other	(300)	121
Net cash from (used by) investing activities	(7,926)	13,398
FINANCING ACTIVITIES		
Net payments of long-term revolving credit facility	(428)	12,500
Net payments of proceeds from issuance of long-term debt		1,181
Decrease in restricted cash	2,568	
Debt issuance costs	(209)	
Other	127	(93)
Net cash from (used by) financing activities	2,058	13,588
Effect of exchange rate differences on cash and cash equivalents	(298)	(52)
Net increase (decrease) in cash and cash equivalents	(4,001)	18,169
Cash and cash equivalents at January 1	14,760	6,875
Cash and cash equivalents at March 31	$ 10,759	$ 25,044
SUPPLEMENTARY INFORMATION		
Cash payments for interest	$ 366	$ 1,540
Cash payments for income taxes, net of refunds received	$ 665	$ 1,106

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 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 month period ended March 31, 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 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 - INVENTORIES

The components of inventories are:

	March 31, 2004	December 31, 2003
Finished goods	$ 33,362	$ 36,329
Raw materials	35,219	33,428
Work in process	2,646	4,613
Supplies	3,773	3,900
	$ 75,000	$ 78,270

NOTE C LONG-TERM DEBT

In February 2004, our VAW-IMCO subsidiary paid us approximately 20,000,000 Euros (U.S. $24,846,000, including interest) paying in full its indebtedness owed to us under the intercompany note that we had pledged as part of the collateral security for the senior secured notes we issued in October 2003. 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. In the first quarter of 2004, we withdrew from the collateral account $2,568,000 for capital expenditures related to manufacturing equipment, pollution control equipment and buildings. These assets will be added to and form a part of the collateral security for the senior secured notes.

The prepayment of the intercompany note resulted in a gain of $1,880,000, recognized in December of 2003, since the note had been marked-to-market as it was current in nature and given the rise in value of the Euro against the U.S. Dollar. In February 2004, the repayment of the intercompany note resulted in the recognition of an additional gain of $278,000. This gain was also due to the rise in value of the Euro against the U.S. Dollar at that time.

Our long-term debt is summarized as follows:

	March 31, 2004	December 31, 2003
	Restated	Restated
Senior Credit Facility, expiring in October 2007	$ 32,563	$ 32,991
10 3/8% Senior Secured Notes, due October 6, 2010 (net of the discount)	208,769	208,751
7.65% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1996 Series, Due May 1, 2016 (net of the discount)	5,705	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	40	46
Subtotal	255,777	256,193
Less current maturities	32,589	33,017
Total	$ 223,188	$ 223,176

To refinance our then-existing indebtedness, on October 6, 2003, we issued $210,000,000 principal amount of senior secured notes. 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 of each year, 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 (senior credit facility). Our former senior credit facility and receivables sale facility were both scheduled to expire by their own terms in the fourth quarter of 2003.

As of March 31, 2004, we had $32,563,000 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 March 31, 2004, we estimated that our borrowing base would have supported additional borrowings of $55,331,000 after giving effect to outstanding borrowings of $32,563,000 and outstanding letters of credit of $3,726,000. As of March 31, 2004, our total borrowing base was estimated to be approximately $91,620,000.

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 restricted domestic subsidiaries. The senior secured notes are not guaranteed by any of our current foreign subsidiaries. See NOTE L 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 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; 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 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. As a result of this lockbox requirement, the amounts outstanding under the senior credit facility are classified as a current liability. 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 a result of our new financing arrangements, we are currently unable to pay cash dividends to our stockholders. As of March 31, 2004, we were in compliance with all applicable debt covenants.

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

VAW-IMCO credit facilities

VAW-IMCO has two lines of credit available. As of March 31, 2004, no amounts were outstanding under these lines of credit. The total amount of credit available under these facilities is 15,000,000 Euros ($18,455,000 U.S. Dollars).

NOTE D NET EARNINGS PER SHARE

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

	Three months ended March 31,	
	2004	**2003**
Numerator for basic and diluted earnings per share:		
Net earnings	$ 2,711	$ 1,323
Denominator:		
Basic earnings per share-weighted-average shares	14,500,971	14,502,356
Dilutive potential common shares- stock options	792,864	45,416
Denominator for diluted earnings per share	15,293,835	14,547,772
Net earnings per share:		
Basic	$ 0.19	$ 0.09
Diluted	$ 0.18	$ 0.09

As of March 31, 2004, we had a total of 930,000 shares of restricted stock outstanding, of which the unvested shares are excluded from our basic earnings per share calculation. We also had options for 1,018,667 shares that were considered anti-dilutive.

NOTE E 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 (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 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 paid the civil fine in the first quarter of 2004 and are 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. The NOV addressed the same instances of alleged non-compliance 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 Coldwater facilities and exceeded permitted emission levels. All issues raised in the NOV have been addressed 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 a judgment in our favor and awarded the Company its costs 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 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 F 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.

	Total	Unrealized Gain (Loss) on Derivative Financial Instruments	Foreign Currency Translation, Unrealized Gain (Loss)
Balance at December 31, 2003	$ (4,825)	$ 1,939	$ (6,764)
Current quarter net change	(711)		(711)
Change in fair value of derivative financial instruments	2,607	2,607	
Reclassification of (gains) on derivative financial instruments into earnings	(1,039)	(1,039)	
Income tax effect	(597)	(597)	
Balance at March 31, 2004	$ (4,565)	$ 2,910	$ (7,475)

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, 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 N- MARKET RISK MANAGEMENT USING FINANCIAL INSTRUMENTS for further information in regards to our deferred hedging activities.

NOTE G 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, 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 capitalized 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:

	March 31, 2004	December 31, 2003
Assets:		
Domestic Aluminum	$ 263,508	$ 232,209

International Aluminum	158,391	175,345
Zinc	110,346	109,815
Other unallocated assets	33,925	33,365
Total Assets	$ 566,170	$ 550,734

The following table shows our revenues and income for the three month periods ended March 31, 2004 and March 31, 2003, respectively.

	Three months ended March 31,	
	2004	**2003**
REVENUES:		
Domestic Aluminum	$ 137,679	$ 127,117
International Aluminum	90,673	33,264
Zinc	50,156	34,702
Total Revenues	$ 278,508	$ 195,083
SEGMENT INCOME:		
Domestic Aluminum	$ 6,620	$ 5,813
International Aluminum	6,957	2,909
Zinc	3,893	1,106
Total Segment Income	$ 17,470	$ 9,828
Unallocated amounts:		
General and administrative expenses	$ (6,358)	$ (4,992)
Interest expense	(6,444)	(2,349)
Fees on receivables sale		(290)
Interest and other income	(22)	(76)
Earnings before provision for income taxes and minority interests	$ 4,646	$ 2,121

NOTE H VAW-IMCO

On March 14, 2003, we 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.

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. This acquisition of the remaining 50% interest in VAW-IMCO was an important step in the on-going expansion of our international operations.

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.

The following table represents our condensed unaudited pro forma statement of operations for the three months ended March 31, 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.

	Three months ended March 31, 2003
Revenues	$ 246,671
Gross profit	17,870
Net earnings	1,972
Net earnings per common share:	
Basic	$ 0.14
Diluted	$ 0.14
Weighted average shares outstanding:	
Basic	14,502,356
Diluted	14,547,772

NOTE I 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 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.

