IMCO RECYCLING INC
Form 10-Q
November 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002

¨ 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 the number of shares outstanding of each of the issuer s classes of common stock, as of the close of business on October 31, 2002.

Common Stock, $0.10 par value, 15,147,791

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMCO RECYCLING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2002	December 31, 2001
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 7,370	$ 3,301
Accounts receivable, net of allowance of $1,930 and $2,488 at September 30, 2002 and December 31, 2001, respectively.	35,627	23,569
Inventories	40,189	39,214
Deferred income taxes	6,941	6,879
Other current assets	9,975	7,570
Total Current Assets	100,102	80,533
Property and equipment, net	185,648	186,931
Excess of acquisition cost over the fair value of net assets acquired, net of accumulated amortization	50,747	115,562
Investments in joint ventures	16,168	17,892
Other assets, net	5,122	6,036
	$ 357,787	$ 406,954
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 81,186	$ 67,299
Accrued liabilities	20,491	13,908
Notes payable	10,922	
Current maturities of long-term debt	195	75
Total Current Liabilities	112,794	81,282
Long-term debt	106,902	125,314
Deferred income taxes	11,618	19,157
Other long-term liabilities	11,229	12,308
STOCKHOLDERS EQUITY		
Preferred stock; par value $.10; 8,000,000 shares authorized; none issued		
Common stock; par value $.10; 40,000,000 shares authorized; 17,139,924 issued at September 30, 2002; 17,131,240 issued at December 31, 2001	1,714	1,713
Additional paid-in capital	107,240	105,800
Retained earnings	44,763	98,085
Accumulated other comprehensive loss from foreign currency translation adjustments and deferred hedging gains/losses	(9,936)	(9,890)
Treasury stock, at cost; 2,644,713 shares at September 30, 2002; 2,494,952 shares at December 31, 2001	(28,537)	(26,815)
Total Stockholders Equity	115,244	168,893
	$ 357,787	$ 406,954

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2002	**2001**	**2002**	**2001**
Revenues	$ 180,866	$ 166,712	$ 519,276	$ 531,560
Cost of sales	167,491	156,881	483,340	502,728
Gross profits	13,375	9,831	35,936	28,832
Selling, general and administrative expense	6,426	5,713	19,185	16,639
Amortization expense		1,113		3,190
Interest expense	2,737	2,543	7,492	8,628
Fees on receivables sale	460	720	1,312	2,847
Interest and other income	99	18	(194)	(458)
Equity in net earnings of affiliates	(460)	(484)	(1,103)	(2,381)
Earnings before income taxes, minority interest, and cumulative effect of accounting change	4,113	208	9,244	367
Provision for (benefit from) income taxes	1,443	(69)	3,426	(529)
Earnings before minority interests and cumulative effect of accounting change	2,670	277	5,818	896
Minority interests, net of provision for income taxes	177	122	409	190
Earnings before cumulative effect of accounting change	2,493	155	5,409	706
Cumulative effect of accounting change (after tax benefit of $7,132)			(58,730)	
Net earnings (loss)	$ 2,493	$ 155	$ (53,321)	$ 706
Net earnings (loss) per common share:				
Basic before cumulative effect of accounting change	$ 0.17	$ 0.01	$ 0.37	$ 0.05
Cumulative effect of accounting change			(4.03)	
Basic earnings (loss) per share	0.17	0.01	(3.66)	0.05
Diluted before cumulative effect of accounting change	0.17	0.01	0.37	0.05
Cumulative effect of accounting change			(4.00)	
Diluted earnings (loss) per share	0.17	0.01	(3.63)	0.05
Weighted average shares outstanding:				
Basic	14,492	14,779	14,565	15,091
Diluted	14,594	14,842	14,685	15,120

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(in thousands)

	For the nine months ended September 30,	
	2002	**2001**
OPERATING ACTIVITIES		
Earnings before cumulative effect of accounting change	$ 5,409	$ 706
Depreciation	17,741	17,814
Amortization		3,190
Provision (benefit) for deferred income taxes	(1,851)	1,950
Equity in earnings of affiliates	(1,103)	(2,381)
Other non-cash charges	3,069	1,603
Changes in operating assets and liabilities:		
Accounts receivable	(14,495)	6,577
Accounts receivable sold	1,600	(28,600)
Inventories	(937)	15,670
Other current assets	(1,453)	1,691
Accounts payable and accrued liabilities	21,862	(24,699)
Net cash from (used by) operating activities	29,842	(6,479)
INVESTING ACTIVITIES		
Payments for property and equipment	(9,232)	(6,054)
Acquisition of Brazil facility, net of cash acquired	(229)	
Other	3,586	2,213
Net cash used by investing activities	(5,875)	(3,841)
FINANCING ACTIVITIES		
Net (payments of) proceeds from long-term revolving credit facility	(18,500)	15,600
Principal payments of long-term debt	(110)	(110)
Minority Interests	(894)	(240)
New debt issuance costs	(975)	(18)
Purchases of treasury stock		(4,966)
Other	1,057	320
Net cash (used by) from financing activities	(19,422)	10,586
Effect of exchange rate differences on cash and cash equivalents	(475)	(54)
Net increase in cash and cash equivalents	4,069	212
Cash and cash equivalents at January 1	3,301	5,014
Cash and cash equivalents at September 30	$ 7,370	$ 5,226
SUPPLEMENTARY INFORMATION		
Cash payments for interest	$ 5,574	$ 8,295
Cash payments for income taxes	$ 193	$ 593
Assumption of notes payable in Brazil acquisition	$ 12,093	$

See Notes to Consolidated Financial Statements.

