METAL MANAGEMENT INC
Form 10-Q
February 02, 2005

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 DECEMBER 31, 2004

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ________ TO________

COMMISSION FILE NO. 0-14836

METAL MANAGEMENT, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	94-2835068 (I.R.S. Employer Identification Number)

500 NORTH DEARBORN ST., SUITE 405, CHICAGO, IL 60610
(Address of principal executive offices)

Registrant's telephone number, including area code: (312) 645-0700

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 by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No ___

As of January 14, 2005, the registrant had 24,152,541 shares of common stock outstanding.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

METAL MANAGEMENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share amounts)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003	DECEMBER 31, 2004	DECEMBER 31, 2003

NET SALES	$447,553	$257,715	$1,239,736	$714,745
Cost of sales (excluding depreciation)	377,211	222,180	1,051,056	617,691
Gross profit	70,342	35,535	188,680	97,054
Operating expenses:				
General and administrative	18,431	16,524	53,117	42,248
Depreciation and amortization	4,687	4,480	13,896	13,536
Stock-based compensation expense	1,128	46	3,299	124
Total operating expenses	24,246	21,050	70,312	55,908
OPERATING INCOME	46,096	14,485	118,368	41,146
Income from joint ventures	3,911	1,811	11,848	3,741
Interest expense	(649)	(1,418)	(2,883)	(5,646)
Loss on debt extinguishment	0	0	(1,653)	(363)
Interest and other income (expense)	(443)	(74)	(508)	(184)
Income before income taxes	48,915	14,804	125,172	38,694
Provision for income taxes	19,433	2,231	49,112	11,608
NET INCOME	$ 29,482	$ 12,573	$ 76,060	$ 27,086
EARNINGS PER SHARE:				
Basic	$ 1.26	$ 0.59	$ 3.29	$ 1.29
Diluted	$ 1.19	$ 0.54	$ 3.11	$ 1.22
CASH DIVIDENDS DECLARED PER SHARE	$ 0.075	$ 0.000	$ 0.075	$ 0.000
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	23,329	21,444	23,088	21,042
Diluted	24,833	23,401	24,437	22,272

See accompanying notes to consolidated financial statements

METAL MANAGEMENT, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	DECEMBER 31, 2004	MARCH 31, 2004
ASSETS		
Current assets:		

Cash and cash equivalents	$ 1,402	$ 1,155
Accounts receivable, net	175,315	146,427
Inventories	136,543	80,128
Deferred income taxes	4,201	4,201
Prepaid expenses and other assets	4,243	3,216
TOTAL CURRENT ASSETS	321,704	235,127
Property and equipment, net	108,447	114,708
Goodwill and other intangibles, net	2,624	2,690
Deferred financing costs, net	2,242	3,001
Deferred income taxes	10,769	39,772
Investments in joint ventures	22,210	10,592
Other assets	1,615	526
TOTAL ASSETS	$469,611	$406,416

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	$ 381	$ 471
Accounts payable	130,604	128,552
Other accrued liabilities	32,446	25,364
TOTAL CURRENT LIABILITIES	163,431	154,387
Long-term debt, less current portion	14,842	43,826
Other liabilities	3,148	5,364
TOTAL LONG-TERM LIABILITIES	17,990	49,190
Stockholders' equity:		
Preferred stock	0	0
Common stock	241	234
Warrants	427	427
Additional paid-in capital	155,112	146,969
Deferred stock-based compensation	(5,346)	(8,295)
Accumulated other comprehensive loss	(2,303)	(2,303)
Retained earnings	140,059	65,807
TOTAL STOCKHOLDERS' EQUITY	288,190	202,839
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$469,611	$406,416

See accompanying notes to consolidated financial statements

METAL MANAGEMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	NINE MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 76,060	$ 27,086
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	13,896	13,536
Deferred income taxes	29,003	7,687
Income from joint ventures	(11,848)	(3,741)
Stock-based compensation expense	3,299	124
Amortization of debt issuance costs	574	1,026
Loss on debt extinguishment	1,653	363
Tax benefit on exercise of stock options and warrants	4,732	2,085
Other	1,896	954
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(29,898)	(25,503)
Inventories	(56,415)	(1,101)
Accounts payable	2,052	14,419
Other	2,560	926
Net cash provided by operating activities	37,564	37,861
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,295)	(7,511)
Proceeds from sale of property and equipment	1,232	400
Acquisitions	(200)	(1,027)
Other	230	(88)
Net cash used in investing activities	(8,033)	(8,226)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuances of long-term debt	1,243,459	702,483
Repayments of long-term debt	(1,272,533)	(700,933)
Repurchase of junior secured notes	0	(31,896)
Proceeds from exercise of stock options and warrants	3,068	4,740
Cash dividends paid to stockholders	(1,808)	0
Fees paid to issue long-term debt	(1,470)	(2,990)
Net cash used in financing activities	(29,284)	(28,596)
Net increase in cash and cash equivalents	247	1,039
Cash and cash equivalents at beginning of period	1,155	869
Cash and cash equivalents at end of period	$ 1,402	$ 1,908
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 2,370	$ 5,889
Income taxes paid	$ 11,520	$ 1,002

See accompanying notes to consolidated financial statements

METAL MANAGEMENT, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	WARRANTS	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK-BASED COMPENSATION	AC COM
BALANCE AT MARCH 31, 2004	23,355	$234	$427	$146,969	$(8,295)	
Issuance of restricted stock	20	0	0	350	(350)	
Exercise of stock options and warrants and related tax benefits	746	7	0	7,793	0	
Stock-based compensation expense	0	0	0	0	3,299	
Cash dividends paid to stockholders	0	0	0	0	0	
Net income	0	0	0	0	0	
BALANCE AT DECEMBER 31, 2004	24,121	$241	$427	$155,112	$(5,346)	

See accompanying notes to consolidated financial statements

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METAL MANAGEMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 -- GENERAL

Business

Metal Management, Inc., a Delaware corporation, and its wholly owned subsidiaries (the "Company") are principally engaged in the business of collecting and processing ferrous and non-ferrous metals. The Company collects industrial scrap metal and obsolete scrap metal, processes it into reusable forms, and supplies the recycled metals to its customers, including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. These services are provided through the Company's recycling facilities located in 13 states. The Company's ferrous products primarily include shredded, sheared, cold briquetted and bundled scrap metal, and other purchased scrap metal, such as turnings, cast and broken furnace iron. The Company also processes non-ferrous metals, including aluminum, stainless steel and other nickel-bearing metals, copper, brass, titanium and high-temperature alloys, using similar techniques and through application of certain of the Company's proprietary technologies.

The Company has one reportable segment operating in the scrap metal recycling industry, as determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosure about Segments of an Enterprise and Related Information."

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). All significant intercompany accounts, transactions and profits have been eliminated. Certain information related to significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. Certain amounts have been reclassified from the previously reported financial statements in order to conform to the financial statement presentation of the current period.

Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage), requiring that these items be recognized as current-period charges and not capitalized in inventory overhead. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect this statement to materially impact its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets -- an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this statement are effective for nonmonetary asset exchanges occurring in fiscal periods

beginning after June 15, 2005. The Company does not expect this statement to impact its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment." The revised statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." This statement instead requires share-based compensation transactions to be accounted for and recognized in the statement of operations based on fair value. SFAS No. 123(R) will be effective for the Company as of July 1, 2005. SFAS No. 123(R) offers alternative methods for adopting this standard. The Company has not yet determined which method it will use and the resulting impact on its financial position or results of operations.