	Three months ended March 31,	
	2004	2003
Net earnings, as reported	$ 2,711	$ 1,323
Add: stock-based compensation expense included in reported net income, net of tax	166	91
Less: compensation cost determined under the fair value method, net of tax	(169)	(177)
Pro forma net earnings	$ 2,708	$ 1,237
Basic earnings per share:		
As reported	$ 0.19	$ 0.09
Pro forma	0.19	0.09
Diluted earnings per share:		
As reported	$ 0.18	$ 0.09
Pro forma	0.18	0.09

NOTE J   STOCKHOLDERS   EQUITY

In February 2004, we awarded a total of 172,000 restricted stock units to certain of our officers and key employees resulting in deferred compensation of $1,594,000 recorded as a reduction to stockholders   equity. This amount will be recorded as compensation expense over the vesting period of such restricted stock units. The restricted stock units cannot be transferred or pledged and are subject to forfeiture if the holder s employment with us terminates for any reason other than death, disability or retirement. The restricted stock units fully vest upon the earlier of the fifth anniversary of the date of grant, a   change of control   of the company or upon the holder s death, disability or retirement. The vested restricted stock units are exchangeable into shares of IMCO common stock.

NOTE K   INCOME TAXES

Our effective tax rate was 41% for the three months ended March 31, 2004. This compares to an effective tax rate of 39% for the comparable period in 2003. Our provision for income tax in 2003 excluded the equity income from VAW-IMCO, which is recorded on an after tax basis. Our overall effective rate increased in 2004 mostly due to the full consolidation of VAW-IMCO. Starting in March of 2003, VAW-IMCO was consolidated and this resulted in a higher overall effective tax rate due to German income taxes imposed on VAW-IMCO. This consolidation has had the impact of increasing our international earnings.

Higher interest expense and generally lower domestic earnings generated net operating losses in the U.S. Deferred tax benefits related to these net operating losses have been recorded. While our effective tax rate contemplates profitable operating results for the year, if expected profit improvements in our domestic operations do not occur, utilization of the existing U.S. deferred tax assets will need to be re-evaluated.

The provision for income taxes was as follows:

	Three months ended March 31,	
	2004	**2003**
Current:		
Federal	$	$ (80)
State	49	47
Foreign	2,738	670
	2,787	637
Deferred:		
Federal	(766)	180
State	(140)	(60)
Foreign	27	(111)
	(879)	9
Provision for income taxes	$ 1,908	$ 646

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

	Three months ended March 31,	
	2004	**2003**
Income taxes at the federal statutory rate	$ 1,626	$ 742
Foreign tax rate difference	93	(38)
State income taxes, net	(63)	(4)
Foreign income not currently taxable	(17)	(263)
Other, net	269	209
Provision for income taxes	$ 1,908	$ 646

NOTE L CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Certain of our subsidiaries (Guarantor Subsidiaries) are guarantors of the indebtedness of IMCO Recycling under its senior secured notes. See NOTE C - LONG-TERM DEBT. For purposes of complying with the reporting requirements of the Guarantor Subsidiaries, presented below are condensed consolidating financial statements of IMCO Recycling Inc., the Guarantor Subsidiaries, and those subsidiaries of IMCO Recycling Inc. that are not guaranteeing the indebtedness under the senior secured notes (Non-Guarantor Subsidiaries).

The condensed consolidating balance sheets are presented as of March 31, 2004, and the condensed consolidating statements of operations and the condensed consolidating statements of cash flows are presented for the three months ended March 31, 2004 and 2003.

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR CONDENSED CONSOLIDATING BALANCE SHEETS

	As of March 31, 2004 (Restated)				
	IMCO Recycling Inc.	**Combined Guarantor Subsidiaries**	**Combined Non-guarantor Subsidiaries**	**Eliminations**	**Consolidated**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 153	$ 46	$ 10,560	$	$ 10,759
Accounts receivable, net	9,494	77,748	49,589	(412)	136,419
Inventories	2,634	46,620	25,746		75,000
Deferred income taxes	7,906	3,246	1,430		12,582
Other current assets	3,581	8,480	3,289		15,350
Total Current Assets	23,768	136,140	90,614	(412)	250,110
Property and equipment, net	36,476	107,006	74,547	(1,857)	216,172
Goodwill	3,660	49,874	10,385		63,919
Restricted cash	22,278				22,278
Investments in joint ventures		893			893
Other assets, net	10,541	1,444	813		12,798
Investments in subsidiaries/intercompany receivable (payable), net	319,790	(95,176)	(7,330)	(217,284)	
	$ 416,513	$ 200,181	$ 169,029	$ (219,553)	$ 566,170
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Accounts payable	$ 12,595	$ 52,563	$ 30,974	$ (413)	$ 95,719
Accrued liabilities	13,596	7,046	21,046		41,688
Current maturities of long-term debt	32,563	22	4		32,589
Total Current Liabilities	58,754	59,631	52,024	(413)	169,996
Long-term debt	223,174	6	8		223,188
Deferred income taxes	3,930	9,777	8,390		22,097
Other long-term liabilities	5,389	3,734	16,500		25,623
Total Stockholders Equity	125,266	127,033	92,107	(219,140)	125,266
	$ 416,513	$ 200,181	$ 169,029	$ (219,553)	$ 566,170

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2004				
	IMCO Recycling Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 27,706	$ 167,895	$ 94,876	$ (11,969)	$ 278,508
Cost of sales	25,084	158,253	83,993	(11,969)	255,361
Gross profits	2,622	9,642	10,883		23,147
Selling, general and administrative expense	474	7,868	3,589		11,931
Interest expense	6,336	96	296	(284)	6,444
Other (income) expense net	1,171	(947)	(336)	255	143
Equity in net earnings of affiliates	(7,194)	(17)		7,194	(17)
Earnings before provision for income taxes and minority interest	1,835	2,642	7,334	(7,165)	4,646
Provision for income taxes	(876)		2,784		1,908
Earnings before minority interest	2,711	2,642	4,550	(7,165)	2,738
Minority interest, net of provision for income taxes			27		27
Net earnings (loss)	$ 2,711	$ 2,642	$ 4,523	$ (7,165)	$ 2,711

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2003				
	IMCO Recycling Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 24,886	$ 139,835	$ 37,480	$ (7,118)	$ 195,083
Cost of sales	22,313	134,456	33,525	(7,118)	183,176
Gross profits	2,573	5,379	3,955		11,907
Selling, general and administrative expense	466	6,739	800		8,005
Interest expense	1,714	242	548	(155)	2,349
Fees on receivables sale		290			290
Other (income) expense net	2,038	(2,277)	151	155	67
Equity in net earnings of affiliates	(2,822)	(190)	(735)	2,822	(925)
Earnings before provision for income taxes and minority interest	1,177	575	3,191	(2,822)	2,121
Provision for income taxes	(146)		792		646
Earnings before minority interests	1,323	575	2,399	(2,822)	1,475
Minority interests, net of provision for income taxes			152		152
Net earnings (loss)	$ 1,323	$ 575	$ 2,247	$ (2,822)	$ 1,323

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2004				
	IMCO Recycling Inc.	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Earnings	$ 2,711	$ 2,642	$ 4,523	$ (7,165)	$ 2,711
Depreciation and amortization	1,331	4,015	1,769		7,115
Provision for deferred income tax	642		33		675
Equity in earnings of affiliates	(7,194)	(17)		7,194	(17)
Other non-cash items	305	1,313	(328)		1,290
Changes in operating assets and liabilities:					
Accounts receivable	322	(13,023)	(13,305)		(26,006)
Inventories	1,659	(1,707)	2,880		2,832
Other current assets	51	(218)	(1,300)		(1,467)
Accounts payable and accrued liabilities	(840)	13,702	8,340	(6,170)	15,032
NET CASH FROM (USED BY) OPERATING ACTIVITIES	**(1,013)**	**6,707**	**2,612**	**(6,141)**	**2,165**
INVESTING ACTIVITIES:					
Payments for property and equipment	(1,255)	(3,564)	(2,807)		(7,626)
Other	1,201	(240)	(1,261)		(300)
NET CASH FROM (USED BY) INVESTING ACTIVITIES	**(54)**	**(3,804)**	**(4,068)**		**(7,926)**
FINANCING ACTIVITIES:					
Net (payments of) proceeds from long term revolving credit facility	(428)				(428)
New debt issuance costs	(209)				(209)
Change in restricted cash	(22,279)		24,847		2,568
Payment of VAW-IMCO promissory note	24,847		(24,847)		
Net transfers with subsidiaries	(1,452)	(3,247)	(1,442)	6,141	
Other	238	256	(367)		127
NET CASH FROM (USED BY) FINANCING ACTIVITIES	**717**	**(2,991)**	**(1,809)**	**6,141**	**2,058**
Effects of exchange rate changes on cash			(298)		(298)
Net increase in cash and cash equivalents	(350)	(88)	(3,563)		(4,001)
Cash and cash equivalents at beginning of period	503	134	14,123		14,760
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 153**	**$ 46**	**$ 10,560**	**$**	**$ 10,759**