IMCO RECYCLING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2002
(dollars in tables are in thousands, except per share data)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The accompanying financial statements include the accounts of IMCO Recycling Inc. and all of its subsidiaries (collectively, except where the context otherwise requires, the Company). All significant intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001. Certain reclassifications have been made to prior period statements to conform to the current period presentation.

NOTE B RECEIVABLES SALE

The net proceeds under the Company s Receivables Purchase Agreement were $66,900,000 for the nine month period ended September 30, 2002 and $65,300,000 for the year ended December 31, 2001. For the three and nine month periods ended September 30, 2002, the Company incurred fees on sales of its receivables in the amount of $460,000 and $1,312,000, respectively. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Fees on Sales of Receivables.

On October 31, 2002, the Company amended the terms of the Receivables Purchase Agreement. The Amendment No. 2 to Receivables Purchase Agreement reduced the Purchase Limit (the aggregate amount of receivables that can be sold) from $100,000,000 to $75,000,000.

NOTE C INVENTORIES

The components of inventories are:

	September 30, 2002	December 31, 2001
Finished goods	$ 15,048	$ 18,073
Raw materials	23,616	19,477
Supplies	1,525	1,664
	$ 40,189	$ 39,214

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NOTE D INCOME TAXES

After excluding the effects of its interest in the VAW-IMCO joint venture which is reported on an after tax basis, the Company recorded an effective tax rate of 38% for the nine month period ended September 30, 2002 compared to a tax benefit of 30% for the comparable period of 2001.

NOTE E LONG TERM DEBT

As of September 30, 2002, the Company had $92,000,000 in indebtedness outstanding under its long-term revolving credit facility and had approximately $64,559,000 available for borrowing; however, due to certain financial covenants under the facility, only approximately $12 million was currently available. In addition, there were standby letters of credit outstanding with several banks totaling $3,441,000.

The Company uses its revolving credit facility to provide funding for its short-term liquidity requirements and for letters of credit. The facility is currently scheduled to expire on December 31, 2003. It is the Company s intention to extend the term of the Credit Agreement or replace this facility prior to its expiration.

On April 26, 2002, the Company amended the terms of its Second Amended and Restated Credit Agreement (the Credit Agreement), which contains the terms of the Company s revolving credit facility. The Fourth Amendment to the Credit Agreement added new provisions to and modified existing provisions of the Credit Agreement, principally to reclassify the Company s existing subsidiaries, and certain foreign subsidiaries which may be formed, as unrestricted subsidiaries. Revenues and earnings from these unrestricted subsidiaries will generally not be included in calculating the Company s compliance with certain financial covenants under the Credit Agreement (except to the extent that certain cash distributions are received by the Company or its restricted subsidiaries).

The maximum amount under the Credit Agreement which the Company can borrow under the facility is $160,000,000. The Company is required to prepay the facility from the proceeds of certain debt or equity financings; the facility indebtedness must be reduced by an amount equal to 100% of the proceeds from any permitted debt issuance, and 25% of the proceeds from any equity offering.

The Credit Agreement also imposes on the Company: (i) prohibitions against incurring certain indebtedness, (ii) limitations on dividends on and repurchases of shares of capital stock and (iii) limitations on capital expenditures, investments and acquisitions. Funding of acquisitions by the Company will be permitted from future equity offerings, so long as 25% of the proceeds from the equity offering are applied to reduce outstanding debt under the credit facility. Cash dividends on and cash repurchases of the Company s capital stock will be prohibited until such time as the Company s total debt to EBITDA ratio falls below 3.0 to 1.0, at which time the Company will be permitted to pay up to $8,000,000 in dividends or for stock repurchases in each year so long as it remains in compliance with this ratio, and so long as no default or event of default has occurred and is continuing or would result. Excluded from the Credit Agreement s prohibition on reacquiring shares are shares surrendered to the Company in payment of the exercise price of stock options or withholding obligations arising from the exercise of stock options. Capital expenditures for the Company are limited to $15 million per annum for maintenance and replacement of existing assets and for new assets deemed necessary for the health and safety of its employees or as required by law.

