FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

METALLURG HOLDINGS INC

CIK:**1067054**| IRS No.: **232967577** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **333-60077** | Film No.: **99709363**
SIC: **3312** Steel works, blast furnaces & rolling mills (coke ovens)

Mailing Address
800 THE SAFEGUARD BLDG
435 DEVON PARK DR
WAYNE PA 19087

Business Address
800 THE SAFEGUARD BLDG
435 DEVON PARK DR
WAYNE PA 19087

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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JULY 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

METALLURG HOLDINGS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>

<S>	<C>
DELAWARE	23-2967577
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

800 THE SAFEGUARD BUILDING
435 DEVON PARK DRIVE
WAYNE, PENNSYLVANIA 19087
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)
(ZIP CODE)

(610) 293-0838
(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.
[X] Yes [ ] 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.
[X] Yes [ ] No

There are no common equity securities of the registrant outstanding. At September 10, 1999, the outstanding capital of Metallurg Holdings, Inc. was comprised of 5,202.335 shares of Series A Voting Convertible Preferred Stock and 4,524 shares of Series B Non-Voting Preferred Stock, $.01 par value.

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

ITEM 1 -- FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	QUARTER ENDED JULY 31, 1999 <C>	TWO QUARTERS ENDED JULY 31, 1999 <C>	FOR THE PERIOD JUNE 10, 1998 (INCEPTION) TO JULY 31, 1998 <C>
Sales	$115,897	$233,576	$ 2,274
Commission income	155	289	--
Total revenue	116,052	233,865	2,274
Operating costs and expenses:			
Cost of sales	100,765	208,804	2,174
Selling, general and administrative expenses	15,401	31,140	786
Environmental expense recovery	(5,501)	(5,501)	--
Restructuring charges	4,386	4,386	--
Merger-related costs	--	--	875
Total operating costs and expenses	115,051	238,829	3,835
Operating income (loss)	1,001	(4,964)	(1,561)
Other income (expense):			
Other (expense) income, net	(27)	5	--
Interest expense, net	(5,069)	(10,320)	(833)
Loss before income tax provision (benefit)	(4,095)	(15,279)	(2,394)
Income tax provision (benefit)	1,771	2,750	(574)
Net loss	(5,866)	(18,029)	(1,820)
Other comprehensive loss:			
Foreign currency translation adjustment	(737)	(2,421)	--
Comprehensive loss	$ (6,603)	$(20,450)	$(1,820)

</TABLE>

See notes to condensed unaudited consolidated financial statements.

METALLURG, INC. AND CONSOLIDATED SUBSIDIARIES

ITEM 1 -- FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

	QUARTER ENDED JULY 31,		TWO QUARTERS ENDED JULY 31,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Sales	$115,897	$169,754	$233,576	$337,429
Commission income	155	259	289	414
Total revenue	116,052	170,013	233,865	337,843
Operating costs and expenses:				
Cost of sales	100,765	142,671	208,804	281,679
Selling, general and administrative expenses	14,066	15,147	28,474	29,908
Environmental expense recovery	(5,501)	--	(5,501)	--
Restructuring charges	4,386	--	4,386	--
Merger costs	--	4,416	--	4,416
Total operating costs and expenses	113,716	162,234	236,163	316,003
Operating income (loss)	2,336	7,779	(2,298)	21,840
Other income (expense):				
Other (expense) income, net	(27)	(333)	5	545
Interest expense, net	(2,894)	(2,544)	(5,860)	(4,616)
(Loss) income before income tax provision	(585)	4,902	(8,153)	17,769
Income tax provision	1,769	3,404	2,745	9,481
Net (loss) income	(2,354)	1,498	(10,898)	8,288
Other comprehensive loss:				
Foreign currency translation adjustment	(737)	(1,152)	(2,421)	(1,076)
Comprehensive (loss) income	$ (3,091)	$ 346	$(13,319)	$ 7,212

</TABLE>

See notes to condensed unaudited consolidated financial statements.

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

ITEM 1 -- FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	JULY 31, 1999 (UNAUDITED)	JANUARY 31, 1999
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,724	$ 38,395
Accounts and notes receivable, net	64,333	63,745
Inventories	99,177	120,658
Other assets	18,100	17,106
Total current assets	227,334	239,904
Property, plant and equipment, net	47,782	49,018
Goodwill	96,255	98,794
Other assets	24,803	26,640
TOTAL	$396,174	$414,356
LIABILITIES		
Current liabilities:		

Short-term debt and current portion of long-term debt.....	$ 4,071	$ 4,945
Trade payables..	38,984	37,460
Accrued expenses..	31,444	26,047
Other current liabilities...............................	3,124	3,955
	--------	--------
Total current liabilities........................	77,623	72,407
	--------	--------
Long-term debt..	181,501	178,885
Accrued pension liabilities...............................	36,760	41,062
Environmental liabilities, net............................	33,372	35,463
Other liabilities...	5,909	5,556
	--------	--------
Total long-term liabilities......................	257,542	260,966
	--------	--------
Total liabilities................................	335,165	333,373
	--------	--------
SHAREHOLDERS' EQUITY		
Additional paid-in capital................................	96,909	96,433
Accumulated other comprehensive (loss) income..............	(2,406)	15
Retained deficit..	(33,494)	(15,465)
	--------	--------
Total shareholders' equity.......................	61,009	80,983
	--------	--------
TOTAL..	$396,174	$414,356
	========	========

</TABLE>

See notes to condensed unaudited consolidated financial statements.