IMCO RECYCLING INC. AND SUBSIDIARIES

GUARANTOR CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2003				
	IMCO Recycling Inc.	**Combined Guarantor Subsidiaries**	**Combined Non-guarantor Subsidiaries**	**Eliminations**	**Consolidated**
OPERATING ACTIVITIES:					
Earnings	$ 1,323	$ 575	$ 2,247	$ (2,822)	$ 1,323
Depreciation and amortization	1,459	3,858	988		6,305
Provision for deferred income tax	30		386		416
Equity in earnings of affiliates	(2,822)	(190)	(735)	2,822	(925)
Other non-cash items	540	1,125	(670)		995
Changes in operating assets and liabilities:					
Accounts receivable	1,113	(8,753)	(3,333)		(10,973)
Accounts receivable sold	(572)	(3,828)			(4,400)
Inventories	(154)	714	521		1,081
Other current assets	(16)	1,009	(380)		613
Accounts payable and accrued liabilities	(23,471)	6,384	7,571	6,316	(3,200)
NET CASH FROM (USED BY) OPERATING ACTIVITIES	**(22,570)**	**894**	**6,595**	**6,316**	**(8,765)**
INVESTING ACTIVITIES:					
Payments for property and equipment	(55)	(1,259)	(1,078)		(2,392)
Net cash acquired in consolidation of the remaining 50% of VAW-IMCO			15,669		15,669
Other	(37)	52	106		121
NET CASH FROM (USED BY) INVESTING ACTIVITIES	**(92)**	**(1,207)**	**14,697**		**13,398**
FINANCING ACTIVITIES:					
Net (payments of) proceeds from long term revolving credit facility	12,500				12,500
Net (payments of) proceeds from of long-term debt			1,181		1,181
Net transfers with subsidiaries	7,998	(153)	(1,529)	(6,316)	
Other	86	382	(561)		(93)
NET CASH FROM (USED BY) FINANCING ACTIVITIES	**20,584**	**229**	**(909)**	**(6,316)**	**13,588**
Effects of exchange rate changes on cash			(52)		(52)
Net increase in cash and cash equivalents	(2,078)	(84)	20,331		18,169
Cash and cash equivalents at beginning of period	2,418	183	4,274		6,875
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 340**	**$ 99**	**$ 24,605**	**$**	**$ 25,044**

NOTE M EMPLOYEE BENEFITS

VAW-IMCO Pension Plan.

VAW-IMCO maintains a defined benefit pension plan for its employees. This plan is based on final pay and service, but some VAW-IMCO senior officers are entitled to receive enhanced pension benefits. The pension plan is classified as a book reserve plan, that is, no plan assets are provided and the employer sets up a book reserve (pension accrual) for payment of the benefits. Under Statement of Financial Accounting (SFAS) No. 87, Employers Accounting for Pensions, a book reserve plan under German law is an unfunded plan and a liability item has to be recognized as an unfunded accrued pension cost. This liability is insured by a German pension insurance association under German law if VAW-IMCO is unable to fulfill its obligations. These obligations are included in Other Long-Term Liabilities on our consolidated balance sheet as of March 31, 2004.

Pension cost for the defined pension plan includes the following components of net periodic benefits cost:

	Three months ended March 31, 2004
Service cost	$ 121
Interest cost	210
Amortization cost	36
	$ 367

NOTE N MARKET RISK MANAGEMENT USING FINANCIAL INSTRUMENTS

We enter into derivatives transactions to hedge the cost of energy and the price of certain aluminum and zinc products. We evaluate and document each hedge item when entered into. It is our policy not to speculate in hedging activities.

We are engaged in activities that expose us to various market risks, including the effects of natural gas prices and future selling prices of aluminum and zinc. These financial exposures are managed as an integral part of our risk management program, which seeks to reduce the potentially adverse effects that market volatility may have on operating results. We do not engage in speculative transactions, nor do we regularly hold or issue financial instruments for trading purposes. We maintain a natural gas pricing strategy to minimize significant fluctuations in earnings caused by the volatility of gas prices. We also maintain a metal pricing strategy to minimize significant, unanticipated fluctuations in earnings caused by the volatility of aluminum and zinc prices.

Our deferred gains and losses accumulate on our balance sheet (in Other Comprehensive (Loss) Income) until the maturity of our respective hedging agreements. Due to the sometimes volatile nature of aluminum, zinc and natural gas prices, it would be impractical to estimate the amount we expect to be realized as earnings or loss on our income statement at any given time, or when these gains or losses will be realized.

Actual amounts realized will inevitably differ from our estimates. In addition, our deferred hedging activities reduce, but do not eliminate, the effect of volatile aluminum, zinc and natural gas prices on our operations.

Natural Gas: In order to manage our price exposure for natural gas purchases, we have fixed the future price of a portion of our natural gas requirements by entering into financial hedge agreements. Under these agreements, payments are made or received based on the differential between the monthly closing price on the New York Mercantile Exchange (NYMEX) and the actual hedge price. These contracts are accounted for as cash flow hedges, with all gains and losses recognized in cost of sales when the gas is consumed. In addition, we have cost escalators included in some of our long-term supply contracts with our customers, which limit our exposure to natural gas price risk.

At March 31, 2004, we had outstanding swap agreements to hedge our anticipated domestic natural gas requirements for approximately 3,120,000 Mmbtus of natural gas, which represents approximately 62% and 20% of our expected 2004 and 2005 natural gas needs, respectively. At March 31, 2004, the deferred fair value gain of these contracts was $2,374,000 ($1,472,000 net of tax). For the three months ended March 31, 2004 and 2003, natural gas hedging activities decreased cost of goods sold by $653,000 and $1,921,000, respectively.

Domestic Aluminum: We enter into futures sale contracts with metal brokers to fix the margin on a portion of the aluminum generated by our salt cake processing facility in Morgantown, Kentucky and some of the aluminum generated for sale from the processing of other scrap metal. These futures sale contracts are settled in the month of shipment. Estimated 2004 total production covered under these futures sale contracts as of March 31, 2004 was 3,470 metric tonnes (mt) with a fair value deferred loss of $257,000 ($159,000 net of tax).

We also enter into forward purchase contracts for aluminum. As of March 31, 2004, we had contracts for 4,450 mt with a fair value deferred gain of $559,000 ($347,000 net of tax).

For the three months ended March 31, 2004 and 2003, our domestic aluminum revenue was higher by $366,000 and $5,000, respectively, for settled metal hedging contracts.

Zinc: In the normal course of business, we enter into fixed-price forward sales and purchase contracts with a number of our zinc customers. At March 31, 2004, estimated total production covered for 2004 under these futures sale contracts was 1,300 mt with a fair value deferred gain of $19,000 ($12,000 net of tax).

In order to hedge the risk of higher metal prices, we enter into long positions, principally using future purchase contracts. These contracts are settled in the month of the corresponding production or shipment. At March 31, 2004, estimated total production for 2004 covered under these futures purchase contracts was 9,653 mt with a fair value deferred gain of $1,802,000 ($1,117,000 net of tax).