In December 2004, the FASB issued Staff Position ("FSP") No. 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." FSP No. 109-1 requires that the deduction received on qualified production activities should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax-rate reduction. The Company is currently evaluating whether it will qualify for this deduction and the resulting impact on its effective tax rate.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with APB

Opinion No. 25 and related interpretations. Compensation expense for stock options and warrants is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the exercise price of the stock option or warrant. Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market price of the Company's common stock. Such value is recognized as expense over the vesting period of the award. The vesting periods range from 2 to 4 years. To the extent restricted stock awards are forfeited prior to vesting, the previously recognized expense is reversed to stock-based compensation expense.

The following table illustrates the pro forma effects on net income and earnings per common share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" to stock-based compensation (in thousands, except for earnings per share):

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	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003	DECEMBER 31, 2004	DECEMBER 31, 2003
Net income, as reported	$29,482	$12,573	$76,060	$27,086
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	680	39	2,006	87
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(1,094)	(141)	(3,210)	(1,334)
PRO FORMA NET INCOME	$29,068	$12,471	$74,856	$25,839
Earnings per share:				
Basic -- as reported	$ 1.26	$ 0.59	$ 3.29	$ 1.29
Basic -- pro forma	$ 1.25	$ 0.58	$ 3.24	$ 1.23
Diluted -- as reported	$ 1.19	$ 0.54	$ 3.11	$ 1.22
Diluted -- pro forma	$ 1.17	$ 0.53	$ 3.06	$ 1.15

NOTE 2 -- EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average common shares outstanding. Diluted EPS reflects the potential dilution that could occur from the exercise of stock options and warrants. The following is a reconciliation of the numerators and denominators used in computing EPS (in thousands, except per share amounts):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003	DECEMBER 31, 2004	DECEMBER 31, 2003
NUMERATOR:				
Net income	$29,482	$12,573	$76,060	$27,086
DENOMINATOR:				
Weighted average number of shares outstanding	23,329	21,444	23,088	21,042
Incremental common shares attributable to dilutive stock options and warrants	1,275	1,957	1,210	1,230
Incremental common shares attributable to restricted stock	229	0	139	0
Weighted average number of diluted shares outstanding	24,833	23,401	24,437	22,272
Basic earnings per share	$ 1.26	$ 0.59	$ 3.29	$ 1.29
Diluted earnings per share	$ 1.19	$ 0.54	$ 3.11	$ 1.22

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For the three and nine months ended December 31, 2004, options and warrants to purchase 305,000 and 399,699 weighted average shares of common stock, respectively, were excluded from the diluted EPS calculation. For the nine months ended December 31, 2003, options and warrants to purchase 1,223,269 weighted average shares of common stock were excluded from the diluted EPS calculation. These shares were excluded from the diluted EPS calculation as the option and warrant exercise prices were greater than the average market price of the Company's common stock for the three respective periods referenced above, and therefore their inclusion would have been anti-dilutive. For the three months ended December 31, 2003, all outstanding options and warrants were included in the diluted EPS calculation as the option and warrant exercise prices were less than the average market price of the Company's common stock for this period.

NOTE 3 -- SUPPLEMENTAL INFORMATION

Inventories

Inventories for all periods presented are stated at the lower of cost or market. Cost is determined principally on the average cost method. Inventories consisted of the following at (in thousands):

	DECEMBER 31, 2004	MARCH 31, 2004
Ferrous metals	$ 90,790	$50,115
Non-ferrous metals	45,547	29,809
Other	206	204

	$136,543	$80,128

Property and Equipment

Property and equipment consisted of the following at (in thousands):

	DECEMBER 31, 2004	MARCH 31, 2004
Land and improvements	$ 30,704	$ 30,989
Buildings and improvements	21,856	20,662
Operating machinery and equipment	98,111	96,284
Automobiles and trucks	10,313	9,376
Computer equipment and software	2,408	2,207
Furniture, fixture and office equipment	872	788
Construction in progress	1,569	446
	165,833	160,752
Less -- accumulated depreciation	(57,386)	(46,044)
	$108,447	$114,708

Other Accrued Liabilities

Other accrued liabilities consisted of the following at (in thousands):

	DECEMBER 31, 2004	MARCH 31, 2004
Accrued employee compensation and benefits	$ 15,878	$ 15,469
Accrued income taxes	6,535	2,679
Accrued insurance	4,236	2,722
Accrued real and personal property taxes	2,329	1,675
Other	3,468	2,819
	$ 32,446	$ 25,364

Accrued Severance and Other Charges

During the year ended March 31, 2004, the Company implemented a management realignment that resulted in the recognition of $6.2 million of charges consisting mainly of employee termination benefits. The Company recorded the following activity in the nine months ended December 31, 2004 to the accrued severance and other charges liability (in thousands):

SEVERANCE
AND OTHER

	CHARGES
Reserve balance at March 31, 2004	$1,571
Charge to income	0
Cash payments	(317)
Reserve balance at December 31, 2004	$1,254

As of December 31, 2004, the entire reserve balance is included in other accrued liabilities (classified as a current liability) on the Company's consolidated balance sheet as the obligations are scheduled to be paid by July 2005.

NOTE 4 -- GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consisted of the following at (in thousands):

	DECEMBER 31, 2004		MARCH 31, 2004	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Other intangibles:				
Customer lists	$1,280	$(192)	$1,280	$(128)
Non-compete agreement	290	(126)	240	(70)
Pension intangible	192	0	192	0
Goodwill	1,180	0	1,176	0
Goodwill and other intangibles	$2,942	$(318)	$2,888	$(198)

The increase in goodwill and other intangibles in the nine months ended December 31, 2004 was due to settlements relating to contingent consideration payable in connection with two acquisitions.

Total amortization expense for other intangibles in the three and nine months ended December 31, 2004 was $47,000 and $120,000, respectively. Based on the other intangibles recorded as of December 31, 2004, annual amortization expense for other intangibles will be approximately $0.2 million in fiscal year 2006 and $0.1 million for each of the fiscal years 2007 through 2010.

NOTE 5 -- LONG-TERM DEBT

Long-term debt consisted of the following at (in thousands):

	DECEMBER 31, 2004	MARCH 31, 2004
Credit Agreement:		

Revolving credit facility	$12,587	$23,478
Term loan	0	17,900
Other debt (including capital leases)	2,636	2,919
	15,223	44,297
Less -- current portion of long-term debt	(381)	(471)
	$14,842	$43,826

Credit Agreement

On June 28, 2004, the Company entered into a new credit agreement with a consortium of lenders led by LaSalle Bank, N.A. (the "Credit Agreement"). The Credit Agreement provides for maximum borrowings of $200 million with a maturity date of June 28, 2008. In consideration for the Credit Agreement, the Company incurred fees and expenses of approximately $1.5 million.

The Credit Agreement is a revolving credit and letter of credit facility that supports the Company's working capital requirements and is also available for general corporate purposes. Borrowing costs are based on variable rates tied to the prime rate plus a margin or the London Interbank Offered Rate plus a margin. The margin is based on the Company's leverage ratio (as defined in the Credit Agreement) as determined for the trailing four fiscal quarters. Proceeds from the Credit Agreement were utilized to repay the amounts outstanding under the Company's prior credit agreement and a previously outstanding $18 million term loan.