The indebtedness under the Credit Agreement is currently secured by substantially all of the Company s personal property (except for accounts receivables and certain related assets subject to the Company s Receivables Sale Facility), and first lien mortgages on substantially all of the Company s domestic operating facilities, plus a pledge of the capital stock of substantially all of the Company s subsidiaries.

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

The Company believes that its cash on hand, the availability of funds under the revolving credit facility and its anticipated internally generated funds will be sufficient to fund its current operational needs. However, the Credit Agreement, as amended by the Fourth Amendment, imposes constraints on funding the Company s growth plans in 2002 and 2003. In addition, financial covenants under the current agreement become more stringent in 2003, and there can be no assurances that the Company will remain in compliance with the more stringent covenants. Management of the Company plans to seek additional or alternative sources of funds as a means to pay down and replace the credit facility indebtedness under the Credit Agreement, and accomplish the Company s growth and capital spending plans. If these sources of funds are not available, or are not available on terms advantageous to the Company, then the Company may have to curtail its current growth and expansion plans until economic or credit market conditions improve. Replacement of the existing credit facility may require the Company to incur higher interest costs than it currently pays, and may impose further restrictions on the Company s ability to grow. However, while there can be no assurances at this time, the Company feels it will be successful in negotiating a replacement to the existing Credit Agreement.

NOTE F IMPAIRMENT OF GOODWILL

While the Company s overall annual goodwill impairment analysis under FAS 142 will not be completed until the fourth quarter, the Company s market capitalization as of September 30, 2002 compared to the carrying value of the reporting units net assets suggests that it is possible that a further overall goodwill impairment has occurred. Market capitalization is one of several factors which must be considered when determining if an impairment has occurred. At this time, management is unable to reasonably estimate if impairment has occurred. The factors that will affect whether or not an impairment is necessary include management s revised operating plan for the zinc and aluminum segments, the results of the Company s overall current budgeting and long-term planning process and a valuation of assets and liabilities. As was the case with the first quarter 2002 impairment, any further impairment would be non-cash and therefore would not affect the Company s liquidity.

NOTE G RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective January 1, 2002, the Company adopted SFAS No. 142 Goodwill and Other Intangible Assets (FAS 142). Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. Instead, FAS 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of FAS 142 and annually thereafter. The Company will perform its annual impairment review during the fourth quarter of each year, commencing in the fourth quarter of 2002.

Under FAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In connection with its adoption of FAS 142, the Company engaged a third-party valuation firm to estimate the fair value of the Company s reporting units. The valuation firm used a discounted cash flow model to determine the fair value of the Company s reporting units with a discount rate based on a risk-adjusted weighted average cost of capital for each unit. Because the fair value of the Company s reporting units, as determined by the valuation firm, was less than the carrying value of the reporting unit net assets, the Company performed the second step of the impairment test required by FAS 142 and determined that an impairment charge was required for each reporting unit. The cumulative effect adjustment recognized as a result of the impairment charge was $58,730,000 (after tax), consisting of write-offs for the impairment of goodwill in the aluminum and zinc segments.

The effects of adopting the new standards on net income and diluted earnings per share for the three and nine month periods ended September 30, 2002 and 2001 follow:

	Net Income Three months ended September 30,		Diluted EPS Three months ended September 30,	
	2002	**2001**	**2002**	**2001**
Net income	$ 2,493	$ 155	$ 0.17	$ 0.01
Add: Goodwill amortization, net of tax		985		0.07
Pro forma net income	$ 2,493	$ 1,140	$ 0.17	$ 0.08

	Net Income Nine months ended September 30,		Diluted EPS Nine months ended September 30,	
	2002	**2001**	**2002**	**2001**
Net income (loss)	$ (53,321)	$ 706	$ (3.63)	$ 0.05
Less: Cumulative net income effect from the accounting change for goodwill	(58,730)		(4.00)	
Income, excluding cumulative effect of accounting change	5,409	706	0.37	0.05
Add: Goodwill amortization, net of tax		2,773		0.18
Pro forma net income	$ 5,409	$ 3,479	$ 0.37	$ 0.23

Net income for the quarter ended September 30, 2001 would have been $1,140,000, or eight cents per share if goodwill amortization had been discontinued effective January 1, 2001. Net income for the nine month period ended September 30, 2001 would have been $3,479,000 or twenty-three cents per share if goodwill amortization had been discontinued effective January 1, 2001.

The amount of the SFAS No. 142 goodwill impairment charge primarily reflects the decline in the Company s stock price over the last several years. This decline was the result of several unforeseen factors, which have reduced the Company s earnings. These factors include increased competition in the specification alloys business, increases in the supply of zinc over the past several years which has led to severe price declines in the selling prices for zinc and energy related closures caused by drought conditions in the United States Pacific Northwest which has caused capacity reductions for some of the Company s major customers.