For the three months ended March 31, 2004 and 2003, our zinc revenue was higher (lower) by $20,000 and ($175,000), respectively, due to settled zinc metal hedging contracts.

VAW-IMCO: VAW-IMCO has a significant metal hedging program. The majority of VAW-IMCO s operations are product sales, requiring it to take ownership of the materials processed and exposing it to more risk to changes in metal prices. In order to mitigate this risk, VAW-IMCO enters into LME high-grade and alloy aluminum forward sales and purchase contracts. VAW-IMCO does not hold or issue any derivative financial instruments for trading purposes. The functional currency of VAW-IMCO is the Euro; however, the derivatives utilized in hedging the market risk of changing prices of aluminum purchases and sales at VAW-IMCO facilities are based in U.S. Dollars. This results in foreign currency risk in addition to the risk of changing aluminum prices.

Unlike the derivative contracts utilized throughout the rest of our hedging operations, the unrealized gains and losses on VAW-IMCO s derivative contracts do not qualify for deferred treatment under SFAS 133, Accounting for Derivatives and Hedging Activities. VAW-IMCO s derivative contracts are recorded at fair value with unrealized gains and losses recognized currently in the financial statements.

As of March 31, 2004, VAW-IMCO had forward purchase contracts for high-grade aluminum for 40,225 mt having a fair value of U.S. $66,225,000. Also as of March 31, 2004, VAW-IMCO had forward sales contracts for 24,725 mt having a fair value of U.S. $41,318,000.

VAW-IMCO s gains on metal hedging transactions, as reflected in our consolidated cost of goods sold, was approximately U.S. $1,651,000, net, for the three months ended March 31, 2004. VAW-IMCO realized and recognized metal hedging losses of approximately U.S. $260,000 on first quarter 2004 hedging activities. In addition, VAW-IMCO recognized in its cost of goods sold, unrealized gains of approximately U.S. $1,911,000 due to metal hedging activities.

We are exposed to losses in the event of non-performance by the counter-parties to the financial hedge agreements and futures contracts discussed above; however, we do not currently anticipate any non-performance by counter-parties. The counter-parties are evaluated for creditworthiness and risk assessment prior to initiating trading activities with the brokers. We do not require collateral to support broker transactions.

None of our other international locations engage in commodity hedging, as their processing activities consist mainly of tolling.

NOTE O SUBSEQUENT EVENTS

On April 14, 2004, we announced that Richard L. Kerr, Executive Vice President and President, Aluminum Operations of the Company, had been appointed by IMCO s Board of Directors to serve as our interim President and Chief Executive Officer. Mr. Kerr replaced Don V. Ingram, who retired from our company and resigned from our Board of Directors. Additionally, Board member John E. Balkcom was named Chairman of the Board.

In the second quarter of 2004, we will incur costs related to the retirement of Mr. Ingram. These costs total approximately $3,076,000 ($1,900,000 net of tax). Under the terms of his separation agreement, Mr. Ingram received a cash payment of $1,500,000 and 450,000 shares of restricted stock awarded to him previously. We estimate this expense to be $0.12 per diluted share.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operation for the periods presented. This discussion should be read in conjunction with the financial statements and notes and other financial information appearing elsewhere in this Form 10-Q, as well as in our Annual Report on Form 10-K for the year ended December 31, 2003. Our discussion of our financial condition and results of operations includes various forward-looking statements about our markets, the demand for our products and services and projected results. These statements are based on certain assumptions that we consider reasonable. For information about these assumptions and other risks relating to our businesses and our company, you should refer to the sub-section of this ITEM 2 entitled RISK FACTORS.

OVERVIEW

For the three months ended March 31, 2004, our net earnings were $2,711,000 compared to net earnings of $1,323,000 for the same period in the prior year. Our improved net earnings were the result of improved income performance in all of our segments, and to the consolidation of VAW-IMCO effective in March 2003.

Among our operating segments, in our domestic aluminum segment, tolling activities increased for the three months ended March 31, 2004 compared to the same period in the prior year. Offsetting this increase, however, were compressed margins on our product sales compared to the same period last year, chiefly due to higher costs for scrap materials. We are currently expanding operations at our Saginaw, Michigan facility to supply more specialty alloys under our long-term agreement with General Motors. We expect this expansion to be completed by the end of this year.

In our international aluminum segment, the full consolidation of VAW-IMCO benefited this segment, as well as improved performance from our Monterrey, Mexico facility. Margins on product sales in this segment are also under pressure due to higher scrap costs.

Our zinc segment performance increased compared to the same period in the prior year. Overall zinc prices are substantially higher than last year at this time, margins have improved, and we have been able to add new customers.

Our receivables have increased since year-end 2003 due to higher metal prices, higher processing and product sales volumes and the addition of new customers.

Our selling, general and administrative costs are higher than last year at this time, primarily due to the full consolidation of VAW-IMCO. Interest expense is also higher due to our refinancing activities concluded in October 2003.

At this time, we do not plan to issue any dividends on our common stock, due to restrictions on cash dividends contained in our senior secured notes indenture and our senior credit facility.

On April 14, 2004, we announced that Richard L. Kerr, Executive Vice President and President, Aluminum Operations of the Company, had been appointed by IMCO s Board of Directors to serve as our interim President and Chief Executive Officer. Mr. Kerr replaced Don V. Ingram, who retired from our company and resigned from our Board of Directors. Additionally, Board member John E. Balkcom was named Chairman of the Board.

In the second quarter of 2004, we will incur costs related to the retirement of Mr. Ingram. These costs total approximately $3,076,000 ($1,900,000 net of tax). Under the terms of his separation agreement, Mr. Ingram received a cash payment of $1,500,000, and we accelerated the vesting of 450,000 shares of restricted stock awarded to him previously. We estimate this expense to be $0.12 per diluted share.

For the three month period ended March 31, 2004, approximately 59% of our processing volumes consisted of aluminum and zinc tolled for its customers. Tolling revenues reflect only the processing cost and our profit margin. Our processing activities also consist of the processing, recovery and specialty alloying of aluminum and zinc metal and the production of other value-added zinc products for sale. The revenues from these sales transactions include the cost of the metal, as well as the processing cost and our profit margin. Accordingly, tolling business produces lower revenues and costs of sales than the product sales business. Variations in the mix between these two types of transactions can cause revenue amounts to change significantly from period to period. As a result, we have traditionally considered processing volume to be a more important determinant of performance than revenues, particularly in the domestic aluminum segment.

The following table shows total pounds processed, the percentage of total pounds processed represented by tolled metals, total revenues and total gross profits (in thousands, except percentages):

	Three months ended March 31,	
	2004	**2003**
Pounds processed	829,864	663,246
Percentage of pounds tolled	59%	56%
Revenues	$ 278,508	$ 195,083
Gross profits	$ 23,147	$ 11,907

CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Areas of uncertainty that require judgments, estimates and assumptions include accounting for inventories, long-lived assets, property and equipment, goodwill and other intangible assets, credit risk and income taxes. Management uses historical experience and certain other information available in order to make these judgments and estimates; actual results will inevitably differ from those estimates and assumptions that are used to prepare our financial statements at any given time.

A summary of our significant accounting policies and estimates is included in ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2003. There has been no significant change to our critical accounting policies during the three months ended March 31, 2004.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

PRODUCTION. For the three month period ended March 31, 2004, we melted 829.9 million pounds, 25% more than the 663.2 million pounds melted during the same period in 2003. The international aluminum segment accounted for most of the overall production increase, primarily through the consolidation of VAW-IMCO s results of operations for a full three months. Domestic aluminum production increased by 6% during the first quarter of 2004 compared to the same period in 2003. Zinc segment production increased 3% for the three months ended March 31, 2004 compared to the same period in 2003.