METALLURG, INC. AND CONSOLIDATED SUBSIDIARIES

ITEM 1 -- FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	JULY 31, 1999	JANUARY 31, 1999
	(UNAUDITED)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents................................	$ 44,557	$ 37,293
Accounts and notes receivable, net........................	64,333	63,680
Inventories...	99,177	120,658
Other assets..	17,739	16,759
	--------	--------
Total current assets.............................	225,806	238,390
Property, plant and equipment, net..........................	47,782	49,018
Other assets..	22,045	23,709
	--------	--------
Total..	$295,633	$311,117
	========	========
LIABILITIES		
Current liabilities:		
Short-term debt and current portion of long-term debt.....	$ 4,071	$ 4,945
Trade payables..	38,984	37,460
Accrued expenses..	31,208	25,801
Other current liabilities...............................	3,124	3,955
	--------	--------
Total current liabilities........................	77,387	72,161
	--------	--------
Long-term debt..	107,358	109,185
Accrued pension liabilities...............................	36,760	41,062
Environmental liabilities, net............................	33,372	35,463
Other liabilities...	5,909	5,556
	--------	--------
Total long-term liabilities......................	183,399	191,266
	--------	--------
Total liabilities................................	260,786	263,427
	--------	--------
SHAREHOLDERS' EQUITY		
Common stock..	50	50
Additional paid-in capital................................	45,733	45,257
Accumulated other comprehensive loss.......................	(2,809)	(388)
Retained (deficit) earnings................................	(8,127)	2,771
	--------	--------

Total shareholders' equity	34,847	47,690
Total	$295,633	$311,117

</TABLE>

See notes to condensed unaudited consolidated financial statements.

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

ITEM 1 -- FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	FOR THE TWO QUARTERS ENDED JULY 31, 1999 <C>	FOR THE PERIOD JUNE 10, 1998 (INCEPTION) TO JULY 31, 1998 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$(18,029)	$ (1,820)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,702	256
Loss on sale of assets	3	--
Interest accretion on Discount Notes	4,443	416
Deferred income taxes	1,100	--
Provision for doubtful accounts	141	--
Provision for restructuring costs	4,386	--
Amortization of executive stock awards	--	354
Other, net	3,773	--
Total	2,519	(794)
Change in operating assets and liabilities:		
(Increase) decrease in trade receivables	(7,740)	162
Decrease in inventories	16,680	--
Increase in other current assets	(2,243)	--
Increase in trade payables and accrued expenses	13,306	1,379
Payments for environmental remediation	(1,817)	--
Other assets and liabilities, net	(7,389)	--
Net cash provided by operating activities	13,316	747
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(5,089)	(3)
Proceeds from asset sales	35	--
Cash paid for acquisition of Metallurg, Inc., net of cash acquired	--	(112,345)
Other, net	63	--
Net cash used in investing activities	(4,991)	(112,348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net short-term borrowings	117	--
(Repayment) proceeds of long-term debt, net	(524)	62,895
Capital contribution	--	97,023
Other	--	(1,835)
Net cash (used in) provided by financing activities	(407)	158,083
Effects of exchange rate changes on cash and cash equivalents	(589)	--
Net increase in cash and cash equivalents	7,329	46,482
Cash and cash equivalents -- beginning of period	38,395	--
Cash and cash equivalents -- end of period	$ 45,724	$ 46,482

</TABLE>

See notes to condensed unaudited consolidated financial statements.

METALLURG, INC. AND CONSOLIDATED SUBSIDIARIES

ITEM 1 -- FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

	TWO QUARTERS ENDED JULY 31, 1999	TWO QUARTERS ENDED JULY 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$(10,898)	$ 8,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Executive stock awards	--	750
Depreciation and amortization	3,990	4,282
Loss (gain) on sale of assets	3	(592)
Deferred income taxes	1,100	2,279
Provision for doubtful accounts	141	606
Provision for restructuring costs	4,386	--
Other, net	3,773	2,397
Total	2,495	18,010
Change in operating assets and liabilities:		
Increase in trade receivables	(7,805)	(12,596)
Decrease (increase) in inventories	16,680	(5,774)
(Increase) decrease in other current assets	(2,229)	1,586
Increase in trade payables and accrued expenses	13,316	16,542
Payments for environmental remediation	(1,817)	(1,006)
Other assets and liabilities, net	(7,389)	(8,270)
Net cash provided by operating activities	13,251	8,492
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(5,089)	(6,998)
Proceeds from asset sales	35	1,286
Other, net	63	(2,254)
Net cash used in investing activities	(4,991)	(7,966)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contribution from Safeguard International	--	3,541
Net short-term borrowings (repayments)	117	(1,851)
Repayment of long-term debt	(524)	(548)
Net cash (used in) provided by financing activities	(407)	1,142
Effects of exchange rate changes on cash and cash equivalents	(589)	(248)
Net increase in cash and cash equivalents	7,264	1,420
Cash and cash equivalents -- beginning of period	37,293	43,003
Cash and cash equivalents -- end of period	$ 44,557	$ 44,423

See notes to condensed unaudited consolidated financial statements.

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Metallurg Holdings, Inc., a Delaware corporation, was formed on June 10, 1998 and is owned by a group of investors led by and including Safeguard International Fund, L.P. ("Safeguard International"), an international private equity fund that invests primarily in equity securities of companies in process industries. On July 13, 1998, Metallurg Holdings, Inc. acquired Metallurg, Inc. (the "Merger").

The accompanying condensed unaudited consolidated financial statements include the accounts of Metallurg Holdings, Inc. ("Metallurg Holdings"), Metallurg, Inc. and its majority-owned subsidiaries ("Metallurg") (collectively, the "Company"). These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information pursuant to Accounting Principles Board ("APB") Opinion No. 28. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet as of January 31, 1999 was derived from audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full year.

For further information, see the financial statements and footnotes thereto included in the Company's audited consolidated financial statements for the year ended January 31, 1999.

Metallurg Holdings and Metallurg, Inc. both report on a fiscal year ending January 31. The operating subsidiaries of Metallurg, Inc. report on a calendar year ending December 31. Accordingly, the consolidated financial statements of Metallurg Holdings in 1999 include the accounts of Metallurg Holdings and Metallurg, Inc. for the quarter and the two quarters ended July 31, 1999 and of Metallurg, Inc.'s operating subsidiaries for the quarter and the two quarters ended June 30, 1999. The consolidated financial statements of Metallurg Holdings in 1998 include (i) the results of Metallurg Holdings from its inception (June 10, 1998) to July 31, 1998 (a loss of $653,000) and (ii) the results of Metallurg, Inc., the holding company, for the period subsequent to the Merger (a loss of $1,167,000). Accordingly, the results of Metallurg's operating subsidiaries are not included in these 1998 results. Balance sheet data at July 31, 1999 reflect the financial position of Metallurg Holdings and Metallurg, Inc. at July 31, 1999 and of Metallurg, Inc.'s operating subsidiaries at June 30, 1999. Balance sheet data at January 31, 1999 reflect the financial position of Metallurg Holdings and Metallurg, Inc. at January 31, 1999 and of Metallurg, Inc.'s operating subsidiaries at December 31, 1998.