Changes to goodwill during the nine month period ended September 30, 2002, including the effects of adopting these new accounting standards, follow:

	Goodwill
Balance at December 31, 2001, net of accumulated amortization	$ 115,562
Acquisition of Brazil operations	1,120
Write-off of goodwill recognized in cumulative effect adjustment	(65,862)
Translation and other adjustments during the period	(73)
Balance at September 30, 2002, net of accumulated amortization	$ 50,747

The following table presents goodwill and the related effect of the SFAS 142 write-down by segment:

	Aluminum Segment	Zinc Segment
Goodwill balance at December 31, 2001, net of accumulated amortization	$ 70,185	$ 45,377
Acquisition of Brazil operations	1,120	
Write-off of goodwill recognized in cumulative effect adjustment	(42,237)	(23,625)
Translation and other adjustments during the period		(73)
Balance at September 30, 2002, net of accumulated amortization	$ 29,068	$ 21,679

The FASB has issued FAS 143, Accounting for Asset Retirement Obligations , effective for years beginning after June 15, 2002. FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset, except for certain obligations of lessees. The Company is currently evaluating the effects of this Statement.

Effective January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement amends previous accounting and disclosure requirements for impairments and disposals of long-lived assets. The provisions of this new standard are generally applied prospectively. The adoption of this standard had no material impact on the Company s operations.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (FAS 146): Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. FAS 146 replaces EITF Issue No. 94-3. This statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

NOTE H NET EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Numerators for basic and diluted earnings (loss) per share:				
Net earnings before cumulative effect of accounting change	$ 2,493	$ 155	$ 5,409	$ 706
Cumulative effect of accounting change			(58,730)	
Net Earnings (loss)	$ 2,493	$ 155	$ (53,321)	$ 706
Denominator:				
Denominator for basic earnings (loss) per share-weighted-average shares	14,492,148	14,778,989	14,564,583	15,090,950
Dilutive potential common shares - stock options	101,660	62,597	120,655	28,968
Denominator for diluted earnings (loss) per share	14,593,808	14,841,586	14,685,238	15,119,918
Net earnings (loss) per share:				
Basic before cumulative effect	0.17	0.01	0.37	0.05
Basic after cumulative effect	0.17	0.01	(3.66)	0.05
Diluted before cumulative effect	0.17	0.01	0.37	0.05
Diluted after cumulative effect	0.17	0.01	(3.63)	0.05

NOTE I OPERATIONS

The Company s operations, like those of other basic industries, are subject to federal, state, local and foreign laws, regulations and ordinances. These laws and regulations (1) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous wastes and (2) impose liability for costs of cleaning up, and certain damages resulting from past spills, disposals or other releases of hazardous substances. It can be anticipated that more rigorous environmental laws will be enacted that could require the Company to make substantial expenditures, in addition to those described in this Form 10-Q and the Company s Form 10-K for the year ended December 31, 2001.

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

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

In 1997, the Illinois Environmental Protection Agency (IEPA) notified the Company that two of the Company s zinc subsidiaries are potentially responsible parties (PRP) pursuant to the Illinois Environmental Protection Act for the cleanup of contamination at a site in Marion County, Illinois to which these subsidiaries, among others, in the past sent zinc oxide for processing and resale. These subsidiaries are planning to negotiate with the IEPA regarding the cleanup of the site. The site has not been fully investigated and final cleanup costs have not yet been determined. Although no assurances can be made, based on current cost estimates and information regarding the amount and type of materials sent to the site by the subsidiaries, the Company does not believe that its potential liability at this site, if any, will have a material adverse effect on its financial position or results of operations.

On February 15, 2001, the State of Michigan filed a lawsuit against the Company in the State Circuit Court for the 30th District, Ingham County, Michigan. The lawsuit arises out of disputes between the Company s Alchem Aluminum Inc. subsidiary and Michigan environmental authorities concerning air emission control permits at the subsidiary s aluminum specialty alloy production facilities in Coldwater, Michigan. The plaintiff claims injunctive relief and penalties for alleged noncompliance with and violations of federal and state environmental laws. The suit seeks compliance by the Company as well as potentially substantial monetary penalties. The Company has filed an answer to the complaint and is in the discovery stage of the process. A motion for summary disposition has been filed raising legal and factual defenses to portions of the State s complaint. The Company believes it has meritorious defenses to the claims and plans a vigorous defense. While no assurances can be given, the Company does not believe that this action will have a material adverse effect on its financial condition or results of operation.

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

On October 30, 2002, the Company was notified by its attorneys that it was expected to receive an unfavorable ruling with respect to a case it is litigating in state court in Missouri. The expected ruling may require the Company to pay or post approximately $3,500,000 in cash or security to satisfy a bond posted in connection with this case. The Company is currently involved in litigation with certain of its former insurance carriers and brokers with respect to the payment of these funds, and the Company believes that if it is required to pay these funds, it will recover all of the funds through that litigation.