For the three months ended March 31, 2004, overall manufacturing activity increased compared to the three months ended March 31, 2003, tightening the demand for metals such as aluminum, steel and galvanized steel. In addition to aluminum, we also supply materials to the steel industry, such as aluminum deoxider cones that are used to produce steel. Zinc is also used in galvanizing steel. The operating rates of our domestic aluminum recycling plants increased due to the recovery in U.S. industrial activity and a stronger overall aluminum market.

Tolling activity for the three month periods ended March 31, 2004 and 2003 represented 59% and 56% of total pounds processed, respectively. The increase in the tolling percentage in 2004 largely reflects greater amounts of toll materials processed at our domestic aluminum segment facilities. Within the domestic aluminum segment, tolling volumes increased to 66% during the three months ended March 31, 2004, compared to 60% for the same period in the prior year.

The consolidation of VAW-IMCO reduced the tolling percentage in the international aluminum segment to 57% for the three months ended March 31, 2004, compared to 60% during the same period in the prior year. The majority of VAW-IMCO s production is product sales.

The following table shows the total pounds processed and the percentage tolled for the domestic aluminum, international aluminum and zinc segments (in thousands, except percentages):

	Three months ended March 31,		
	2004	**2003**	**% change**
Pounds Processed:			
Domestic Aluminum	518,577	487,758	6%
International Aluminum	255,094	121,192	110%
Zinc	56,193	54,296	3%
Total Pounds Processed	829,864	663,246	25%
Percentage Tolled:			
Domestic Aluminum	66%	60%	
International Aluminum	57%	60%	

Zinc	2%	4%
Total Percentage Tolled	59%	56%

DOMESTIC ALUMINUM PRODUCTION: For the three month period ended March 31, 2004, overall production increased compared to the same period in the prior year. Within this segment, production increased in both our aluminum recycling division and specialty alloy division. Our domestic aluminum tolling percentage increased due to a general improvement in the U.S. industrial economy for the three months ended March 31, 2004. As the first quarter of 2004 ended, new orders increased in the transportation and equipment, primary metals and fabricated metals sectors of the U.S industrial economy. However, we continue to face challenges to obtain suitable raw materials at favorable prices. The continuing shutdown of primary smelter capacity in the Pacific Northwest also continues to affect our operations.

Operations at our Rockwood, Tennessee facility remain provisionally suspended. We may restart operations at this facility if market conditions warrant doing so. Materials that normally would have been processed at Rockwood have been sent to our other locations for processing.

In the specialty alloy division, obtaining satisfactory materials at favorable prices remains an issue. However, we have been able to process more materials than last year at this time. A significant expansion is underway at our Saginaw, Michigan facility to supply more specialty alloy materials under our long-term agreement with General Motors. This project is expected to be completed by the end of this year.

INTERNATIONAL ALUMINUM PRODUCTION: Production at our international aluminum facilities increased largely through the acquisition of VAW-IMCO as discussed above. On a pro forma basis, assuming the consolidation of VAW-IMCO had occurred on January 1, 2003, production in this segment still increased by 9%. Production at VAW-IMCO improved due to the installation of new IMCO-designed furnaces in 2003. Production also improved at our Monterrey, Mexico facility due to higher volume from the addition of new customers. Tolling volume for this facility was up sharply compared to the same period in 2003.

VAW-IMCO has begun construction of a plant to recycle magnesium. The plant is expected to be completed by the end of this year at an estimated total cost of $5,000,000. The new plant will be located adjacent to our facility at Töging, Germany. The facility is expected to have an annual rated capacity of 15,000 metric tonnes and will produce metal for customers in the automotive industry.

Our Brazil facility operated below 80% of its rated capacity in the first quarter of 2004. This operating level was due to lower than expected volume from the facility s two largest customers.

ZINC PRODUCTION: Zinc production increased modestly during the three months ended March 31, 2004 compared to the same period in the prior year. Most of the production gains occurred among our zinc oxide facilities due to slightly higher demand from customers in the tire industry. Production at our other zinc facilities was relatively unchanged.

REVENUES. The following table shows the total revenue for our three operating segments for the three months ended March 31, 2004 compared to the same period in the prior year, and the percentage change from the prior period (in thousands, except percentages):

	Three months ended March 31,		
	2004	**2003**	**% change**
REVENUES:			
Domestic Aluminum	$ 137,679	$ 127,117	8%
International Aluminum	90,673	33,264	173%
Zinc	50,156	34,702	45%
Total Revenues	$ 278,508	$ 195,083	43%

Our total consolidated revenue increased by 43% during the three months ended March 31, 2004 compared to the same period in the prior year. This increase is more than the percentage increase in our metal processed due to higher metal prices and our processing more product sale material as opposed to tolling material.

DOMESTIC ALUMINUM REVENUES: For the three month period ended March 31, 2004 compared to the same period in the prior year, our domestic aluminum revenues increased. This mostly reflected stronger volumes processed at our aluminum recycling facilities and increases in our deox processing. We believe that the operating rate of our domestic aluminum recycling plants have increased due to the recovery in U.S. industrial activity and a stronger overall aluminum market. The average London Metal Exchange (LME) price of aluminum during the first quarter of 2004 increased by approximately 30% compared to the average price during the same period in 2003.

Within this segment, tolling revenues are running ahead of last year s amounts due to higher tolling volume. Product sales revenues have also increased; however, most of this increase has been due to an increase in prices.

While increases in aluminum prices did boost our revenues, these higher prices affected our material costs and, along with higher prices for aluminum scrap, reduced our margins on sales.

INTERNATIONAL ALUMINUM REVENUES: Our international aluminum revenues have increased strongly since 2003, reflecting our foreign acquisitions and increased volumes. Most of this growth is due to the effective acquisition of 100% of VAW-IMCO, and, to a lesser degree, reflects our increased operations in Mexico. With the consolidation of VAW-IMCO, the majority of our revenues in this segment represent product sales as opposed to tolling fees. VAW-IMCO s revenues are closely tied to the European auto industry; approximately 60% of its annual output is provided to that industry. Revenue increased at our Monterrey, Mexico facility mostly due to the addition of new customers and higher processing volumes.

On a pro forma basis, assuming the consolidation of VAW-IMCO had occurred on January 1, 2003, revenues weakened slightly in first quarter 2004 from the VAW-IMCO facilities due to reduced demand from certain foundry alloys in the product sales market.

ZINC REVENUES: Zinc revenues increased in the first quarter of 2004 compared to the same period in 2003. Driving the zinc revenues has been the increase in zinc metal prices. The average LME price of zinc during the first quarter of 2004 increased by approximately 35% compared to the average price during the same period in 2003.

GROSS PROFITS. Our gross profits increased in the three months ended March 31, 2004, compared to the same period in the prior year. The consolidation of VAW-IMCO and our zinc segment were responsible for much of this increase. Improved income performance from our domestic aluminum segment also contributed to the increase. In our domestic aluminum and international aluminum segments, excluding fuels, our operating costs on a per unit basis were slightly lower in 2004 compared to 2003. Margins, however, remain under pressure in these two segments.

The following table shows the total income for our segments, the percentage change from the prior period and a reconciliation of segment income to our consolidated gross profits (in thousands, except percentages):

	Three months ended March 31, 2004	Three months ended March 31, 2003	% change
Segment Income:			
Domestic Aluminum	$ 6,620	$ 5,813	14%
International Aluminum	6,957	2,909	139%
Zinc	3,893	1,106	252%
Total Segment Income	$ 17,470	$ 9,828	78%
Items not included in gross profits:			
Plant selling expense	$ 1,263	$ 1,180	7%
Management SG&A expense	4,309	1,833	135%
Equity in earnings of affiliates	(17)	(925)	-98%
Other income	122	(9)	n/m
Gross Profits	$ 23,147	$ 11,907	94%

DOMESTIC ALUMINUM INCOME: Domestic aluminum income increased for the three months ended March 31, 2004 compared to the same period in the prior year due to higher volumes and prices . Within this segment, overall margins remain under pressure due to higher scrap metal and materials prices.