Borrowings under the Credit Agreement are generally subject to borrowing base limitations based upon a formula equal to 85% of eligible accounts receivable plus the lesser of $65 million or 70% of eligible inventory. Inventories cannot represent more than 40% of the borrowing base. A security interest in substantially all of the assets and properties of the Company, including pledges of the capital stock of the Company's subsidiaries, has been granted to the agent for the lenders as collateral against the obligations of the Company under the Credit Agreement. Pursuant to the Credit Agreement, the Company pays a fee on the undrawn portion of the facility that is determined by the leverage ratio. As of December 31, 2004, that fee is .25% per annum.

Under the Credit Agreement, the Company is required to satisfy specified financial covenants, including a maximum leverage ratio of 2.50 to 1.00, a minimum consolidated fixed charge coverage ratio of 1.50 to 1.00 and a minimum tangible net worth of not less than the sum of $110 million plus 25% of consolidated net income earned in each fiscal quarter. The leverage ratio and consolidated fixed charge coverage ratio are tested for the twelve-month period ending each fiscal quarter. The Credit Agreement also limits capital expenditures to $20 million for the twelve-month period ending each fiscal quarter.

The Credit Agreement contains restrictions which, among other things, limit the Company's ability to (i) incur additional indebtedness; (ii) pay dividends under certain conditions; (iii) enter into transactions with affiliates; (iv) enter into certain asset sales; (v) engage in certain acquisitions, investments, mergers and consolidations; (vi) prepay certain other indebtedness; (vii) create liens and encumbrances on the Company's assets; and (viii) engage in other matters customarily restricted in such agreements.

As a result of the repayment of amounts outstanding under the Company's prior credit agreement, the Company recognized a loss on debt extinguishment of approximately $1.7 million in the nine months ended December 31, 2004. This amount represents the write-off of a portion of the unamortized deferred financing costs associated with the prior credit agreement.

NOTE 6 -- EMPLOYEE BENEFIT PLANS

The Company sponsors three defined benefit pension plans for employees at certain of its subsidiaries. The Company's funding policy for the pension plans is to contribute amounts required to meet regulatory requirements. The components of net pension costs were as follows (in thousands):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003	DECEMBER 31, 2004	DECEMBER 31, 2003
Service cost	$ 33	$ 29	$ 98	$ 87
Interest cost	173	174	521	522
Expected return on plan assets	(158)	(132)	(473)	(396)
Amortization of prior service cost	24	23	71	70
Recognized net actuarial loss	34	30	100	90
Net periodic benefit cost	$ 106	$ 124	$ 317	$ 373

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In the nine months ended December 31, 2004, the Company made cash contributions of $1.2 million to its pension plans. Based on estimates provided by its actuaries, the Company expects to make cash funding contributions to its pension plans of approximately $0.1 million by March 31, 2005 and $1.0 million for the year ending March 31, 2006.

NOTE 7 -- STOCKHOLDERS' EQUITY

Stock Split

On March 8, 2004, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend. As a result of the stock split, the Company's stockholders received one additional share for each share of common stock held on the record date of April 5, 2004. The additional shares of common stock were distributed on April 20, 2004. All share and per share amounts have been retroactively adjusted in this report to reflect the stock split.

Cash Dividend

On November 24, 2004, the Company's Board of Directors approved a quarterly dividend of $0.075 per share of common stock, or approximately $1.8 million, which was paid on December 30, 2004 to shareholders of record at the close of business on December 14, 2004.

Restricted Stock

Restricted stock grants consist of shares of the Company's common stock which are awarded to employees. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee.

Total shares of restricted stock outstanding at December 31, 2004 and March 31, 2004 were 538,338 and 518,938, respectively. At December 31, 2004, the amount of related deferred stock-based compensation reflected in Stockholders' Equity in the consolidated balance sheet was $5.3 million. An aggregate of 19,500 shares of restricted stock were granted in the nine months ended December 31, 2004. There were no restricted stock grants made in the three months ended December 31, 2004. The Company recorded stock-based compensation expense related to restricted stock of approximately $1.1 million and $3.3 million in the three and nine months ended December 31, 2004, respectively, and $46,000 and $116,000 in the three and nine months ended December 31, 2003, respectively.

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

Environmental Matters

The Company is subject to comprehensive local, state, federal and international regulatory and statutory environmental requirements relating to, among others, the acceptance, storage, treatment, handling and disposal of solid waste and hazardous waste, the discharge of materials into air, the management and treatment of wastewater and storm water, the remediation of soil and groundwater contamination, the restoration of natural resource damages and the protection of employees' health and safety. The Company believes that it and its subsidiaries are in material compliance with currently applicable statutes and regulations governing the protection of human health and the environment, including employee health and safety. However, environmental legislation may in the future be enacted and create liability for past actions and the Company or its subsidiaries may be fined or held liable for damages.

Certain of the Company's subsidiaries have received notices from the United States Environmental Protection Agency ("EPA"), state agencies or third parties that the subsidiary has been identified as potentially responsible for the cost of investigation and cleanup of landfills or other sites where the subsidiary's material was shipped. In most cases, many other parties are also named as potentially responsible parties. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") enables EPA and state agencies to recover from owners, operators, generators and transporters the cost of investigation and cleanup of sites which pose serious threats to the environment or public health. In certain circumstances, a potentially responsible party can be held jointly and severally liable for the cost of cleanup. In other cases, a party who is liable may only be liable for a divisible share. Liability can be imposed even if the

party shipped materials in a lawful manner at the time of shipment and the liability for investigation and cleanup costs can be significant, particularly in cases where joint and several liability may be imposed.

Recent amendments to CERCLA have limited the exposure of scrap metal recyclers for sales of certain recyclable material under certain circumstances. However, the recycling defense is subject to a number of exceptions. Because CERCLA can be imposed retroactively on shipments that occurred many years ago, and because EPA and state agencies are still discovering sites that present problems to public health or the environment, the Company can provide no assurance that it will not become liable in the future for significant costs associated with investigation and remediation of CERCLA waste sites.

On July 1, 1998, Metal Management Connecticut, Inc. ("MTLM-Connecticut"), a subsidiary of the Company, acquired the scrap metal recycling assets of Joseph A. Schiavone Corp. (formerly known as Michael Schiavone & Sons, Inc.). The acquired assets include real property in North Haven, Connecticut upon which MTLM-Connecticut's scrap metal recycling operations are currently performed (the

"North Haven Facility"). The owner of Joseph A. Schiavone Corp. was Michael Schiavone ("Schiavone"). On March 31, 2003, the Connecticut Department of Environmental Protection filed suit against Joseph A. Schiavone Corp., Schiavone, and MTLM-Connecticut in the Superior Court of the State of Connecticut -- Judicial District of Hartford. The suit alleges, among other things, that the North Haven Facility discharged and continues to discharge contaminants, including oily material, into the environment and has failed to comply with the terms of certain permits and other filing requirements. The suit seeks injunctions to restrict MTLM-Connecticut from maintaining discharges and to require MTLM-Connecticut to remediate the facility. The suit also seeks civil penalties from all of the defendants in accordance with Connecticut environmental statutes. At this stage, the Company is not able to predict MTLM-Connecticut's potential liability in connection with this action or any required investigation and/or remediation. The Company believes that MTLM-Connecticut has meritorious defenses to certain of the claims asserted in the suit and MTLM-Connecticut intends to vigorously defend itself against the claims. In addition, the Company believes it is entitled to indemnification from Joseph A. Schiavone Corp. and Schiavone for some or all of the obligations and liabilities that may be imposed on MTLM-Connecticut in connection with this matter under the various agreements governing its purchase of the North Haven Facility from Joseph A. Schiavone Corp. The Company cannot provide assurances that Joseph A. Schiavone Corp. or Schiavone will have sufficient resources to fund any or all indemnifiable claims that the Company may assert.