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

NOTE J OTHER COMPREHENSIVE INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net income (loss)	$ 2,493	$ 155	$ (53,321)	$ 706
Hedging, net of tax	695	(1,141)	4,657	(5,785)
Foreign currency translation adjustment and other	(4,351)	807	(4,697)	183
Net unrealized gain (loss) on long-term marketable equity securities			(5)	
Comprehensive net loss	$ (1,163)	$ (179)	$ (53,366)	$ (4,896)

NOTE K SEGMENT REPORTING

The Company has two reportable segments: aluminum and zinc. The aluminum segment represents all of the Company s aluminum melting, processing, alloying, brokering and salt cake recovery activities, including investments in joint ventures. The Company s zinc segment represents all of the Company s zinc melting, processing and brokering activities.

There has been no material change in the Company s segment classifications during 2002.

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
REVENUES:				
Aluminum	$ 139,938	$ 124,172	$ 399,265	$ 389,464
Zinc	40,928	42,540	120,011	142,096
Total revenues	$ 180,866	$ 166,712	$ 519,276	$ 531,560
INCOME:				
Aluminum	$ 10,390	$ 8,016	$ 27,536	$ 23,077
Zinc	830	1,014	3,283	2,350
Total segment income	$ 11,220	$ 9,030	$ 30,819	$ 25,427
Unallocated amounts:				
General and administrative expenses	$ (3,937)	$ (4,506)	$ (13,103)	$ (10,650)
Amortization expense		(1,113)		(3,190)
Interest expense	(2,737)	(2,543)	(7,492)	(8,628)
Fees on receivables sale	(460)	(720)	(1,312)	(2,847)
Interest and other income	27	60	332	255
Earnings before provision for (benefit from) income taxes and minority interests	$ 4,113	$ 208	$ 9,244	$ 367

NOTE L VAW-IMCO

The Company owns a 50% interest in an aluminum recycling joint venture in Germany, VAW-IMCO Guss und Recycling GmbH (VAW-IMCO). At September 30, 2002 and 2001, the Company s equity in the net income of VAW-IMCO is stated at $927,000 and $2,376,000, respectively. The following table represents the condensed income statements for the three and nine month periods ended September 30, 2002 and 2001.

	Three months ended September 30,		Nine months ended September 30,	
	2002	**2001**	**2002**	**2001**
Revenues	$ 61,407	$ 52,337	$ 178,908	$ 172,566
Gross Profit	$ 4,829	$ 3,835	$ 11,461	$ 14,642
Net Income	$ 704	$ 1,011	$ 1,842	$ 4,686

On March 15, 2002, Norsk Hydro ASA, a Norwegian oil and energy, aluminum and fertilizer company, announced that it had completed the purchase of VAW *aluminium* AG, the other 50% shareholder, from its parent company. Under the terms of the joint venture agreement and VAW-IMCO s organizational documents, upon a change of control of one shareholder, the remaining shareholder may, if certain conditions are met, elect to cause VAW-IMCO to redeem the shares held by the shareholder that experienced the change in control. The redemption price, which is to be paid in five equal annual installments (plus interest) from current funds and future cash flows of VAW-IMCO, is to be determined by an evaluation conducted under a standard issued by the Institute of German Certified Public Accountants, with both shareholders having the right to commission an auditing firm to perform their own evaluation.

On June 19, 2002, IMCO announced that it had begun the process through which it would seek to obtain 100% ownership of VAW-IMCO by exercising its right to elect to cause the joint venture to redeem VAW *aluminium* AG s interest. The valuation process to determine the redemption price began in the summer of 2002, and valuation procedures continue to be performed. Additional post-evaluation procedures may be undertaken by the parties and currently, the Company is presently unsure of the timing of the actual redemption. Until the evaluation is finally concluded by the parties and the redemption is effected, the results of operations of VAW-IMCO will continue to be reflected in the Company s financial statements under the equity method of accounting.

NOTE M STOCKHOLDERS EQUITY

In March 1998, the Company adopted an Executive Option Exercise Loan Program in order to encourage option exercises and share retention by management employees holding certain options under the Company s 1990 Stock Option Plan. This program provided loans to permit the exercise of certain Company stock options under its 1990 Stock Option Plan and to pay federal and state taxes realized upon such exercises. Under this program, 35,000 and 196,800 shares were exercised in 1999 and 1998, respectively. As of December 31, 2001, the Company had extended $2,266,000 in loans to these individuals ($1,624,000 of which represented a reduction to additional paid-in capital and $642,000 of which was included in other long-term assets).

The terms of the Executive Option Exercise Loan Program provided that the loans extended could be repaid in shares of the Company s common stock so long as the Compensation Committee of the Company s Board of Directors approved that repayment method. In May 2002, following approval of the Compensation Committee, substantially all of the outstanding loans and accrued interest under the program were repaid by the participants surrendering 205,439 shares of common stock held by the Company as collateral for the loans. The shares surrendered to the Company were valued as of the date of transfer (May 9, 2002) at $2,321,461, based upon the closing price per share on the New York Stock Exchange on that date ($11.30 per share).