Also within this segment, natural gas prices, after including our hedging activities, are higher than last year s. On a per unit basis, overall natural gas prices are approximately 7% higher for the three months ended March 31, 2004 compared to the same period in the prior year.

Overall operating costs, excluding fuels, were relatively unchanged in this segment. On a per unit processed basis, excluding fuels, operating costs are slightly lower in this segment due to higher amounts of materials processed for the three months ended March 31, 2004 compared to the same period in the prior year.

INTERNATIONAL ALUMINUM INCOME: Income in this segment increased for the three months ended March 31, 2004 compared to the same period in the prior year, mostly due to the consolidation of VAW-IMCO as discussed above.

Income from our Monterrey, Mexico operations also increased sharply for the three months ended March 31, 2004 compared to the same period in the prior year due to higher volumes and prices. On a per unit processed basis, fuel costs for this operation are lower this year.

Income from our VAW-IMCO operations increased for the three months ended March 31, 2004 compared to the same period in the prior year. On a pro forma basis, assuming that consolidation with VAW-IMCO had occurred on January 1, 2003, VAW-IMCO s income is up due to higher volumes processed, better product mix and certain reductions in operating costs. Metal hedging activities have also benefited VAW-IMCO s income; overall metal hedging gains, included in income, were approximately $1,651,000. See NOTE N - MARKET RISK MANAGEMENT USING FINANCIAL INSTRUMENTS.

ZINC INCOME: Zinc income increased for the three months ended March 31, 2004 compared to the same period in the prior year, which is primarily related to higher zinc selling prices. Fuel costs in this segment were down slightly for the three months ended March 31, 2004 compared to the same period in the prior year.

SG&A EXPENSE. During the three months ended March 31, 2004, our SG&A expenses were $11,931,000, which was $3,926,000 higher than the $8,005,000 in the same period in 2003. Most of this increase was due to the consolidation of VAW-IMCO.

FEES ON RECEIVABLES SALE. Due to the refinancing of almost all our debt on October 6, 2003, our previous receivables sale facility was extinguished. We will no longer incur this expense. See NOTE C - LONG-TERM DEBT.

INTEREST EXPENSE. During the three months ended March 31, 2004, our interest expense was $6,444,000, which was $4,095,000 higher than $2,349,000 in the same period in 2003. See NOTE C - LONG-TERM DEBT. Most of our debt is now related to the issuance of our senior secured notes, which bear an effective fixed interest rate of 10.5%, compared to the first quarter of 2003 when our former senior credit facility bore an effective annual interest rate of 7.7%.

EQUITY IN NET (EARNINGS) LOSS OF AFFILIATES. During the three months ended March 31, 2004, our equity in net earnings of affiliates was $17,000, which is $908,000 less than the $925,000 in net earnings from affiliates for the same period in 2003. Equity income decreased due to the consolidation of VAW-IMCO as discussed above. Prior to consolidation, the portion of our interest in VAW-IMCO s after-tax earnings was recorded as equity income. During the first quarter of 2003, our equity income from VAW-IMCO was $734,000.

PROVISION FOR INCOME TAXES. During the three months ended March 31, 2004, our provision for income taxes was $1,908,000, which was $1,262,000 above the $646,000 amount from the same period in the prior year. Overall, our consolidated earnings were higher as noted above. Our effective tax rate was 41% for the three months ended March 31, 2004. This compares to an effective tax rate of 39% for the comparable period in 2003. Our provision for income tax in 2003 excluded the equity income from VAW-IMCO, which is recorded on an after tax basis. Our overall effective rate increased in 2004 mostly due to the full consolidation of VAW-IMCO. Starting in March of 2003, VAW-IMCO was consolidated and this resulted in a higher overall effective tax rate due to German income taxes imposed on VAW-IMCO. This consolidation has had the impact of increasing our international earnings.

Higher interest expense and generally lower domestic earnings generated net operating losses in the U.S. Deferred tax benefits related to these net operating losses have been recorded. While our effective tax rate contemplates profitable operating results for the year, if expected profit improvements in our domestic operations do not occur, utilization of the existing U.S. deferred tax assets will need to be re-evaluated.

NET EARNINGS. For the three months ended March 31, 2004, our net earnings before income taxes and minority interest were $4,646,000, which is $2,525,000 higher than the $2,121,000 amount from the same period in the prior year. This was largely due to improved segment income from all of our segments. Offsetting this were increased SG&A expenses and interest expense as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and capital expenditures from internally generated cash and available credit facilities. We have traditionally financed our acquisitions and capacity expansions from a combination of funds from long-term borrowings and stock issuances. We believe that our cash on hand and our anticipated internally generated funds will be sufficient to fund our operational needs for at least the next twelve months.

Cash Flows from Operations. Cash flows from our operating activities are generally the result of net income, deferred taxes, depreciation and amortization, and changes in our working capital. Operations provided $2,165,000 of cash for the three months ended March 31, 2004, compared to a use of $8,765,000 of cash for the same three months in 2003. Changes in operating assets and liabilities used $9,609, 000 of cash for the three months ended March 31, 2004, compared to a use of $16,879,000 of cash for the same three months in 2003.

Among our operating assets and liabilities, changes in accounts receivable used $26,006,000 in cash, and changes in other current assets used $1,467,000 of cash for the three months ended March 31, 2004. Changes in inventories, accounts payable and accrued liabilities provided $2,832,000 and $15,032,000 of cash, respectively, for this same time period.

For the three months ended March 31, 2003, changes in accounts receivable, accounts receivable sold and accounts payable and other accrued liabilities used $10,973,000, $4,400,000 and $3,200,000 of cash, respectively. Changes in inventories and changes in other current assets provided $1,081,000 and $613,000 of cash, respectively, for this time period.

During the first three months of 2004, our accounts receivable increased in our international aluminum and zinc segments. Decreases in inventories in the international aluminum segment provided much of the cash from inventories during this time.

Our increases in accounts receivable are due to an increase in our overall volume of activity and an increase in overall metal prices. An indicator of our collections on receivables activity, and a key internal performance indicator, is our days sales outstanding statistic. We have reduced the number of days sales outstanding since December 31, 2003, effectively strengthening our cash receipts from customers:

	March 31, 2004	December 31, 2003
Days sales outstanding	44	46

Our increase in accounts payable and accrued liabilities is derived mostly from increases in accrued interest.

Cash Flows from Investing Activities. Cash flows from investing activities primarily reflect our capital expenditure strategy. Our capital expenditures principally relate to property, plant and equipment. During the three months ended March 31, 2004, cash used by investing activities was $7,926,000. During the same time period in 2003, cash provided by investing activities was $13,398,000, due to the consolidation of VAW-IMCO as a result of the redemption of shares by VAW-IMCO. See NOTE H - VAW-IMCO.

Cash used for capital expenditures was $7,626,000 for the three months ended March 31, 2004, compared to a use of cash of $2,392,000 for capital expenditures during the same time period in 2003.

Our overall capital expenditures for property, plant and equipment in the U.S. and at our international locations for the remainder of this year are expected to approximate $17,400,000. The majority of this sum is planned to be used for expansion of certain specialty alloying facilities, the expansion of our Morgantown, Kentucky landfill and other maintenance capital items.

These capital expenditures are expected to be funded by cash flows generated from continuing operations, and proceeds to us from VAW-IMCO s repayment in February 2004 of the intercompany note. See NOTE C - LONG-TERM DEBT.

Cash Flows from Financing Activities. Cash flows from financing activities generally reflect changes in our borrowings and debt obligations. Net cash provided by our financing activities was $2,058,000 for the three months ended March 31, 2004, compared to $13,588,000 of cash provided by financing activities for the same time period in 2003. During the three months ended March 31, 2004, $428,000 was used to reduce the long term debt under our senior credit facility. During the same time period in the prior year, proceeds from borrowings on our former revolving credit facility were $12,500,000.