2. INVENTORIES

Inventories, net of reserves, consist of the following (in thousands):

<TABLE>
<CAPTION>

	JULY 31, 1999	JANUARY 31, 1999
<S>	<C>	<C>
Raw materials	$19,247	$ 29,096
Work in process	2,652	3,249
Finished goods	72,648	83,116
Other	4,630	5,197
Total	$99,177	$120,658

</TABLE>

3. COMMITMENTS AND CONTINGENCIES

The Company continues defending various claims and legal actions arising in the normal course of business, including those relating to environmental matters. Management believes, based on the advice of counsel, that the outcome of such litigation will not have a material adverse effect on the Company's

consolidated financial position, results of operations or liquidity. There can be no assurance, however, that existing or future litigation will not result in an adverse judgment against the Company which could have a material adverse effect on the Company's future results of operations or cash flows.

4. EARNINGS PER COMMON SHARE

Earnings per share is not presented since 100% of the capital stock of the Company is owned by a group of private investors led by and including Safeguard International.

5. ACQUISITION TRANSACTIONS

On July 13, 1998, Metallurg was acquired by a group of investors led by Safeguard International. The acquisition was accomplished by Metallurg

Acquisition Corp., a wholly owned subsidiary of Metallurg Holdings, merging with and into Metallurg, with Metallurg being the surviving company and Metallurg Holdings becoming the sole parent of Metallurg. Metallurg Holdings was formed on June 10, 1998 and is owned by Safeguard International (an international private equity fund that invests primarily in equity securities of companies in process industries), certain limited partners of Safeguard International, certain individuals and a private equity fund.

At the time of the Merger, each outstanding share of Metallurg common stock, par value $.01 per share, was converted into the right to receive $30 in cash, representing an aggregate cash price of approximately $152,200,000 (including payments for cancellation of compensatory options). Metallurg Holding's purchase of Metallurg was recorded under the purchase method of accounting in accordance with APB Opinion No. 16, "Business Combinations". The total value of the transaction, including existing indebtedness and environmental, pension and other liabilities, net of cash, was approximately $300,000,000. The excess of the purchase price over the estimated fair value of the net assets acquired was approximately $101,500,000 and is being amortized over a period of 20 years. The purchase price allocation is subject to finalization in 1999.

In order to finance the Merger, (i) Safeguard International and certain of its limited partners contributed approximately $97,000,000 of capital to Metallurg Holdings (the "Equity Contribution"); and (ii) Metallurg Holdings received approximately $62,900,000 net proceeds upon consummation of the offering (the "Offering") of $121,000,000 aggregate principal amount at maturity of 12 3/4% Senior Discount Notes due 2008 (the "Discount Notes"). As used herein, the term "Acquisition Transactions" means the Equity Contribution, the Offering, the Merger, the Consent Solicitation (as defined herein) and the execution of a supplemental indenture to the indenture governing Metallurg, Inc.'s 11% Senior Notes due 2007 (the "Senior Notes").

In connection with the Merger, Metallurg received the consents (the "Consents Solicitation") of 100% of the registered holders of its Senior Notes to a one-time waiver of the change of control provisions of the Senior Note Indenture to make such provisions inapplicable to the Merger and to amend the definition of "Permitted Holders".

Merger-related costs of $4,416,000 were incurred, and recorded as expense by Metallurg, in the period ended July 31, 1998 and included (i) $3,541,000 for payments to cancel compensatory stock options; (ii) $625,000 in consent fees incurred in order to obtain the one-time waiver of the change of control provisions of the Senior Note Indenture and (iii) $250,000 of other merger-related costs. Metallurg was reimbursed for the compensatory stock option cancellation costs of $3,541,000 by a capital contribution from Safeguard International at the time of the Merger, which amount is included in Metallurg Holdings' acquisition cost. Accordingly, Metallurg Holdings recognized the balance of such costs, totaling $875,000, in the post-Merger period ended July 31, 1998. Additional merger-related costs of $3,472,000 were incurred and recorded as expense by Metallurg in the year ended January 31, 1999.

6. PRO FORMA RESULTS (UNAUDITED)

The pro forma information presented below is based upon the historical financial statements of the Company included elsewhere herein. The pro forma information illustrate the estimated effects of (i) the issuance of the 12 3/4% Senior Discount Notes of Metallurg Holdings due 2008 and (ii) the Merger and the transactions related thereto (collectively, the "Pro Forma Transactions"), as if these transactions had occurred as of January 31, 1998.

<TABLE>
<CAPTION>

	TWO QUARTERS ENDED JULY 31, 1999	TWO QUARTERS ENDED JULY 31, 1998
<S>	<C>	<C>
Revenues	$233,865	$337,843
Operating (loss) income	(4,964)	23,593
Net (loss) income	(18,288)	5,712

</TABLE>

The pro forma financial information is not necessarily indicative of either the results of operations that would have occurred had the Pro Forma

Transactions taken place at the beginning of the respective periods or the future operating results of the Company.

This Merger has been accounted for under the purchase method of accounting and accordingly, the results of operations of Metallurg have been included in the accompanying consolidated financial statements since the date of the Merger, July 13, 1998. The cost of the Merger was allocated on the basis of the preliminary estimated fair value of the assets acquired and liabilities assumed. These estimates are being finalized in 1999.

The pro forma adjustments include the amortization of goodwill over 20 years, interest expense due to the issuance of the Discount Notes, certain overhead expenses and the tax effect of the pro forma adjustments.

7. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company is currently evaluating the impact SFAS No. 133 will have on its financial statements.