The Company has engaged in settlement discussions with Joseph A. Schiavone Corp., Schiavone and the Connecticut DEP regarding the possible characterization of the North Haven Facility, and the subsequent remediation thereof should contamination be present at concentrations that require remedial action. The Company is currently working with an independent environmental consultant to develop an acceptable characterization plan. The Company cannot provide assurances that it will be able to reach an acceptable settlement of this matter with the other parties.

During the period from September 2002 to the present, the Arizona Department of Environmental Quality ("ADEQ") issued five Notices of Violations ("NOVs") to Metal Management Arizona, L.L.C. ("MTLM-Arizona"), a subsidiary of the Company, for alleged violations at MTLM-Arizona's Tucson and Phoenix facilities including: (i) not developing and submitting a "Solid Waste Facility Site Plan"; (ii) placing shredder residue on a surface that does not meet Arizona's permeability specifications; (iii) alleged failure to follow ADEQ protocol for sampling and analysis of waste from the shredding of motor vehicles at the Phoenix facility; and (iv) use of excavated soil to stabilize railroad tracks adjacent to the Phoenix facility. On September 5, 2003, MTLM-Arizona was notified that ADEQ had referred the outstanding NOV issues to the Arizona Attorney General. Certain of these NOVs have now been resolved, and MTLM-Arizona is cooperating fully with ADEQ and the Arizona Attorney General's office with respect to the remaining issues. The Company believes that MTLM-Arizona's potential liability and costs of any required remediation in connection with the remaining issues will not be material.

On April 29, 1998, Metal Management Midwest, Inc. ("MTLM-Midwest"), a subsidiary of the Company, acquired substantially all of the operating assets of 138 Scrap, Inc. ("138 Scrap") that were used in its scrap metal recycling business. Most of these assets were located at a recycling facility in Riverdale, Illinois

(the "Facility"). In early November 2003, MTLM-Midwest was served with a Notice of Intent to Sue (the "Notice") by The Jeff Diver Group, L.L.C., on behalf of the Village of Riverdale, alleging, among other things, that the release or disposal of hazardous substances within the meaning of CERCLA has occurred at an approximately 57 acre property in the Village of Riverdale (which includes the 8.8 acre Facility that was leased by MTLM-Midwest until December 31, 2003). The Notice indicates that the Village of Riverdale intends to file suit against MTLM-Midwest (directly and as a successor to 138 Scrap) and numerous other third parties under one or both of CERCLA and the Resource Conservation and Recovery Act. At this preliminary stage, the Company cannot predict MTLM-Midwest's potential liability, if any, in connection with such lawsuit or any required remediation. The Company believes that it has meritorious defenses to certain of the claims outlined in the Notice and MTLM-Midwest intends to vigorously defend itself against any claims ultimately asserted by the Village of Riverdale. In addition, although the Company believes that it would be entitled to indemnification from the sellers of 138 Scrap for some or all of the obligations that may be imposed on MTLM-Midwest in connection with this matter under the agreement governing its purchase of the operating assets of 138 Scrap, the Company cannot provide assurances that any of the sellers will have sufficient resources to fund any indemnifiable claims to which the Company may be entitled.

Legal Proceedings

In January 2003, the Company received a subpoena requesting that it provide documents to a grand jury that is investigating scrap metal purchasing practices in the four state region of Ohio, Illinois, Indiana and Michigan. The Company is fully cooperating with the subpoena and the grand jury's investigation. The Company is unable at this stage to determine future legal costs or other costs to be incurred in responding to such subpoena or other impact to the Company of such investigation. To date, the Company has incurred approximately $0.5 million in legal fees associated with responding to this subpoena.

As a result of internal audits conducted by the Company, the Company determined that current and former employees of certain business units have engaged in activities relating to cash payments to individual industrial account suppliers of scrap metal that may have involved violations of federal and state law. In May 2004, the Company voluntarily disclosed its concerns regarding such cash payments to the U.S. Department of Justice. The Board of Directors has appointed a special committee, consisting of all of its independent directors, to conduct an investigation of these activities. The Company is cooperating with the U.S. Department of Justice. The Company has implemented policies to eliminate such cash payments to industrial customers. During the year ended March 31, 2004, such cash payments to industrial customers represented approximately 0.7% of the Company's consolidated ferrous and non-ferrous yard shipments. The fines and penalties under applicable statutes contemplate qualitative as well as quantitative factors that are not readily assessable at this stage of the investigation, but could be material. The Company is not able to predict at this time the outcome of any actions by the U.S. Department of Justice or other governmental authorities or their effect on the Company, if any, and accordingly, the Company has not recorded any amounts in the financial statements. The Company has incurred legal and other costs related to this matter of approximately $0.1 million and $2.2 million in the three and nine months ended December 31, 2004, respectively. These expenses are included in general and administrative expenses on the Company's consolidated statement of operations.

From time to time, the Company is involved in various litigation matters involving ordinary and routine claims incidental to its business. A significant portion of these matters result from environmental compliance issues and workers' compensation related claims arising from the Company's operations. There are presently no legal proceedings pending against the Company, which, in the opinion of the Company's management, is likely to have a material adverse effect on its business, financial condition or results of operations.

This Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Form 10-Q which address activities, events or developments that Metal Management, Inc. (herein, "Metal Management," the "Company," "we," "us," "our" or other similar terms) expects or anticipates will or may occur in the future, including such things as future acquisitions (including the amount and nature thereof), business strategy, expansion and growth of our business and operations, general economic and market conditions and other such matters are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements. These and other risks, uncertainties and other factors are discussed under "Risk Factors" appearing in our Annual Report on Form 10-K for the year ended March 31, 2004, as the same may be amended from time to time.

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included under Item 1 of this Report. In addition, reference should be made to the audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended March 31, 2004 ("Annual Report").

BUSINESS OVERVIEW

We are one of the largest full-service metals recyclers in the United States, with recycling facilities located in 13 states. We enjoy leadership positions in many major metropolitan markets, including Birmingham, Chicago, Cleveland, Denver, Hartford, Houston, Memphis, Newark, Phoenix, Salt Lake City, Toledo and Tucson. We have a 28.5% equity ownership position in Southern Recycling, L.L.C. ("Southern"), one of the largest scrap metals recyclers in the Gulf Coast region. Our operations primarily involve the collection and processing of ferrous and non-ferrous scrap metals. We collect industrial scrap metal and obsolete scrap metal, process it into reusable forms and supply the recycled metals to our customers, including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metal brokers. In addition to buying, processing and selling ferrous and non-ferrous scrap metals, we are periodically retained as demolition contractors in certain of our large metropolitan markets in which we dismantle obsolete machinery, buildings and other structures containing metal and, in the process, collect both the ferrous and non-ferrous metals from these sources. At certain of our locations adjacent to commercial waterways, we provide stevedoring services. We also operate a bus dismantling business combined with a bus replacement parts business in Newark, New Jersey.

We believe that we provide one of the most comprehensive product offerings of both ferrous and non-ferrous scrap metals. Our ferrous products primarily include shredded, sheared, cold briquetted and bundled scrap metal, and other purchased scrap metal, such as turnings, cast and broken furnace iron. We also process non-ferrous scrap metals, including aluminum, copper, stainless steel and other nickel-bearing metals, brass, titanium and high-temperature alloys, using similar techniques and through application of our proprietary technologies.