As of March 31, 2004, we estimated that our borrowing base would have supported additional borrowings of $55,331,000 after giving effect to outstanding borrowings of $32,563,000 and outstanding letters of credit of $3,726,000. As of March 31, 2004, our total borrowing base was estimated to be approximately $91,620,000. VAW-IMCO had unused lines of credit totaling approximately $18,455,000.

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. 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. 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 of March 31, 2004, we were in compliance with all applicable debt covenants. In the event that we were not in compliance with this covenant, we would not be able to borrow under the revolving credit facility.

At March 31, 2004 we had $22,278,000 in restricted cash in a collateral account held by the trustee for the benefit of holders of the senior secured notes.

As permitted under the senior secured notes indenture, subject to certain limitations, we will be able to use these funds in the collateral account for certain property and equipment expenditures until January 2005. The property and equipment that are the subject of these expenditures will also become collateral security for the senior secured notes. We currently anticipate that we will use all of the funds from the collateral account for these purposes in 2004. To the extent that more than $5,000,000 in unused funds remain in the collateral account after January 2005, we are required to make an offer to repurchase outstanding senior unsecured notes up to the extent of the amount of the unused funds. If the amount of notes tendered to us in response to this offer is less than the amount of the unused funds, then we may use the excess funds for our general corporate purposes, free of liens under the indenture, but subject to its other terms and conditions. During the first three months of 2004, we used $2,568,000 of funds in the collateral account for capital expenditures.

Subsequent Event, Interest Payment. On April 15, 2004, we paid $11,438,000 as our first interest payment under the senior secured notes we issued in October 2003.

EBITDA. We report our financial results in accordance with generally accepted accounting principles (GAAP). However, our management believes that certain non-GAAP performance measures, which our management uses in managing the business, may provide investors with additional meaningful comparisons between current results and results in prior periods.

EBITDA represents net earnings (loss), before interest expense, provision for (benefit from) income taxes, depreciation and amortization and cumulative effect of accounting change, net of tax benefit. EBITDA is a non-GAAP financial measure which is presented because we believe that it is a useful indicator of our ability to incur and service debt. EBITDA is also used for internal analysis purposes and is a component of the fixed charge coverage financial covenants under our senior credit facility and our senior secured notes. EBITDA should not be construed as an alternative to net earnings (loss) as an indicator of our performance, or cash flows from our operating activities, investing activities or financing activities as a measure of liquidity, in each case as such measure is determined in accordance with GAAP. EBITDA may not be comparable to similarly titled measures used by other entities. Historical EBITDA as presented below may be different than EBITDA as defined under the indenture for our senior secured notes and the loan agreement for our senior credit facility.

Our reconciliation of EBITDA to net earnings and net cash from (used by) operating activities is as follows (amounts in thousands):

	For the three months ended March 31,	
	2004	**2003**
EBITDA	$ 18,178	$ 10,623
Interest expense	6,444	2,349
Income taxes	1,908	646
Depreciation and amortization	7,115	6,305
Net earnings	$ 2,711	$ 1,323
Depreciation and amortization	7,115	6,305
Deferred income taxes	675	416
Equity earnings	(17)	(925)
Non-cash charges	1,290	995
Net change in working capital:		
Accounts receivable	(26,006)	(10,973)
Accounts receivable sold		(4,400)
Inventories	2,832	1,081
Other current assets	(1,467)	613
Accounts payable & accrued liabilities	15,032	(3,200)
Total net change in working capital	$ (9,609)	$ (16,879)
Cash from (used by) operating activities	$ 2,165	$ (8,765)

FOREIGN EXCHANGE RATES. 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, 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 F - OTHER COMPREHENSIVE EARNINGS (LOSS).

During the three months ended March 31, 2004, the U.S. Dollar gained approximately 2% in value against the Euro, resulting in an unrealized foreign currency translation loss of approximately $1,060,000. Offsetting this unrealized loss were unrealized foreign currency translation gains in the British Pound. During this same time period, the British Pound gained approximately 3% against the U.S. Dollar. The Euro is the functional currency of our German facilities, and the British Pound is the functional currency of our Wales facility.

We also operate facilities in Monterrey, Mexico and Pindamonhangaba, Brazil. These facilities have as their functional currencies the Mexican Peso and Brazilian Real, respectively. Foreign currency translation adjustments for these operations were immaterial for the three months ended March 31, 2004.

CREDIT FACILITIES AND REFINANCING. Our long-term debt is summarized as follows (in thousands):

	March 31, 2004	December 31, 2003
Senior Credit Facility, expiring in October 2007	$ 32,563	$ 32,991
10 3/8% Senior Secured Notes, due October 6, 2010 (net of the discount)	208,769	208,751
7.65% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1996 Series, Due May 1, 2016 (net of the discount)	5,705	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	40	46
Subtotal	255,777	256,193
Less current maturities	32,589	33,017
Total	$ 223,188	$ 223,176

VAW-IMCO Credit Facilities. VAW-IMCO has two short-term lines of credit available. As of March 31, 2004, no amounts were outstanding under these lines of credit. The total amount of credit available under these facilities is 15,000,000 Euros ($18,455,000 U.S. Dollars).

CONTRACTUAL OBLIGATIONS

We are obligated to make future payments under various contracts such as debt agreements, lease agreements and unconditional purchase obligations. The following table represents certain of our significant contractual cash obligations and other commercial commitments as of March 31, 2004:

	Cash payments due by period				
	Total	**Less than 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt obligations (does not include interest)	$ 255,777	$ 32,589	$ 13	$	$ 223,175
Operating lease obligations	10,318	3,817	4,638	1,863	
Purchase obligations	185,769	126,742	59,027		
Other long-term liabilities reflected on our balance sheet	20,480		773		19,707
Total	$ 472,344	$ 163,148	$ 64,451	$ 1,863	$ 242,882

Our noncancellable purchase obligations are principally for materials, such as metals and salt fluxes. These materials are used in our manufacturing operations. Other long-term liabilities mostly reflect liabilities for our landfills and our VAW-IMCO pension obligation.

RISK FACTORS

The occurrence of any of the events described in the risk factors below could materially and adversely affect our financial condition and results of operations.

IF WE FAIL TO IMPLEMENT OUR BUSINESS STRATEGY, OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE MATERIALLY AND ADVERSELY AFFECTED.

Our future financial performance and success are dependent in large part upon our ability to successfully implement our business strategy. We cannot assure you that we will be able to successfully implement our business strategy or be able to improve our operating results. In particular, we cannot assure you that we will be able to increase capacity utilization of our aluminum and zinc recycling plants, continue to pursue a disciplined growth strategy, leverage existing customer relationships to drive international expansion, capitalize on the increasing use of aluminum in the transportation market, increase productivity and reduce costs, minimize commodity price risks and maintain environmental efficiencies.

Furthermore, we cannot assure you that we will be successful in our growth efforts or that we will be able to effectively manage expanded or acquired operations. Our ability to achieve our expansion and acquisition objectives and to effectively manage our growth depends on a number of factors, including:

- our ability to identify appropriate acquisition targets and to negotiate acceptable terms for their acquisition;
- our ability to integrate new businesses into our operations; and
- the availability of capital on acceptable terms.

We are regularly in the process of evaluating and may, from time to time in the future, evaluate the acquisition of assets or operations that complement our existing businesses. We cannot estimate what impact, if any, our acquisition of these assets or operations may have on our business or our business strategy.

Our business strategy may require additional funding which may be provided in the form of additional debt, equity financing or a combination thereof. We cannot assure you that we will be permitted under the terms of our new senior credit facility or the notes to obtain such financing.