NOTE N ACQUISITION

On May 31, 2002, the Company acquired, through its wholly-owned subsidiary IMCO Brazil Holding Ltda., all of the capital stock of Recipar Reciclagem de Materiais Indústria e Comércio Ltda. (Recipar) in consideration for its assumption of approximately $12,100,000 in short-term debt. In addition, the transaction provides for future contingent payments to the seller, dependent on Recipar s realization of certain tax benefits through May 31, 2007. Recipar s primary assets are a production facility located in Pindamonhangaba, São Paulo state, Brazil. This facility has a rated annual production capacity of 100 million pounds of aluminum. Four months results of operations of Recipar have been included in the Company s consolidated statement of operations for the 2002 period. Based on a preliminary purchase price allocation, the Company recorded $1,120,000 in goodwill. Pro forma net earnings (loss) for the Company for the year ended December 31, 2001 and the nine months period ended September 30, 2001 reflecting Recipar s operations are not materially different from the Company s historical results.

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

Approximately 60% of the Company s processing volumes consists of aluminum tolled for its customers. Tolling revenues reflect only the processing cost and the Company s profit margin. The balance of the Company s processing activities consist of the buying, processing, recovery and specialty alloying of aluminum and zinc metal and the production of other value-added zinc products for sale by the Company. The revenues from these sales transactions include the cost of the metal, as well as the processing cost and the Company s 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, the Company has traditionally considered processing volume to be a more important determinant of performance than revenues. 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 September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Pounds processed	651,065	647,823	1,882,665	1,902,732
Percentage of pounds tolled	56%	64%	59%	62%
Revenues	$ 180,866	$ 166,712	$ 519,276	$ 531,560
Gross profits	$ 13,375	$ 9,831	$ 35,936	$ 28,832

CRITICAL ACCOUNTING POLICIES

A summary of the Company s significant accounting policies is included in ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of the Company s Annual Report on Form 10-K for the year ended December 31, 2001.

The preparation of the Company s 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 derivatives, inventories, environmental and tax matters, as well as the annual testing of goodwill and other intangibles for impairment. 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 the Company s financial statements at any given time.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001, AND NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

PRODUCTION. For the three month period ended September 30, 2002, the Company melted 651.1 million pounds, relatively the same as the 647.8 million pounds melted during the same period in 2001. For the nine month period ended September 30, 2002, the Company melted 1.88 billion pounds, about the same compared to 1.90 billion pounds during the same period in 2001. Tolling activity for both the three and nine month periods ended September 30, 2002 represented approximately 56% and 59%, respectively, of total pounds processed, which was lower than the rates in the same periods of 2001.

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

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Pounds Processed:				
Aluminum	591,693	588,185	1,709,862	1,740,747
Zinc	59,372	59,638	172,803	161,985
Total Pounds Processed	651,065	647,823	1,882,665	1,902,732
Percentage Tolled:				
Aluminum	62%	70%	65%	67%
Zinc	3%	3%	3%	3%
Total Percentage Tolled	56%	64%	59%	62%

ALUMINUM PRODUCTION: For the three month period ended September 30, 2002, the Company melted approximately the same volume of aluminum it did during the same period in 2001. For the nine month period ended September 30, 2002, the Company melted 2% less aluminum than it did during the same period of 2001. The slight decrease in aluminum production was primarily due to the overall weakness in many sectors of the U.S. industrial economy.

ZINC PRODUCTION: For the nine month periods ended September 30, 2002, the Company melted 7% more zinc than it did during the same period in 2001, mainly due to increased demand from customers in the zinc oxide and zinc dust businesses. Zinc volumes in the third quarter of 2002 were approximately the same as that in 2001.

REVENUES. For the three month period ended September 30, 2002, the Company s consolidated revenues increased 8% to $180,866,000 compared to $166,712,000 for the same period in 2001. For the nine month period ended September 30, 2002, revenues decreased 2% to $519,276,000 compared to $531,560,000 for the same period in 2001. The aluminum segment accounted for all of the overall revenue increase for the three month period. This was mainly due to a higher percentage of product sale business compared to the 2001 period, the revenues from Brazil and Mexico and higher prices for sales of specification alloy products. The aluminum segment realized a slight increase of 3% for the nine month period, while the zinc segment decreased 16% for the nine month period. The declines in the zinc segment are due to reduced zinc trading activity and lower zinc prices, compared to the first nine months of 2001.