We have achieved a leading position in the metals recycling industry primarily by implementing a national strategy of completing and integrating regional acquisitions. In making acquisitions, we have focused on major metropolitan markets where prime industrial and obsolete scrap metals (automobiles, appliances and industrial equipment) are readily available and from where we believe we can better serve our customer base. In pursuing this strategy, we acquired certain large regional companies to serve as platforms into which subsequent acquisitions would be integrated. We believe that through the integration of our acquired businesses, we have enhanced our competitive position and profitability of the operations because of broader distribution channels, improved managerial and financial resources, enhanced purchasing power and increased economies of scale.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires the use of estimates and judgments that affect the reported amounts and related disclosures of commitments and contingencies. We rely on historical experience and on various other assumptions that we believe to be reasonable under the circumstances to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

We believe the following critical accounting policies, among others, affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

Our primary source of revenue is from the sale of processed ferrous and non-ferrous scrap metals. We also generate revenue from the brokering of scrap metals or from services performed including, but not limited to, tolling, stevedoring and dismantling. Revenues from processed ferrous and non-ferrous scrap metal sales are recognized when title passes to the customer. Revenues relating to brokered sales are recognized upon receipt of the materials by the customer. Revenues from services are recognized as the service is performed. Sales adjustments related to price and weight differences and allowances for uncollectible receivables are accrued against revenues as incurred.

Accounts receivable and allowance for uncollectible accounts receivable

Accounts receivable consist primarily of amounts due from customers from product and brokered sales. The allowance for uncollectible accounts receivable totaled $2.4 million and $1.7 million at December 31, 2004 and March 31, 2004, respectively. Our determination of the allowance for uncollectible accounts receivable includes a number of factors, including the age of the balance, past experience with the customer account, changes in collection patterns and general industry conditions.

As indicated in our Annual Report under the section entitled "Risk Factors -- Potential credit losses from our significant customers could adversely affect our results of operations or financial condition," the general weakness in the steel and metals sectors during the period from 1998 to 2001 previously led to bankruptcy filings by many of our customers which caused us to recognize additional allowances for uncollectible accounts receivable. While we believe our allowance for uncollectible accounts is adequate, changes in economic conditions or any weakness in the steel and metals industry could adversely impact our future earnings.

Inventory

Our inventories primarily consist of ferrous and non-ferrous scrap metals and are valued at the lower of average purchased cost or market. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. As indicated in our Annual Report under the section entitled "Risk Factors -- Prices of commodities we own may be volatile," we are exposed to risks associated with fluctuations in the market price for both ferrous and non-ferrous metals, which are at times volatile. We attempt to mitigate this risk by seeking to rapidly turn our inventories.

Valuation of long-lived assets and goodwill

We apply the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," in assessing the carrying values of our long-lived assets. SFAS No. 142 and SFAS No. 144 both require that a company consider whether circumstances or conditions exist that suggest that the carrying value of a long-lived asset might be impaired. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value.

Self-insured accruals

We are self-insured for medical claims for most of our employees. We are self-insured for workers' compensation claims that involve a loss of less than $350,000 per claim. Our exposure to claims is protected by stop-loss insurance policies. We record an accrual for reported but unpaid claims and the estimated cost of incurred but not reported ("IBNR") claims. IBNR accruals are based on either a lag estimate (for medical claims) or on actuarial assumptions (for workers' compensation claims).

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We had previously recorded a full valuation allowance against our net deferred tax assets, including net operating loss ("NOL") carryforwards, due to the uncertainty regarding their ultimate realization. In the year ended March 31, 2004, we reversed most of the valuation allowance recorded against our net deferred tax assets because we believed it was more likely than not that these deferred tax assets would be realized. Significant judgment is required in these evaluations, and differences in future results from our estimates could result in material differences in the realization of these assets.

As a result of the utilization of NOL carryforwards, our cash taxes paid are significantly less than our income tax expense. However, our ability to utilize NOL carryforwards could become subject to annual limitations under Section 382 of the Internal Revenue Code if a change of control occurs, as defined by the Internal Revenue Code, and could result in increased income tax payment obligations.

Contingencies

We record accruals for estimated liabilities, which include environmental remediation, potential legal claims and IBNR claims. A loss contingency is accrued when our assessment indicates that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Our estimates are based upon currently available facts and presently enacted laws and regulations. These estimated liabilities are subject to revision in future periods based on actual costs or new information.

The above listing is not intended to be a comprehensive list of all of our accounting policies. Please refer to our Annual Report, which contains accounting policies and other disclosures required by generally accepted accounting principles.

RESULTS OF OPERATIONS

SALES

Consolidated net sales for the three months ended December 31, 2004 and 2003 in general product categories were as follows ($ in thousands):

	DECEMBER 31, 2004			DECEMBER 31, 2003		
COMMODITY (WEIGHT IN THOUSANDS)	WEIGHT	NET SALES	%	WEIGHT	NET SALES	%
Ferrous metals (tons)	1,129	$335,847	75.0%	1,060	$182,494	70.8%
Non-ferrous metals (lbs.)	115,362	92,790	20.7	109,049	63,601	24.7
Brokerage-ferrous (tons)	51	13,804	3.1	63	7,528	2.9
Brokerage-non-ferrous (lbs.)	551	428	0.1	705	186	0.1
Other		4,684	1.1		3,906	1.5
		$447,553	100%		$257,715	100%

Consolidated net sales for the nine months ended December 31, 2004 and 2003 in general product categories were as follows ($ in thousands):

	DECEMBER 31, 2004			DECEMBER 31, 2003		
COMMODITY (WEIGHT IN THOUSANDS)	WEIGHT	NET SALES	%	WEIGHT	NET SALES	%
Ferrous metals (tons)	3,433	$ 901,296	72.7%	3,271	$501,946	70.2%
Non-ferrous metals (lbs.)	367,801	284,818	23.0	309,379	167,041	23.4
Brokerage-ferrous (tons)	150	37,725	3.0	247	31,491	4.4
Brokerage-non-ferrous (lbs.)	1,994	1,780	0.2	3,595	1,438	0.2
Other		14,117	1.1		12,829	1.8
		$1,239,736	100%		$714,745	100%

Consolidated net sales increased by $189.9 million (73.7%) and $525.0 million (73.5%) to $447.6 million and $1.2 billion in the three and nine month periods ended December 31, 2004, respectively, compared to consolidated net sales of $257.7 million and $714.7 million in the three and nine month periods ended December 31, 2003, respectively. The increase in consolidated net sales was primarily due to higher average selling prices and increased volumes.

Ferrous Sales

Ferrous sales increased by $153.3 million (84.0%) and $399.4 million (79.6%) to $335.8 million and $901.3 million in the three and nine months ended December 31, 2004, respectively, compared to ferrous sales of $182.5 million and $501.9 million in the three and nine months ended December 31, 2003, respectively. The increase in the three months ended December 31, 2004 over the comparable prior year period was due to higher average selling prices, which increased by $125 per ton (72.8%) to $297 per ton and sales volumes which increased by 69,000 tons (6.5%). The increase in the nine months ended December 31, 2004 over the comparable prior year period was due to higher average selling prices, which increased by $109 per ton (71.1%) to $263 per ton and sales volumes which increased by 162,000 tons (5.0%).

The increase in selling prices for ferrous scrap is evident in data published by the American Metal Market ("AMM"). According to AMM data, the average price for #1 Heavy Melting Steel Scrap -- Chicago (which is a common indicator for ferrous scrap) was approximately $236 per ton and $221 per ton for the three and nine months ended December 31, 2004, respectively, compared to $140 per ton and $118 per ton for the three and nine months ended December 31, 2003, respectively.