8. SUPPLEMENTAL GUARANTOR INFORMATION

In November 1997, Metallurg, Inc. issued $100 million principal amount of its 11% Senior Notes due 2007. Under the terms of the Senior Notes, Shieldalloy Metallurgical Corporation ("Shieldalloy"), Metallurg Holdings Corporation, Metallurg Services, Inc., Metallurg International Resources, Inc. ("MIR, Inc.") and MIR (China), Inc. (collectively, the "Guarantors"), wholly owned subsidiaries of Metallurg, Inc. have fully and unconditionally guaranteed on a joint and several basis Metallurg, Inc.'s obligations to pay principal, premium and interest relative to the Senior Notes. During the second quarter of 1999, Metallurg, Inc. established MIR, Inc. as a wholly owned subsidiary and a guarantor of the Senior Notes. Certain commercial activities previously carried out by Metallurg, Inc. are now being carried out by MIR, Inc. Management has determined that separate, full financial statements of the Guarantors would not be material to potential investors and, accordingly, such financial statements are not provided. Supplemental financial information of the Guarantors is presented below.

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE QUARTER ENDED JULY 31, 1999
(IN THOUSANDS)

<TABLE>
<CAPTION>

	METALLURG, INC. ("PARENT COMPANY")	COMBINED GUARANTOR SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
Sales		$39,604	$94,728	$(18,435)	$115,897
Commission income		19	202	(66)	155
Total revenue		39,623	94,930	(18,501)	116,052
Operating costs and expenses:					
Cost of sales	$ 1	36,090	83,835	(19,161)	100,765
Selling, general and administrative expenses	1,345	2,614	10,107	--	14,066
Environmental expense recovery	--	(5,501)	--	--	(5,501)
Restructuring charges	--	--	4,386	--	4,386
Total operating costs and expenses	1,346	33,203	98,328	(19,161)	113,716
Operating (loss) income	(1,346)	6,420	(3,398)	660	2,336
Other income (expense):					
Other income (expense), net	2	(16)	(13)	--	(27)
Interest (expense) income, net	(2,794)	345	(445)	--	(2,894)
Equity in earnings (losses) of					

subsidiaries	141	(3,371)	--	3,230	--
(Loss) income before income tax provision	(3,997)	3,378	(3,856)	3,890	(585)
Income tax (benefit) provision	(1,643)	2,305	1,107	--	1,769
Net (loss) income	(2,354)	1,073	(4,963)	3,890	(2,354)
Other comprehensive (loss) income:					
Foreign currency translation adjustment	(737)	1,123	(743)	(380)	(737)
Comprehensive (loss) income	$(3,091)	$ 2,196	$(5,706)	$ 3,510	$ (3,091)

</TABLE>

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE TWO QUARTERS ENDED JULY 31, 1999
(IN THOUSANDS)

<TABLE>
<CAPTION>

	METALLURG, INC. ("PARENT COMPANY")	COMBINED GUARANTOR SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
Sales	$ 7,297	$72,345	$191,381	$(37,447)	$233,576
Commission income	--	21	379	(111)	289
Total revenue	7,297	72,366	191,760	(37,558)	233,865
Operating costs and expenses:					
Cost of sales	6,573	71,334	168,955	(38,058)	208,804
Selling, general and administrative expenses	3,271	4,805	20,398	--	28,474
Environmental expense recovery	--	(5,501)	--	--	(5,501)
Restructuring charges	--	--	4,386	--	4,386
Total operating costs and expenses	9,844	70,638	193,739	(38,058)	236,163
Operating (loss) income	(2,547)	1,728	(1,979)	500	(2,298)
Other income (expense):					
Other income (expense), net	2	(9)	12	--	5
Interest (expense) income, net	(5,725)	771	(906)	--	(5,860)
Equity in losses of subsidiaries	(2,845)	(4,046)	--	6,891	--
Loss before income tax provision	(11,115)	(1,556)	(2,873)	7,391	(8,153)
Income tax (benefit) provision	(217)	682	2,280	--	2,745
Net loss	(10,898)	(2,238)	(5,153)	7,391	(10,898)
Other comprehensive loss:					
Foreign currency translation adjustment	(2,421)	(76)	(2,419)	2,495	(2,421)
Comprehensive loss	$(13,319)	$(2,314)	$ (7,572)	$ 9,886	$(13,319)

</TABLE>

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET AT JULY 31, 1999 (UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

	METALLURG, INC. ("PARENT COMPANY")	COMBINED GUARANTOR SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					

Current assets:					
Cash and cash equivalents	$ 36,677	$ 562	$ 13,129	$ (5,811)	$ 44,557
Accounts, notes and loans receivable, net	19,853	48,146	55,530	(59,196)	64,333
Inventories	--	35,162	66,633	(2,618)	99,177
Other assets	10,187	1,020	9,998	(3,466)	17,739
Total current assets	66,717	84,890	145,290	(71,091)	225,806
Investments -- intergroup	101,795	51,527	--	(153,322)	--
Property, plant and equipment, net	1,025	8,440	38,317	--	47,782
Other assets	9,260	20,379	13,830	(21,424)	22,045
Total	$178,797	$165,236	$197,437	$(245,837)	$295,633
LIABILITIES					
Current liabilities:					
Short-term debt and current portion of long-term debt			$ 9,882	$ (5,811)	$ 4,071
Accounts and loans payable	$ 21,949	$ 30,857	55,384	(69,206)	38,984
Accrued expenses	3,275	9,178	18,755	--	31,208
Other current liabilities	--	3,518	3,072	(3,466)	3,124
Total current liabilities	25,224	43,553	87,093	(78,483)	77,387
Long-term liabilities:					
Long-term debt	100,000	--	7,358	--	107,358
Accrued pension liabilities	155	1,774	34,831	--	36,760
Environmental liabilities, net	--	31,180	2,192	--	33,372
Other liabilities	18,571	--	8,752	(21,414)	5,909
Total long-term liabilities	118,726	32,954	53,133	(21,414)	183,399
Total liabilities	143,950	76,507	140,226	(99,897)	260,786
SHAREHOLDERS' EQUITY:					
Common stock outstanding	50	1,227	52,191	(53,418)	50
Additional paid-in capital	45,733	94,460	1,014	(95,474)	45,733
Accumulated other comprehensive (loss) income	(2,809)	(1,847)	18,926	(17,079)	(2,809)
Retained deficit	(8,127)	(5,111)	(14,920)	20,031	(8,127)
Shareholders' equity	34,847	88,729	57,211	(145,940)	34,847
Total	$178,797	$165,236	$197,437	$(245,837)	$295,633

