

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

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

For the Quarterly Period Ended June 30, 2004

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File No. 1-7170

IMCO Recycling Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

Edgar Filing: IMCO RECYCLING INC - Form 10-Q/A

75-2008280

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

5215 North O Connor Blvd., Suite 1500

Central Tower at Williams Square

Irving, Texas 75039

(Address of principal executive offices) (Zip Code)

(972) 401-7200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Edgar Filing: IMCO RECYCLING INC - Form 10-Q/A

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

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

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

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

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

Table of Contents

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

Table of Contents

INTRODUCTORY NOTE

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

TABLE OF CONTENTS

	<u>Page</u>
Part I. <u>Financial Information</u>	5
Item 1. <u>Financial Statements</u>	5
<u>Consolidated Balance Sheets as of December 31, 2003, and June 30, 2004</u>	5
<u>Consolidated Statements of Operations for the three months and six months ended June 30, 2004 and June 30, 2003</u>	6
<u>Consolidated Statements of Cash Flow for the six months ended June 30, 2004 and June 30, 2003</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Part II. <u>Other Information</u>	43
Item 6. <u>Exhibits and Reports on Form 8-K</u>	43

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****IMCO RECYCLING INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

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

Edgar Filing: IMCO RECYCLING INC - Form 10-Q/A

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

See Notes to Consolidated Financial Statements.

Page 5 of 45

Table of Contents

IMCO RECYCLING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

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

See Notes to Consolidated Financial Statements.

Table of Contents**IMCO RECYCLING INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOW**

(Unaudited)

(in thousands)

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

SUPPLEMENTARY INFORMATION

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

Table of Contents

IMCO RECYCLING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2004

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

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The accompanying financial statements include the accounts of IMCO Recycling Inc. and all of its subsidiaries (collectively, except where the context otherwise requires, referred to as IMCO, the Company, we, us, our or similar terms). All significant intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes, as amended, thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2003. Certain reclassifications have been made to prior period statements to conform to the current period presentation.

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

On June 16, 2004, we announced