Sales volumes in the three and nine months ended December 31, 2004 benefited from higher domestic demand for our ferrous scrap. Domestic demand and scrap prices continue to be favorable partly due to tighter supplies of prompt industrial grades of scrap metal. Domestic demand for scrap metal has also been favorably impacted by higher prices for scrap substitute products such as DRI and HBI relative to obsolete grades of scrap metal, and by lower levels of imports of scrap metal to the U.S. occasioned by considerations including a relatively weaker U.S. dollar. Exports of ferrous scrap in the current fiscal year have decreased compared to the prior year due to lower demand from certain countries and more favorable domestic markets for ferrous scrap.

Non-ferrous Sales

Non-ferrous sales increased by $29.2 million (45.9%) and $117.8 million (70.5%) to $92.8 million and $284.8 million in the three and nine months ended December 31, 2004, respectively, compared to non-ferrous sales of $63.6 million and $167.0 million in the three and nine months ended December 31, 2003, respectively. In the three and nine months ended December 31, 2004, non-ferrous sales volumes increased by 6.3 million pounds (5.8%) and 58.4 million pounds (18.9%), respectively, and average selling price for non-ferrous products increased by approximately $.22 per pound (37.9%) and $.23 per pound (42.6%), respectively, compared to the three and nine months ended December 31, 2003.

Our non-ferrous operations have benefited from rising prices for aluminum, copper and stainless steel (nickel base metal). The increase in non-ferrous prices is evident in data published by the London Metals Exchange ("LME") and COMEX. According to LME data, average prices for nickel were 13.9% and 34.7% higher and average prices for aluminum were 20.8% and 20.4% higher in the three and nine months ended December 31, 2004, respectively, compared to the three and nine months ended December 31, 2003. According to COMEX data, average prices for copper were 48.1% and 57.1% higher in the three and nine months ended December 31, 2004, respectively, compared to the three and nine months ended December 31, 2003.

Our non-ferrous sales volumes increased due to our efforts to expand that product line and reflected greater demand from our non-ferrous consumers. In the nine months ended December 31, 2003, domestic supply of non-ferrous metals was impacted by lower output from U.S. industrial production and international demand was lower than the nine months ended December 31, 2004. The recent improvement in the U.S. economy, coupled with improving economies in other countries, led to increased supply and demand for non-ferrous products, mainly in copper, aluminum and stainless steel.

Our non-ferrous sales are also impacted by the mix of non-ferrous metals sold. Generally, prices for copper are higher than prices for aluminum and stainless steel. In addition, the amount of high-temperature alloys that we sell (generally from our Aerospace subsidiary) and the selling prices for these metals will impact our non-ferrous sales as prices for these metals are generally higher than other non-ferrous metals.

Brokerage Sales

Brokerage ferrous sales increased by $6.3 million (83.4%) and $6.2 million (19.8%) to $13.8 million and $37.7 million in the three and nine months ended December 31, 2004, respectively, compared to brokerage ferrous sales of $7.5 million and $31.5 million in the three and nine months ended December 31, 2003, respectively. The increase was due to higher average selling prices. In the three and nine months ended December 31, 2004, the average sales price for ferrous brokerage products increased by $151 per ton (126.5%) and $124 per ton (97.3%), respectively, compared to the three and nine months ended December 31, 2003.

The average selling price for brokered metals is significantly affected by the product mix, such as prompt industrial grades versus obsolete grades, which can vary significantly between periods. Prompt industrial grades of scrap metal are generally associated with higher unit prices.

Other Sales

Other sales are primarily derived from our stevedoring and bus dismantling operations. Stevedoring is a fee for service business. The increase in other sales in the three and nine months ended December 31, 2004 is primarily a result of higher stevedoring revenue, which increased by $1.0 million and $1.6 million, respectively, from the three and nine months ended December 31, 2003.

GROSS PROFIT

Gross profit was $70.3 million (15.7% of sales) and $188.7 million (15.2% of sales) during the three and nine months ended December 31, 2004, respectively, compared to gross profit of $35.5 million (13.8% of sales) and $97.1 million (13.6% of sales) during the three and nine months ended December 31, 2003. The improvement in the amount of gross profit earned was due to higher material margins per ton realized on both ferrous and non-ferrous products sold, partially offset by higher processing expenses.

Processing costs on a per unit basis increased mainly due to higher freight, labor, repairs, maintenance, fuel and operating supplies costs. Freight expenses were higher due to a greater percentage of sales being made on delivered terms. The increase in labor costs were due to additional headcount and overtime resulting from the increasing demand for our products. The increase in repairs, maintenance, fuel and operating supplies resulted from additional tons of scrap metal processed.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $18.4 million (4.1% of sales) and $53.1 million (4.3% of sales) in the three and nine months ended December 31, 2004, respectively, compared to general and administrative expenses of $16.5 million (6.4% of sales) and $42.2 million (5.9% of sales) in the three and nine months ended December 31, 2003, respectively. The increase in the three months ended December 31, 2004 results from higher compensation expense and medical claims expense. The increase in the nine months ended December 31, 2004 results from higher compensation expense and professional fees.

During the three months ended December 31, 2004, compensation expense increased by $0.8 million compared to the three months ended December 31, 2003 due to additional headcount. Medical claims were higher by $0.5 million in the three months ended December 31, 2004 compared to the three months ended December 31, 2003. We are self-insured for health insurance for most of our employees. Compensation expense during the nine months ended December 31, 2004 increased by $3.5 million due to accruals recorded in connection with employee incentive compensation plans and $2.4 million due to higher salaries compared to the nine months ended December 31, 2003. The employee incentive compensation plans are generally measured as a function of return on net assets. We recorded $11.6 million of expense in connection with the employee incentive compensation plans in the nine months ended December 31, 2004 compared to $8.1 million of expense in the nine months ended December 31, 2003.

Professional fees were $3.0 million higher in the nine months ended December 31, 2004 compared to the nine months ended December 31, 2003. The increase was due to $2.2 million of legal fees and related costs resulting from the investigations performed in connection with our voluntary disclosure to the U.S. Department of Justice regarding cash payments made to certain industrial account suppliers (see Part II, Item 3 of the Annual Report) and $0.8 million of professional fees incurred in connection with Sarbanes-Oxley compliance.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense was $4.7 million (1.0% of sales) and $13.9 million (1.1% of sales) in the three and nine months ended December 31, 2004, respectively, compared to depreciation and amortization expense of $4.5 million (1.7% of sales) and $13.5 million (1.9% of sales) in the three and nine months ended December 31, 2003, respectively. Our depreciation expense remained relatively unchanged due to our decision to acquire new material handling equipment financed through operating leases which contain attractive terms compared to purchasing the equipment.

STOCK-BASED COMPENSATION

Stock-based compensation expense was $1.1 million and $3.3 million in the three and nine months ended December 31, 2004, respectively, compared to stock-based compensation expense of $46,000 and $124,000 in the three and nine months ended December 31, 2003, respectively. The increase is due to expense associated with restricted stock grants made since December 31, 2003. Stock-based compensation expense is recognized for restricted stock awards over the vesting period, which is generally 2 to 4 years.

INCOME FROM JOINT VENTURES

Income from joint ventures was $3.9 million (0.9% of sales) and $11.8 million (1.0% of sales) in the three and nine months ended December 31, 2004, respectively, compared to income from joint ventures of $1.8 million (0.7% of sales) and $3.7 million (0.5% of sales) in the three and nine months ended December 31, 2003, respectively. The income from joint ventures primarily represents our 28.5% share of income from Southern. Southern is primarily a processor of ferrous metals and its operating results have also benefited from increased demand and strong market conditions.