</TABLE>

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE TWO QUARTERS ENDED JULY 31, 1999
(IN THOUSANDS)

<TABLE>
<CAPTION>

	METALLURG, INC. ("PARENT COMPANY")	COMBINED GUARANTOR SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
NET CASH FLOWS FROM OPERATING ACTIVITIES	$(6,942)	$ 18,748	$ 2,696	$(1,251)	$13,251
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to property, plant and equipment	(167)	(1,359)	(3,563)	--	(5,089)
Proceeds from asset sales	--	16	19	--	35
Other, net	(299)	(2,761)	3,123	--	63
Net cash used in investing activities	(466)	(4,104)	(421)	--	(4,991)
CASH FLOWS FROM FINANCING					

ACTIVITIES:					
Intergroup borrowings (repayments)	16,632	(15,177)	(2,706)	1,251	--
Net short-term borrowings	--	--	(150)	267	117
Repayment of long-term debt	--	--	(524)	--	(524)
Dividends received (paid)	1,840	--	(1,840)	--	--
Net cash provided by (used in) financing activities	18,472	(15,177)	(5,220)	1,518	(407)
Effects of exchange rate changes on cash and cash equivalents	--	--	(589)	--	(589)
Net increase (decrease) in cash and cash equivalents	11,064	(533)	(3,534)	267	7,264
Cash and cash equivalents -- beginning of period	25,613	1,095	16,663	(6,078)	37,293
Cash and cash equivalents -- end of period	$36,677	$ 562	$13,129	$(5,811)	$44,557

</TABLE>

METALLURG HOLDINGS, INC. AND CONSOLIDATED SUBSIDIARIES

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

FORWARD-LOOKING STATEMENTS

Certain matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q may constitute forward-looking statements for purposes of Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Factors which may cause the Company's results to be materially different include the cyclical nature of the Company's business, the Company's dependence on foreign customers (particularly customers in Europe), the economic strength of the Company's markets generally and particularly the strength of the demand for iron, steel, aluminum and superalloys and titanium alloy industries in those markets, the accuracy of the Company's estimates of the costs of environmental remediation and the extension or expiration of existing anti-dumping duties.

OVERVIEW

Metallurg is a leading international producer and seller of high quality metal alloys and specialty metals used by manufacturers of steel, aluminum, superalloys, titanium, chemicals and other metal consuming industries. The industries that Metallurg supplies are cyclical. Throughout 1997 and into 1998, market conditions for most of Metallurg's products were favorable. However, sales prices and demand for several of Metallurg's major products declined during the second half of 1998 and into 1999. Metallurg believes that the declines were the result of economic turmoil seen in Asia, Latin America and Russia in 1997 and 1998. In the steel industry, this led to lower production almost everywhere except in the U.S. during the first half of 1998. In the second half of 1998, Japan, Russia, Brazil and some other Asian countries exported large volumes of steel to the U.S., causing domestic production to be drastically curtailed in the latter months of 1998. In 1999, domestic steel production has increased slightly each quarter although total first half production was about 11% below the prior year. In addition, civilian airliner production in 1998 did not reach the levels forecast by a major producer, and the economic turmoil already mentioned caused postponements and cancellation of orders for airliners as trans-Pacific and Asian air passenger volumes fell sharply. Furthermore, Asian demand for corrosion resistant materials for capital projects also fell sharply. These factors contributed to lower sales of products to the superalloy and titanium alloy industries, which continue to hold excessive inventories, particularly of their aerospace related products. The aluminum industry had sustained satisfactory levels of demand for Metallurg's products throughout 1998, and this has continued in 1999.

METALLURG HOLDINGS' RESULTS OF OPERATIONS

In the quarter ended July 31, 1999, Metallurg Holdings recognized a net loss of $5.9 million, which includes the consolidation of Metallurg (a loss of $2.4 million), $2.2 million of interest expense on its Discount Notes and $1.3

million of amortization of acquisition, goodwill and deferred debt issuance costs. In the two quarters ended July 31, 1999, Metallurg Holdings recognized a net loss of $18.0 million, which includes the consolidation of Metallurg (a loss of $10.9 million), $4.4 million of interest expense on its Discount Notes and $2.7 million of amortization of acquisition, goodwill and deferred issuance costs.

In the period June 10, 1998 (inception) to July 31, 1998, Metallurg Holdings recognized a net loss of $1.8 million, which includes the consolidation of Metallurg (a loss of $1.2 million), $0.4 million of net interest expense on its Discount Notes and $0.2 million of amortization of acquisition, goodwill and deferred issuance costs.

As Metallurg Holdings is a holding company and does not have any material operations or assets other than the ownership of Metallurg, the following discussion of the Company's results of operations relates to Metallurg, unless otherwise indicated.

METALLURG INC.'S RESULTS OF OPERATIONS

Metallurg operates in one significant industry segment, the manufacture and sale of ferrous and non-ferrous metals and alloys. Metallurg is organized geographically, with its core production facilities in the United States, United Kingdom and Germany supported by a worldwide sales network.

Summarized financial information concerning Metallurg's reportable segments is shown in the following table (in thousands). Each segment records direct expenses related to its employees and operations. The "Other" column includes corporate related items, fresh-start adjustments and results of subsidiaries not meeting the quantitative thresholds as prescribed by applicable accounting rules. Metallurg does not allocate general corporate overhead expenses to operating segments. There have been no material changes in segment assets from the amounts disclosed in the last annual report.