The following table shows the total revenues for the aluminum and zinc segments (in thousands) (See NOTE J SEGMENT REPORTING):

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Revenues:				
Aluminum	$ 139,938	$ 124,172	$ 399,265	$ 389,464
Zinc	40,928	42,540	120,011	142,096
Total Revenues	$ 180,866	$ 166,712	$ 519,276	$ 531,560

ALUMINUM REVENUES: For the three month period ended September 30, 2002, the Company s aluminum revenues increased 13% while increasing 3% for the nine month period ended September 30, 2002, compared to the same periods in 2001. The increase in the 2002 nine month period was due principally to a higher percentage during 2002 of product sales business compared to tolling, and the additional revenues from the Brazil and Mexico operations, as discussed above. In addition, during the second and third quarters of 2002, the specification aluminum alloys business realized higher alloys sales volumes and prices, which resulted in an increase in aluminum revenues for both quarters, compared to the same periods of 2001. See Special Factors and Outlook below.

ZINC REVENUES: For the three and nine month periods ended September 30, 2002, the Company s zinc revenues decreased 4% and 16%, compared to the same periods in 2001. This decrease was due to lower zinc selling prices and a lower level of zinc trading activity than the same period last year. Although year-to-date production volumes were slightly higher for the same period of 2001, prevailing market prices for all of the Company s zinc products were significantly below levels of a year ago.

GROSS PROFITS. For the three month period ended September 30, 2002, the Company s consolidated gross profits increased 36% to $13,375,000 as compared to $9,831,000 in the same period in 2001. For the nine month period ended September 30, 2002, consolidated gross profits increased 25% to $35,936,000, compared to $28,832,000 for the first nine months of 2001. Higher alloys prices, lower natural gas costs and other operating costs were the primary reasons for the increase in gross profit.

The following table shows the total income for the aluminum and zinc segments and a reconciliation of segment income to the Company s consolidated gross profits (in thousands) (See NOTE J SEGMENT REPORTING):

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Segment Income:				
Aluminum	$ 10,390	$ 8,016	$ 27,536	$ 23,077
Zinc	830	1,014	3,283	2,350
Total segment income	$ 11,220	$ 9,030	$ 30,819	$ 25,427
Items not included in gross profits:				
Plant selling expense	$ 1,354	$ 1,256	$ 3,775	$ 3,817
Management SG&A expense	1,135	(49)	2,307	2,174
Equity in earnings of affiliates	(460)	(484)	(1,103)	(2,381)
Other income	126	78	138	(205)
Gross Profits	$ 13,375	$ 9,831	$ 35,936	$ 28,832

ALUMINUM INCOME: For the three month period ended September 30, 2002, the Company s aluminum income increased 30% as compared to the same period in 2001. For the nine month period ended September 30, 2002, aluminum income increased 19% as compared to the same period of 2001. In the third quarter of 2002, better gross margin performance by the Company s specialty alloys business coupled with overall lower operating costs resulted in greater income. For the first nine months of 2002, in addition to the increased profit margins in the specialty alloys business, lower natural gas and other operating costs contributed to the increase in income compared to the first nine months of 2001.

ZINC INCOME: For the three month period ended September 30, 2002, the Company s zinc income decreased 18% compared to the same period in 2001. The quarterly decrease is attributable to reduced zinc prices and lower income from the oxide business. For the nine month period ended September 30, 2002, the Company s zinc income increased 40% compared to the same period in 2001. The nine month positive variance was due to higher processing volumes due to higher demand and lower natural gas and other operating costs over the 2002 nine month period.

SG&A EXPENSES. Selling, general and administrative expenses for the three month period ended September 30, 2002 were $6,426,000, an increase of 12% from $5,713,000 for the comparable period last year. For the nine month period ended September 30, 2002, selling, general and administrative expenses increased by 15% to $19,185,000 as compared to $16,639,000 in the same period of 2001. The increase in these periods mainly relate to higher employee incentive compensation charges due to improved operating performance by the Company in 2002 compared to 2001.

INTEREST EXPENSE. Interest expense for the three month periods ended September 30, 2002 and 2001 was $2,737,000 and $2,543,000, respectively, representing an increase of 8% in 2002. The increase in interest expense was attributable to the short-term debt assumed in connection with the Brazilian acquisition. For the first nine months of 2002, interest expense decreased 13% to $7,492,000 as compared to $8,628,000 in the same period of 2001. The decrease for the nine month period is mainly due to lower interest rates and improved management of working capital that lowered average outstanding debt.

FEES ON SALES OF RECEIVABLES. In 2000, the Company and certain of its subsidiaries entered into a Receivables Sale Facility with a special purpose subsidiary of the Company, and a financial institution and its affiliate. Under this facility, the Company and each of its subsidiaries sells receivables and other related assets to the special purpose subsidiary that, in turn, sells undivided interests therein to certain financial institutions and other entities. Fees incurred in connection with these transfers for the three and nine month periods ended September 30, 2002 were $460,000 and $1,312,000, respectively, compared to $720,000 and $2,847,000, respectively, in the same period of 2001. This decrease is mainly due to lower prevailing interest rates in 2002. (See NOTE B-RECEIVABLES SALE.)

EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE. Earnings before the cumulative effect of accounting change increased to $2,493,000 for the three month period ended September 30, 2002, compared to net income of $155,000 for the same period in 2001. For the nine month period ended September 30, 2002, earnings before cumulative effect of an accounting change increased to $5,409,000 compared to $706,000 for the same period in 2001. The increase in these periods was primarily the result of the increased profit margins as discussed above, as well as the elimination of goodwill amortization in accordance with SFAS 142. (See Note G of Notes to Consolidated Financial Statements).

SPECIAL FACTORS AND OUTLOOK

Certain of the statements below contain projections and estimates based on current expectations. These statements are forward-looking in nature and actual results may differ materially due to a number of reasons, as more fully described under the section entitled CAUTIONARY STATEMENT FOR PURPOSES OF FORWARD LOOKING STATEMENTS below. These statements do not reflect the potential impact of any acquisitions, investments or divestitures that may be completed, or unforeseen events that may occur after the date of this filing.

During the first nine months of 2002, market factors that adversely affected the Company s results of operations and financial condition included:

- continuing weak demand for its products and services at its aluminum facilities, principally due to the continuing downturn in U.S. industrial production;
- customer plant shutdowns in the U.S. Pacific Northwest;
- weak market conditions for its customers serving the can sheet and construction sectors;
- lower profit margins experienced at its German facilities;
- declines in recent periods in the U.S. aluminum recycling rate; and
- continuing low prices for zinc.

For the remainder of 2002, the Company expects many of the prevailing industry conditions to persist. Continued weak domestic industrial production will negatively impact the Company s results of operations.

The Company continues to concentrate its efforts to reduce its operational costs through its cost reduction programs. Other factors that have positively affected the Company s costs in recent periods have included:

lower natural gas costs,

more effective use of commodities hedges and working capital management techniques,

increasing usage of the new North American Special Aluminum Alloy Contract trading on the London Metal Exchange (LME),

an internal central purchasing function,

further utilization of efficient fuel-burning technologies for its furnaces, and

continued reallocation of processing volumes among its facilities.

For the Company s financial results to improve, processing volumes and metals prices will have to increase. The Company expects weaker margins in its specification alloys business for the fourth quarter of 2002 due to price declines and slackening demand from automotive producers. For these reasons, coupled with the automotive industry s traditional holiday shutdown of its production facilities, the higher levels of processing volumes and sales at the Company s specification alloys facilities experienced in the second and third quarters of 2002 should not be expected to continue for the fourth quarter of 2002. Overall, the Company s fourth quarter 2002 net earnings and earnings per share are expected to be below the levels of net earnings and earnings per share recorded for the second and third quarters of 2002.

The percentage of total metal tolled by the Company relative to its total metal sales has continued to decline. Continuing deterioration in the U.S. national recycling rate and slower demand for the Company s aluminum recycling services may cause the Company s percentage of tolling activities relative to total volumes to continue to decline in subsequent periods. If this trend continues, the Company will be exposed to increased working capital requirements that are required for proportionately increased levels of product sales, and may experience more volatility in earnings and cash flows since the Company will have additional commodity risk through its ownership of the metal units to be sold.

The Company plans to continue to seek growth opportunities in Europe and in Latin America. The Company has recently completed construction of a new processing plant at its 85%-owned joint venture facility in Monterey, Mexico and is processing aluminum dross and scrap under a new long-term recycling contract with a major producer of automobile engine components. In June 2002, the Company acquired an aluminum recycling plant in Brazil. Construction of a new facility in the United Kingdom has been delayed until 2003. The Company is presently unsure of the timing of the actual redemption of VAW-IMCO s joint venture interest previously announced.

Until U.S. industrial demand increases, the Company s overall domestic operations should be expected to remain at low levels of profitability. Assuming that (i) the U.S. economy recovers in 2003, (ii) the Company can continue its international expansion program as planned, and (iii) the cost savings experienced in 2001 and 2002 continue to be realized, overall Company profitability should improve in 2003. If the economy further weakens, the Company s results of operations and financial condition would be adversely affected. Unexpected defaults and insolvencies involving its suppliers and customers, which occurred in 2001 and 2002, could further diminish the Company s prospects.

The Company is currently constrained by the terms of the facilities for its sources of capital with regards to expansion and acquisition opportunities. Both its revolving credit and receivables sales facilities expire by their terms in late 2003. See LIQUIDITY AND CAPITAL RESOURCES below. Although management believes that alternative sources of capital funding are available, no assurances can be given that the terms of those facilities would be comparable to or as favorable to the Company as the terms of its existing facilities.

No assurances can be made that any of these anticipated results will actually be achieved, and if so, when they can be accomplished. In addition, the Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-Q.

VAW-IMCO

The Company is a 50% joint venture shareholder in VAW-IMCO, with VAW *aluminium* AG being the other 50% shareholder. See Note L VAW-IMCO above. On March 15, 2002, Norsk Hydro ASA, a Norwegian oil and energy, aluminum and fertilizer company, announced that it had completed the purchase of VAW