INTEREST EXPENSE

Interest expense was $0.6 million (0.1% of sales) and $2.9 million (0.2% of sales) in the three and nine months ended December 31, 2004, respectively, compared to interest expense of $1.4 million (0.6% of sales) and $5.6 million (0.8% of sales) in the three and nine months ended December 31, 2003, respectively. The decrease in the three months ended December 31, 2004 was a result of less debt. The decrease in the nine months ended December 31, 2004 was a result of less debt and lower effective interest rates. Average debt was approximately $25.9 million and $46.7 million in the three and nine months ended December 31, 2004,

respectively, compared to average debt of approximately $77.0 million and $76.0 million in the three and nine months ended December 31, 2003, respectively.

Our effective interest rate was lower due to lower margins on our Credit Agreement compared to our previous credit agreement and the elimination of interest associated with our $31.5 million, 12.75% junior secured notes which were repurchased in August 2003 and September 2003.

LOSS ON DEBT EXTINGUISHMENT

In the nine months ended December 31, 2004, we recognized a loss on debt extinguishment of $1.7 million associated with the repayment of our previous credit agreement with proceeds from the Credit Agreement (see "Liquidity and Capital Resources -- Indebtedness" below). This amount represents a write-off of a portion of the unamortized deferred financing costs associated with the previous credit agreement.

In the nine months ended December 31, 2003, we recognized a loss on debt extinguishment of $0.4 million associated with the repurchase and redemption of our $31.5 million, 12.75% junior secured notes in August 2003 and September 2003. This amount represents a premium paid to accomplish a repurchase of a junior secured note.

INCOME TAXES

In the three and nine months ended December 31, 2004, we recognized income tax expense of $19.4 million and $49.1 million, respectively, resulting in an effective tax rate of 39.7% and 39.2%, respectively. In the three and nine months ended December 31, 2003, our income tax expense was $2.2 million and $11.6 million, respectively, resulting in an effective tax rate of 15.1% and 30.0%, respectively. The effective tax rate differs from the federal statutory rate mainly due to state taxes and permanent tax items.

Our cash taxes paid have been significantly lower than our income tax expense due to the utilization of NOL carryforwards and other deferred tax assets. As a result of our strong operating performance, we expect to fully utilize our federal NOL carryforwards by March 31, 2005 which will increase our cash tax payment obligations.

NET INCOME

Net income was $29.5 million and $76.1 million in the three and nine months ended December 31, 2004, respectively, compared to net income of $12.6 million and $27.1 million in the three and nine months ended December 31, 2003, respectively. Net income was higher due to higher operating income, income from joint ventures and lower interest expense, offset by the loss on debt extinguishment.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

During the nine months ended December 31, 2004, our operating activities generated net cash of $37.6 million compared to net cash generated of $37.9 million in the nine months ended December 31, 2003. Cash provided by operating activities during the nine months ended December 31, 2004 was due to cash generated from net income, adjusted for non-cash items, of $119.3 million that was offset by an $81.7 million increase in working capital. The working capital increase was mainly due to higher accounts receivable ($29.9 million) and higher inventories ($56.4 million). Inventories increased due to higher purchase prices for scrap metals along with an increase in inventory units at December 31, 2004 compared to March 31, 2004. The increase in accounts receivable is due to higher sales prices in the nine months ended December 31, 2004 coupled with an increase in day's sales outstanding ("DSO") at December 31, 2004 compared to March 31, 2004. The increase in the DSO was due to slower collections from steel mills and a lower concentration of export business in December 2004 compared to March 2004.

We used $8.0 million in net cash for investing activities in the nine months ended December 31, 2004 compared to net cash used of $8.2 million in the nine months ended December 31, 2003. In the nine months ended December 31, 2004, purchases of property and equipment were $9.3 million, while we generated $1.2 million of cash from the sale of redundant fixed assets, including a small parcel of land in Arizona.

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During the nine months ended December 31, 2004, we used $29.3 million of net cash for financing activities compared to net cash used of $28.6 million in the nine months ended December 31, 2003. We reduced debt by $29.1 million through cash generated from operations. We paid cash dividends of $1.8 million and received $3.1 million of cash from the exercise of stock options and warrants.

Indebtedness

At December 31, 2004, our total indebtedness was $15.2 million, a decrease of $29.1 million from March 31, 2004. Our primary source of financing is our cash generated from operations supplemented by borrowings under the Credit Agreement.

The Credit Agreement that we entered into on June 28, 2004 provides for maximum borrowings of $200 million with a maturity date of June 28, 2008. In consideration for the Credit Agreement, we incurred fees and expenses of approximately $1.5 million.

The Credit Agreement is a revolving credit and letter of credit facility that supports our working capital requirements and is also available for general corporate purposes. Borrowing costs are based on variable rates tied to the prime rate plus a margin or the London Interbank Offered Rate ("LIBOR") plus a margin. The margin is based on our leverage ratio (as defined in the Credit Agreement) as determined for the trailing four fiscal quarters. Based on our current leverage ratio, our LIBOR and prime rate margins are 125 basis points and 0 basis points, respectively.

Borrowings under the Credit Agreement are generally subject to borrowing base limitations based upon a formula equal to 85% of eligible accounts receivable plus the lesser of $65 million or 70% of eligible inventory. Inventories cannot represent more than 40% of the total borrowing base. A security interest in substantially all of our assets and properties, including pledges of the capital stock of our subsidiaries, has been granted to the agent for the lenders as collateral against our obligations under the Credit Agreement. Pursuant to the Credit Agreement, we pay a fee on the undrawn portion of the facility that is determined by the leverage ratio. As of December 31, 2004, that fee is .25% per annum.

Under the Credit Agreement, we are required to satisfy specified financial covenants, including a maximum leverage ratio of 2.50 to 1.00, a minimum consolidated fixed charge coverage ratio of 1.50 to 1.00 and a minimum tangible net worth of not less than the sum of $110 million plus 25% of consolidated net income earned in each fiscal quarter. The leverage ratio and consolidated fixed charge coverage ratio are tested for the twelve-month period ending each fiscal quarter. The Credit Agreement also limits capital expenditures to $20 million for the twelve-month period ending each fiscal quarter.

The Credit Agreement contains restrictions which, among other things, limit our ability to (i) incur additional indebtedness; (ii) pay dividends under certain conditions; (iii) enter into transactions with affiliates; (iv) enter into certain asset sales; (v) engage in certain acquisitions, investments, mergers and consolidations; (vi) prepay certain other indebtedness; (vii) create liens and encumbrances on our assets; and (viii) engage in other matters customarily restricted in such agreements. As of December 31, 2004, we were in compliance with all financial covenants contained in the Credit Agreement. As of January 20, 2005, we had outstanding borrowings of approximately $5.7 million under the Credit Agreement and undrawn availability of approximately $188.9 million.

Future capital requirements

We expect to fund our working capital needs, interest and dividend payments and capital expenditures over the next twelve months with cash generated from operations, supplemented by undrawn borrowing availability under the Credit Agreement. Our future cash needs will be driven by working capital requirements, planned capital expenditures and acquisition objectives, should attractive acquisition opportunities present themselves. Capital expenditures are planned to be approximately $14 million to $16 million in fiscal 2005, of which $9.3 million has been incurred in the nine months ended December 31, 2004. In addition to these capital expenditures and other possible acquisitions that we may make in the future, we have entered into a 50/50 joint venture that will operate an existing recycling business in Bowling Green, Kentucky and will establish and operate a new scrap recovery and recycling facility in Nashville, Tennessee. We estimate that

our total capital commitment to this joint venture over the next twelve months will be approximately $10 million to $12 million.