Results of Operations -- The Quarter Ended July 31, 1999 Compared to the Quarter Ended July 31, 1998

<TABLE>
<CAPTION>

FOR THE QUARTER ENDED JULY 31,	SHIELDALLOY	LONDON AND SCANDINAVIAN METALLURGICAL CO., LTD. ("LSM")	GESELLSCHAFT FUR ELEKTRO-METALLURGIE MBH ("GFE")	ELEKTROWERK WEISWEILER GMBH ("EWW")	OTHER	INTERSEGMENT ELIMINATIONS	CONSOLIDATED TOTALS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1999							
Revenues from external customers....................	$27,706	$26,500	$16,593	$ 2,958	$42,295		$116,052
Intergroup revenue............	1,039	9,628	4,370	5,114	9,955	$(30,106)	--
Environmental expense recovery.....................	(5,501)	--	--	--	--	--	(5,501)
Restructuring charges..........	--	--	3,385	1,001	--	--	4,386
Income tax provision (benefit)....................	2,235	251	131	223	(1,071)	--	1,769
Net income (loss).............	4,336	858	(4,834)	(1,001)	(2,232)	519	(2,354)
1998							
Revenues from external customers....................	$55,587	$31,010	$30,589	$ 4,695	$48,132		$170,013
Intergroup revenue............	1,573	14,262	4,500	7,530	14,684	$(42,549)	--
Merger costs..................	--	--	--	--	4,416	--	4,416
Income tax provision (benefit)....................	3,062	566	559	420	(1,203)	--	3,404
Net income.....................	4,337	1,361	772	343	2,305	(7,620)	1,498

</TABLE>

Total Revenues

Shieldalloy revenues were $28.4 million, or 50%, below the second quarter of 1998. As a result of the continuing weakness in the U.S. steel industry, volume and selling prices of ferrovanadium remained lower in the second quarter of 1999, resulting in a decrease of approximately $9.2 million. The majority of the remaining decline is attributable to lower volume and selling prices of ferrosilicon, chrome metal and low carbon ferrochrome resulting from lower demand from the steel and superalloy industries.

Excess superalloy and titanium alloy inventories in the aerospace supply chain impacted negatively on both price and particularly volume of EWW's specialty low carbon ferrochrome, LSM's chromium and GfE's vanadium aluminum and titanium masteralloy products. Continuing weakness in the steel sector contributed to low prices and volumes of LSM's ferrotitanium, EWW's normal grade ferrochrome and GfE's ferrovanadium and ferroniobium. As a result, EWW's revenues fell $4.2 million, or 34%, below the second quarter of 1998 and GfE, with heavy dependence on the titanium industry, saw revenues fall $14.1 million, or 40% below the second quarter of 1998. Although LSM's revenues fell by $9.1 million, or 20%, for reasons noted above, volumes for its products to the aluminum industry remained strong.

Gross Margins

Gross margins decreased from $27.3 million in the quarter ended July 31, 1998 to $15.3 million in the quarter ended July 31, 1999, a decrease of 44.1%, due principally to price and volume decreases in ferrovanadium, low carbon ferrochrome, vanadium aluminum, ferrotitanium and chromium. In aluminum

master alloys and compacted products, improvements in product mix and cost reductions more than offset a decrease in selling price.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") decreased from $15.1 million in the quarter ended July 31, 1998 to $14.1 million in the quarter ended July 31, 1999, a decrease of 7.1%. For the quarter ended July 31, 1998, SG&A represented 8.9% of Metallurg's sales compared to 12.1% for the quarter ended July 31, 1999, as a result of decreased revenue.

Environmental Expense Recovery

In June 1999, Metallurg recognized income in the amount of $5.5 million upon settlement with an insurance company relating to coverage for certain environmental claims stemming from the 1960's and forward. These claims relate mostly to the historical costs of remedial activities at Metallurg's Newfield, New Jersey site.

Restructuring Charges

During the second quarter of 1999, Metallurg initiated a restructuring program. The restructuring is intended to reduce Metallurg's cost structure, streamline management and production technical functions and focus resources in support of higher margin products at core production units. The restructuring plan includes the discontinuation of certain production activities, termination of employees, a facility closing and the write-down of certain redundant plant and equipment and related spare parts and supplies. The restructuring predominantly affects Metallurg's operations in Europe.

In June 1999, a charge of $4.4 million was recorded with respect to the restructuring of Metallurg's German operations (GfE and EWW). Approximately 100 employees were notified of terminations as operations were curtailed in line with current demands for Metallurg's products. The terminations will take effect through the end of 2000 and a provision for severance and other employee costs of $2.9 million was recorded. Such costs shall be substantially disbursed in 2000. Additional costs of $1.5 million were recorded for the write-down of redundant fixed assets and related spare parts and supplies.

During July 1999, management approved a restructuring plan relating to its U.K. operations (LSM). Currently, LSM is soliciting voluntary terminations in its plan to simplify its organization and reduce costs by restructuring its businesses into fewer operating divisions and relocating administrative functions to its Rotherham plant site from its London office, which will be closed. The restructuring is to be completed during 2000 and provisions for its costs, which are not determinable at this time, will be recorded during the second half of 1999.

Operating Income

Operating income decreased from $7.8 million in the quarter ended July 31, 1998 to $2.3 million in the quarter ended July 31, 1999, due primarily to the decrease in gross margin and the other items, discussed above. Merger costs of $4.4 million, consisting primarily of costs to cancel compensatory stock options, were recorded in the quarter ended July 31, 1998.

Interest Expense, Net

Interest expense, net, is as follows (in thousands):

<TABLE>
<CAPTION>

	QUARTER ENDED JULY 31, 1999	1998
Interest income	$ 995	$ 820
Interest expense	(3,889)	(3,364)
Income expense, net	$(2,894)	$(2,544)

Interest expense increased in the quarter ended July 31, 1999 reflecting primarily higher effective interest rates and increased external borrowing levels of GfE during the current period.

Income Tax Provision

Income tax provision, net of tax benefits, is as follows (in thousands):

	QUARTER ENDED JULY 31, 1999	1998
Total current	$1,249	$2,512
Total deferred	520	892
Income tax provision, net	$1,769	$3,404

The differences between the statutory Federal income tax rate and Metallurg's effective rate result primarily because of: (i) the U.S. taxability of foreign dividends; (ii) the excess of foreign tax rates over the statutory Federal income tax rate; (iii) certain deductible temporary differences which, in other circumstances would have generated a deferred tax benefit, have been fully provided for in a valuation allowance; (iv) the deferred tax effects of certain tax assets, primarily foreign net operating losses, for which the benefit had been previously recognized approximating $0.3 million in the quarter ended July 31, 1999; and (v) the deferred tax effects of certain deferred tax assets for which a corresponding credit has been recorded to "Additional paid-in capital" approximating $0.2 million in the quarter ended July 31, 1999. The deferred tax expenses referred to in items (iv) and (v) above will not result in cash payments in future periods.