Implementation of our business strategy could be affected by a number of factors beyond our control, such as increased competition, legal developments, general economic conditions or increased operating costs. Any failure to successfully implement our business strategy could materially and adversely affect our financial condition and results of operations. We may, in addition, decide to alter or discontinue certain aspects of our business strategy at any time.

ASSETS AND OPERATIONS THAT WE ACQUIRE MAY BE DIFFICULT TO INTEGRATE, DISRUPT OUR BUSINESS AND DIVERT MANAGEMENT ATTENTION.

A key component of our current business strategy is to selectively seek assets and operations that complement our existing businesses. There can be no assurance that we will be successful in locating or entering into any strategic alliances or acquisitions, or that any completed transaction will achieve the expected benefits. In addition, any such transaction may result in unexpected costs, expenses and liabilities.

Our ability to achieve our expansion and acquisition objectives will also depend on the availability of capital on acceptable terms. The combined businesses resulting from any acquisition may not be able to generate sufficient operating cash flows in order for us to obtain additional financing or fund our business and expansion strategy.

Acquisitions expose us to:

- increased costs associated with the acquisition and operation of the new businesses and the management of geographically dispersed operations;
- risks associated with the assimilation of new technologies, operations, sites and personnel;
- the possible loss of key employees;
- risks that any operations or technology we acquire may not perform as well as we had anticipated;
- the diversion of management s attention and other resources from existing business concerns;
- the potential inability to replicate operating efficiencies in the acquired company s operations;
- the potential inability to generate sufficient revenues to offset associated acquisition costs;
- the increased need to maintain uniform standards, controls, and procedures; and
- the potential impairment of relationships with employees and customers as a result of integration of new personnel.

The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified potential acquisitions. Integration of acquired businesses require significant efforts from each entity, including coordinating existing business plans and operational procedures. If we are unable to successfully integrate the operations of acquired businesses, our future results will be negatively impacted.

Acquisitions may also result in the issuance of dilutive equity securities, the incurrence or assumption of additional debt and additional expenses associated with the amortization of acquired intangible assets or potential businesses. There is no assurance that any future acquisitions will generate additional income or cash flows, or provide any benefit to our existing or future businesses.

WE MAY ENCOUNTER INCREASES IN THE COST OF RAW MATERIALS AND ENERGY, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We require substantial amounts of raw materials and energy in our business, consisting principally of aluminum and zinc scrap and natural gas. Any substantial increases in their costs could adversely affect our financial condition and results of operations.

Metallics (aluminum and zinc scrap and dross) represent the largest component of our cost of sales. The availability and price of scrap depend on a number of factors outside our control, including general economic conditions, foreign demand for metallics and internal recycling activities by primary aluminum producers. Increased domestic and worldwide demand for aluminum and zinc scrap have had and will continue to have the effect of increasing the prices that we pay for these raw materials thereby increasing our cost of sales. We often cannot adjust the selling prices for our products to recover the increases in scrap prices. If scrap and dross prices were to increase significantly without a commensurate increase in the market value of the primary metals, our financial condition and results of operations would be adversely affected.

Natural gas costs represent the third largest component of our cost of sales (after labor costs). The price of natural gas can be particularly volatile. For instance, in the third quarter of 2003, NYMEX natural gas prices declined slightly after increasing by approximately 50% in the first quarter of 2003. We purchase the majority of our natural gas on a spot-market basis.

As a result, our natural gas costs may fluctuate dramatically, and we may not be able to mitigate the effect of higher natural gas costs on our cost of sales. If natural gas prices remain at current levels or increase further, our financial condition and results of operations may be adversely affected.

Increased energy prices may also adversely affect our customers, which in turn affects demand for our services. For example, since 2001 we have experienced a sharp reduction in demand for our recycling services in the Pacific Northwest, because many domestic smelters located in that region have been forced to suspend or terminate their operations due to high energy costs.

OUR BUSINESS REQUIRES SUBSTANTIAL CAPITAL INVESTMENTS, MAINTENANCE EXPENDITURES AND CONTRACTUAL COMMITMENTS THAT WE MAY BE UNABLE TO FULFILL.

Our operations are capital intensive. Our total capital expenditures were $20,807,000 and $19,313,000 for 2003 and 2002, respectively. We expect to spend approximately $25,000,000 on capital expenditures during 2004. Our business also requires substantial expenditures for routine maintenance and non-capital environmental expenditures. In the first quarter of 2004, we spent $7,626,000 in capital expenditures, compared to $2,392,000 during the same time period in 2003.

As of March 31, 2004, in addition to our debt obligations, we had contractual obligations of approximately $216,567,000 payable over time. As of March 31, 2004, we had contingent obligations outstanding consisting of indemnity obligations under surety bonds and letters of credit being used for financial assurance purposes, totaling approximately $3,726,000. Additionally, domestic and foreign environmental requirements may impose liability for costs of investigation and clean-up, regardless of fault or the legality of the original disposal. Clean-up costs could be substantial and could have a material adverse effect on our financial condition and results of operations.

Our business may not generate sufficient operating cash flow and our external financing sources may not be available in an amount sufficient to enable us to make anticipated capital expenditures, service or refinance our indebtedness or fund other liquidity needs. If we are unable to make upgrades or purchase new plant and equipment, our financial condition and results of operations could be materially and adversely affected.

PRIMARY METALS PRICES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We purchase aluminum and zinc scrap and dross from our customers and on the open market for processing as part of our product sales business. We then sell recycled aluminum and zinc products to our customers based on a price which generally fluctuates with the market price of the primary metal. Accordingly, changes in the market price of primary aluminum and zinc impact the selling prices of our products. In particular, depressed prices adversely affect our business, particularly our zinc business, given our relatively high fixed costs and market differences between the price of scrap and the selling price of our products.

The market prices of aluminum and zinc are dependent upon supply and demand and a variety of factors over which we have little or no control, including:

- U.S. and world economic conditions;
- availability and relative pricing of metal substitutes;
- labor costs;
- energy prices;
- environmental and conservation regulations;
- seasonal factors and weather;
- import and export restrictions; and
- other factors.

In recent years, aluminum and zinc prices have remained depressed longer than expected relative to historical levels, which has adversely affected our results of operations.

A GROWING PORTION OF OUR SALES HAS BEEN DERIVED FROM OUR INTERNATIONAL OPERATIONS, WHICH EXPOSES US TO CERTAIN RISKS INHERENT IN DOING BUSINESS ABROAD.

We currently have operations in countries outside the United States and in emerging markets, including Mexico and Brazil, and we plan to continue to expand our international operations. Our foreign operations are generally subject to risks, including:

- changes in U.S. and foreign governmental regulations, trade restrictions and laws, including tax laws and regulations;
- foreign currency exchange rate fluctuations;
- tariffs and other trade barriers;
- the potential for nationalization of enterprises;
- interest rate fluctuations;
- inflation;
- currency restrictions and limitations on repatriation of profits;
- divergent environmental laws and regulations; and
- political, economic and social instability.

The occurrence of any of these events could have a material adverse effect on our financial condition and results of operations.

The financial condition and results of operations of some of our operating entities are reported in foreign currencies and then translated into U.S. Dollars at the applicable exchange rate for inclusion in our consolidated financial statements. As a result, generally speaking, appreciation of the U.S. Dollar against these foreign currencies will have a negative impact on our reported revenues and operating profit while depreciation of the U.S. Dollar against these foreign currencies will have a positive effect on reported revenues and operating profit. For example, our German and Brazilian operations were positively impacted during 2003 due to the strengthening of the Euro and Brazilian Real against the U.S. Dollar. We have not generally sought to mitigate this translation effect through the use of derivative financial instruments.

WE MAY NOT BE ABLE TO GENERATE SUFFICIENT CASH FLOWS TO MEET OUR DEBT SERVICE OBLIGATIONS.

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