In addition, due to favorable financing terms made available by equipment manufacturing vendors, we have entered into operating leases for new equipment. Since April 2002, we have entered into 65 operating leases for equipment which would have cost approximately $18.6 million to purchase. These operating leases are attractive to us since the implied interest rates are lower than interest rates under the Credit Agreement. We expect to selectively use operating leases for new material handling equipment or trucks required by our operations.

We anticipate that our Board of Directors will continue to declare quarterly cash dividends; however, the continuance of cash dividends is not guaranteed and dependent on many factors.

We believe these sources of capital will be sufficient to fund planned capital expenditures, interest and dividend payments and working capital requirements for the next twelve months, although there can be no assurance that this will be the case.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Off-balance sheet arrangements

Other than operating leases, we do not have any significant off-balance sheet arrangements that are likely to have a current or future effect on our financial condition, results of operations or cash flows.

Contractual obligations

We have various financial obligations and commitments assumed in the normal course of our operations and financing activities. Financial obligations are considered to represent known future cash payments that we are required to make under existing contractual arrangements, such as debt and lease agreements.

The following table sets forth our known contractual obligations as of December 31, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS	THREE TO FIVE YEARS	THEREAFTE
Long-term debt and capital leases	$15,223	$ 381	$ 714	$14,112	$ 16
Operating leases	47,448	10,340	13,749	8,211	15,148
Other contractual obligations	3,099	2,918	181	0	0
Total contractual cash obligations	$65,770	$13,639	$14,644	$22,323	$15,164

Other commitments

We are required to make contributions to our defined benefit pension plans. These contributions are required under the minimum funding requirements of the Employee Retirement Income Security Act (ERISA). However, due to uncertainties regarding significant assumptions involved in estimating future required contributions, such as pension plan benefit levels, interest rate levels and the amount of pension plan asset returns, we are not able to reasonably estimate the amount of future required contributions beyond fiscal 2006. Our minimum required pension contributions for fiscal 2005 are approximately $1.3 million, of which we paid $1.2 million in the nine months ended December 31, 2004. Our minimum required pension contributions for fiscal 2006 will be approximately $1.0 million.

We also enter into letters of credit in the ordinary course of operating and financing activities. As of January 20, 2005, we had outstanding letters of credit of $5.5 million.

In connection with the management realignment implemented during January 2004 (principally involving our Midwest operations), we paid severance and other expenses of approximately $0.3 million in the nine months ended December 31, 2004. The remaining severance and other benefits to be paid is approximately $1.3 million, most of which is payable in July 2005.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage), requiring that these items be recognized as current-period charges and not capitalized in inventory overhead. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect this statement to materially impact our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets -- an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect this statement to impact our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment." The revised statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." This statement instead requires share-based compensation transactions to be accounted for and recognized in the statement of operations based on fair value. SFAS No. 123(R) will be effective for us as of July 1, 2005. SFAS No. 123(R) offers alternative methods for adopting this standard. We have not yet determined which method we will use and the resulting impact on our financial position or results of operations.

In December 2004, the FASB issued Staff Position ("FSP") No. 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." FSP No. 109-1 requires that the deduction received on qualified production activities should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax-rate reduction. We are currently evaluating whether we will qualify for this deduction and the resulting impact on our effective tax rate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial risk resulting from fluctuations in interest rates and commodity prices. We seek to minimize these risks through regular operating and financing activities. We do not use derivative financial instruments. Refer to Item 7A of the Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of our Disclosure Controls and Internal Controls.

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). This controls evaluation was done under the supervision and with the participation of management, including Daniel W. Dienst, our Chairman of the Board, Chief Executive Officer ("CEO") and President, and Robert C. Larry, our Executive Vice President, Finance and Chief Financial Officer ("CFO"). Rules adopted by the SEC require that in this section of the quarterly report, we present the conclusions of our CEO and CFO about the effectiveness of our disclosure controls based on and as of the date of the controls evaluation.

CEO and CFO Certifications.

As an exhibit to this report, there are "Certifications" of the CEO and CFO. The first form of Certification is required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This section of the quarterly report is the information concerning the controls evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Disclosure Controls and Internal Controls.

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that our transactions are properly authorized, our assets are safeguarded against unauthorized or improper use and our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

Limitations on the Effectiveness of Controls.

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation.

The evaluation of our disclosure controls by our CEO and CFO included a review of the controls' objectives and design, the controls' implementation by the Company and the effect of the controls on the information generated for use in this report. Based upon the controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, (i) our disclosure controls and procedures are reasonably effective in enabling us to record, process, summarize, and report information required to be included in our periodic SEC filings within the required time period, and (ii) there has been no change in our internal control over financial reporting during the three months ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in various litigation matters involving ordinary and routine claims incidental to our business. A significant portion of these matters result from environmental compliance issues and workers compensation related claims applicable to our operations. Management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our results of operations or financial condition. Please refer to Part II, Item 3 of the Annual Report for a description of the litigation in which we are currently involved.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Unregistered sales of common stock

In the three months ended December 31, 2004, we sold 469,000 shares of our common stock pursuant to exercise of warrants held by an aggregate of 10 current and former employees. There were 27 exercise transactions with an average exercise price for each transaction of $4.18 per share in the three months ended December 31, 2004. We received proceeds of $2.0 million from these sales and used the proceeds to repay borrowings outstanding under the Credit Agreement. The sales are exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, as the grant of warrants, and the issuance of shares of common stock upon exercise of such warrants, were made to a limited number of our employees and directors without public solicitation.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See Exhibit Index

(b) Reports on Form 8-K

We filed a Current Report on Form 8-K on December 2, 2004, which announced that our board of directors approved a quarterly cash dividend of $0.075 per share of common stock payable on December 30, 2004 to shareholders of record on December 14, 2004. The report also announced the unregistered sale of 287,500 shares of common stock pursuant to exercise of warrants held by current and former employees during the period from October 1, 2004 to December 1, 2004.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METAL MANAGEMENT, INC.

By: /s/ Daniel W. Dienst

Daniel W. Dienst
Chairman of the Board,
Chief Executive Officer
and President
(Principal Executive Officer)

By: /s/ Robert C. Larry

Robert C. Larry
Executive Vice President,
Finance and Chief
Financial Officer
(Principal Financial Officer)

By: /s/ Amit N. Patel

Amit N. Patel
Vice President, Finance and
Controller
(Principal Accounting Officer)

Date: February 2, 2005

METAL MANAGEMENT, INC.
EXHIBIT INDEX

NUMBER AND DESCRIPTION OF EXHIBIT	
2.1	Disclosure Statement with respect to First Amended Joint Plan of Reorganization of Metal Management, Inc. and its Subsidiary Debtors, dated May 4, 2001 (incorporated by reference to Exhibit 2.1 of the Company's Annual Report on Form 10-K for the year ended March 31, 2001)
3.1	Second Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on June 29, 2001 (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended March 31, 2001)
3.2	Amended and Restated By-Laws of the Company adopted as of April 29, 2003 (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended March 31, 2003)
31.1	Certification of Daniel W. Dienst pursuant to Section 240.13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Robert C. Larry pursuant to Section 240.13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Daniel W. Dienst pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Robert C. Larry pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002