Net Income

Net income decreased from $1.5 million for the quarter ended July 31, 1998 to a loss of $2.4 million for the quarter ended July 31, 1999 due primarily to reduced gross margins and the other items, discussed above.

Results of Operations -- The Two Quarters Ended July 31, 1999 Compared to the Two Quarters Ended July 31, 1998

FOR THE FOR THE TWO QUARTERS ENDED JULY 31,	SHIELDALLOY	LSM	GFE	EWW	OTHER	INTERSEGMENT ELIMINATIONS	CONSOLIDATED TOTALS
1999							
Revenues from external customers	$ 59,418	$53,455	$36,543	$ 6,248	$ 78,201		$233,865
Intergroup revenue	2,068	18,281	8,022	10,551	21,237	$(60,159)	--
Environmental expense recovery	(5,501)	--	--	--	--	--	(5,501)
Restructuring charges	--	--	3,385	1,001	--	--	4,386
Income tax provision	566	507	272	449	951	--	2,745
Net income (loss)	1,632	1,244	(5,917)	(777)	(10,425)	3,345	(10,898)
1998							
Revenues from external customers	$109,962	$62,041	$60,046	$ 9,993	$ 95,801		$337,843
Intergroup revenue	2,731	30,008	7,270	17,402	28,564	$(85,975)	--
Merger costs	--	--	--	--	4,416	--	4,416
Income tax provision (benefit)	6,175	1,171	1,160	1,281	(306)	--	9,481
Net income	8,746	2,688	1,648	1,134	10,355	(16,283)	8,288

Total Revenues

Shieldalloy revenues were $51.2 million, or 45%, below the first two quarters of 1998. As a result of continuing weakness in the U.S. steel industry, decreased volume and selling prices of ferrovanadium during the first two quarters of 1999 resulted in a decrease of approximately $19 million. The majority of the remaining decline is attributable to lower volume and selling prices of ferrosilicon, chrome metal and low carbon ferrochrome resulting from lower demand from the steel and superalloy industries.

Weakness in the aerospace industry led to a reduction in superalloy and titanium alloy demand that impacted negatively on price, and particularly on volumes, of Metallurg's specialty low carbon ferrochrome, chromium and vanadium aluminum products. As a result of continuing poor demand in the steel and aerospace industries, LSM revenues were $20.3 million, or 22%, below the first two quarters of 1998 due primarily to decreased volume of ferrotitanium and chromium metal sales. GfE revenues were $22.8 million, or 34%, below 1998 due primarily to decreased selling prices and volumes of vanadium aluminum, titanium masteralloys, ferroniobium and ferrovanadium. Revenues of EWW were $10.6 million, or 39%, below the first two quarters of 1998 due primarily to reduced demand for low carbon ferrochrome.

Gross Margins

Gross margins decreased from $56.2 million in the two quarters ended July 31, 1998 to $25.1 million in the two quarters ended July 31, 1999, a decrease of 55.4%, due principally to price and volume decreases in ferrovanadium, ferrotitanium and chromium. In addition, Shieldalloy recognized a lower of cost or market adjustment of $3.6 million relating to ferrovanadium in the first quarter of 1999. In aluminum master alloys and compacted products, improvements in product mix and cost reductions more than offset a decrease in selling price. Gross margins of low carbon ferrochrome declined in 1999, resulting from lower selling prices, volume and less favorable product mix.

Selling, General and Administrative Expenses

SG&A decreased from $29.9 million in the two quarters ended July 31, 1998 to $28.5 million in the two quarters ended July 31, 1999, a decrease of 4.8%. For the two quarters ended July 31, 1998, SG&A represented 8.9% of Metallurg's sales compared to 12.2% for the two quarters ended July 31, 1999, as a result of decreased revenue.

Environmental Expense Recovery

In June 1999, Metallurg recognized income in the amount of $5.5 million upon settlement, with an insurance company, concerning certain environmental matters, as discussed above.

Restructuring Charges

In June 1999, Metallurg recorded $4.4 million of restructuring charges related to its German subsidiaries, as discussed above.

Operating Income

Operating income decreased from $21.8 million in the two quarters ended July 31, 1998 to a loss of $2.3 million in the two quarters ended July 31, 1999, due primarily to the decrease in gross margin and the other items, discussed above.

Interest Expense, Net

Interest expense, net, is as follows (in thousands):

	TWO QUARTERS ENDED JULY 31, 1999	1998
Interest income	$ 1,487	$ 1,648
Interest expense	(7,347)	(6,264)
Income expense, net	$(5,860)	$(4,616)

Interest expense increased $1.2 million in the two quarters ended July 31, 1999 reflecting primarily higher effective interest rates and increased external borrowing levels of GfE during the current period.

Income Tax Provision

Income tax provision, net of tax benefits, is as follows (in thousands):

<TABLE>
<CAPTION>

	TWO QUARTERS ENDED JULY 31,	
	1999	1998
<S>	<C>	<C>
Total current	$1,645	$7,202
Total deferred	1,100	2,279
Income tax provision, net	$2,745	$9,481

</TABLE>

The differences between the statutory Federal income tax rate and Metallurg's effective rate result primarily because of: (i) the U.S. taxability of foreign dividends; (ii) the excess of foreign tax rates over the statutory Federal income tax rate; (iii) certain deductible temporary differences which, in other circumstances would have generated a deferred tax benefit, have been fully provided for in a valuation allowance; (iv) the deferred tax effects of certain tax assets, primarily foreign net operating losses, for which the benefit had been previously recognized approximating $0.5 million in the two quarters ended July 31, 1999; and (v) the deferred tax effects of certain deferred tax assets for which a corresponding credit has been recorded to "Additional paid-in capital" approximating $0.5 million in the two quarters ended July 31, 1999. The deferred tax expenses referred to in items (iv) and (v) above will not result in cash payments in future periods.

Net Income

Net income decreased from $8.3 million for the two quarters ended July 31, 1998 to a loss of $10.9 million for the two quarters ended July 31, 1999. The decrease in 1999 results primarily from reduced gross margins and the other items, discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

General

The Company's sources of liquidity include cash from operations and amounts available under credit facilities. The Company believes that these sources are sufficient to fund the current and anticipated future requirements of working capital, capital expenditures, pension benefits, potential acquisitions and environmental expenditures through at least January 31, 2001.

At July 31, 1999, the Company had cash and cash equivalents of $45.7 million and working capital of $149.7 million. Metallurg had cash and cash equivalents of $44.6 million and working capital of $148.4 million, as compared to $37.3 million and $166.2 million, respectively, at January 31, 1999. For the first two quarters of 1999, the Company generated $13.3 million in cash from operations including substantial reductions in inventories resulting from reduced levels of business and increased operational focus on working capital reductions. Capital expenditures approximated $5.1 million in the first two quarters of 1999.

Credit Facilities and Other Financing Arrangements

Metallurg has a credit facility with certain financial institutions led by BankBoston, N.A. as agent (the "Revolving Credit Facility") which provides Metallurg, Shieldalloy and certain of their subsidiaries with up to $50.0 million of financing resources at a rate per annum equal to (i) the Alternate Base Rate plus 1.0% per annum (the Alternate Base Rate is the greater of the Base Rate or the Federal Funds Effective Rate plus 0.5%) or (ii) the reserve adjusted Eurodollar rate plus 2.5% for interest periods of one, two or three months. The Revolving Credit Facility permits borrowings of up to $50.0 million for working capital requirements and general corporate purposes, up to $30.0 million of which may be used for letters of credit in the U.S. At July 31, 1999, there were no outstanding loans and $24.2 million of letters of credit outstanding in the U.S. under the Revolving Credit Facility. On October 20, 1997, BankBoston, N.A., through its Frankfurt office, made available up to DM 20.5 million (approximately $10.8 million) of financing to certain of its German subsidiaries (the "German Subfacility"), which is guaranteed by Metallurg and the other U.S. borrowers

under the Revolving Credit Facility. At July 31, 1999, immaterial amounts were outstanding in Germany under the German Subfacility.

In addition, certain foreign subsidiaries of Metallurg have credit facility arrangements with local banking institutions to provide funds for working capital and general corporate purposes. These local credit facilities contain restrictions that vary from company to company. At July 31, 1999, there were $2.9 million of outstanding loans under these local credit facilities.

CAPITAL EXPENDITURES

Metallurg invested $5.1 million in capital expenditures during the first two quarters of 1999. Capital expenditures are expected to total approximately $18.0 million in 1999. Although Metallurg has projected these items in 1999, Metallurg has not committed purchases to vendors for all of these projects, which are contingent on local management approval and other conditions. Metallurg believes that these projects will be funded through internally generated cash, borrowings under the Revolving Credit Facility and local credit lines.

ENVIRONMENTAL REMEDIATION COSTS

American Institute of Certified Public Accountants Statement of Position 96-1, "Environmental Remediation Liabilities", states that losses associated with environmental remediation obligations are accrued when such losses are deemed probable and reasonably estimable. Such accruals generally are recognized no later than the completion of the remedial feasibility study and are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are generally not discounted to their present value. During the first two quarters of 1999, Metallurg expended $1.8 million for environmental remediation.

In 1997, Shieldalloy entered into settlement agreements with various environmental regulatory authorities with regard to all of the significant environmental remediation liabilities of which it is aware. Pursuant to these agreements, Shieldalloy has agreed to perform environmental remediation, which as of July 31, 1999, had an estimated cost of completion of $36.2 million. Of this amount, approximately $0.9 million is expected to be expended in the second half of 1999, $6.5 million in 2000 and $7.4 million in 2001. In addition, Metallurg estimates it will make expenditures of $3.8 million with respect to environmental remediation at its foreign facilities. Of this amount, approximately $0.2 million is expected to be expended in the second half of 1999, $0.9 million in 2000 and $0.8 million in 2001.

YEAR 2000 READINESS

Metallurg has completed an internal review of its and its subsidiaries' information technology systems in connection with its assessment of Year 2000 readiness and has almost completed the replacement or modifications of the management and accounting systems at its subsidiaries to upgrade them generally and to make them Year 2000 ready. Metallurg expects to spend between $1.0 million and $2.0 million on these systems changes, much of which has already been spent. Metallurg expects that the information technology systems for all of its subsidiaries will be Year 2000 ready early in the fourth quarter of 1999. Those systems that are not being replaced are being, or have been, modified by Company personnel to assure that they are Year 2000 ready. Accordingly, no additional cost has been recognized for such internal upgrades. Metallurg has substantially completed its assessment of whether any of its non-information technology will need to be modified to become Year 2000 ready.

Metallurg has not received written assurances from its significant suppliers and customers to determine the state of their readiness with regard to Year 2000. Metallurg believes that they will be prepared for Year 2000 based on its normal interactions with its customers and suppliers and because of the wide attention that the issue has received. Metallurg has not yet seen the need for contingency plans for the Year 2000 issue, but this need will continue to be monitored as it obtains more information about the state of readiness of its suppliers and customers.

Metallurg presently believes that the Year 2000 issue will not pose significant operational problems for its business systems as it believes that all needed modifications and conversions will be timely made. If any of

Metallurg's suppliers or customers do not, or if Metallurg itself does not, successfully deal with the Year 2000 issue, Metallurg could experience delays in receiving or shipping products and in receiving payments. The severity of these possible problems would depend on the nature of the problem and how quickly it could be corrected or an alternative implemented, which is unknown at this time.

The anticipated costs for Metallurg to become Year 2000 ready and the anticipated timing to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including timely performance by third parties who will provide Metallurg with the software for its new systems. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the ability to locate and correct all relevant computer codes, the ability to successfully integrate new business systems with existing operations and similar uncertainties. Some risks of the Year 2000 issue are beyond the control of Metallurg and its suppliers and customers. In particular, Metallurg cannot predict the effect that the Year 2000 issue will have on the general economy.

PART II

OTHER INFORMATION

ITEM 6.(a) EXHIBITS

27. Financial Data Schedule

6.(b) REPORT ON FORM 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on September 10, 1999 on its behalf by the undersigned thereunto duly authorized.

METALLURG HOLDINGS, INC.

/s/ ARTHUR R. SPECTOR

Arthur R. Spector
Vice President
(Principal Financial Officer and
Principal Accounting Officer)

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