FORM 10−K

METALICO INC − MEA

Filed: March 15, 2006 (period: December 31, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10−K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

or

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

For the transition period from ____________________ to ____________________

Commission file number: 001−32453

Metalico, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**52−2169780**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

186 North Avenue East Cranford, NJ	**07016**	**(908) 497−9610**
(Address of Principal Executive Offices)	*(Zip Code)*	*(Registrant's Telephone Number)*

Securities registered under Section 12(b) of the Exchange Act:

Title of each Class	*Name of each Exchange on which registered*
None	None

Securities registered under Section 12(g) of the Exchange Act:
Common stock, $.001 par value per share

Indicate by check mark if the registrant is a well−known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S−K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10−K or any amendment to this Form 10−K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non−accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b−2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☐ Non−accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b−2 of the Act). YES ☐ NO ☑

The aggregate market value of common voting stock held by non−affiliates of the registrant as of June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter was $13,083,431

Number of shares of Common stock, par value $.001, outstanding as of March 14, 2006: 7,972,725 (24,483,383 assuming the conversion of all of the Company's outstanding preferred stock into common)

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, and 13 hereof.

METALICO, INC.
FOR THE YEAR ENDED DECEMBER 31, 2005
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This document contains “forward−looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance, and are identified by words such as “may,” “will,” “should,” “expect,” “scheduled,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “potential,” or “continue” or the negative of such terms or other similar words. You should read these statements carefully because they discuss our future expectations, and we believe that it is important to communicate these expectations to our investors. However, these statements are only anticipations. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the factors discussed under “Risk Factors.” These factors may cause our actual results to differ materially from any forward−looking statement.

Although we believe that the expectations reflected in the forward−looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, we do not assume any responsibility for the accuracy and completeness of such statements in the future. Subject to applicable law, we do not plan to update any of the forward−looking statements after the date of this report to conform such statements to actual results.

PART I

Item 1. Business

Metalico, Inc. (referred to in this 10−K Report as “the Company,” “Metalico,” “we,” “us,” “our,” and similar terms) operates in twelve locations through nine operating subsidiaries in two distinct business segments: (a) ferrous and non−ferrous scrap metal recycling (“Scrap Metal Recycling”), and (b) lead metal product manufacturing, fabricating, and smelting (“Lead Fabrication and Recycling”).

Metalico, Inc. was originally organized as a Delaware corporation in 1997. In 1999 the original Metalico was merged into a Colorado corporation. Later that year, the surviving Colorado corporation was merged into a newly organized Delaware corporation named Metalico, Inc., which continues today as our holding company. Our common stock began trading on the American Stock Exchange on March 15, 2005 under the symbol “MEA.”

We maintain a small corporate team that sets our strategic goals and overall strategy. We manage our operations on a decentralized basis, allowing each subsidiary autonomy for its purchasing and sales. The corporate team approves all acquisitions and operating budgets, allocates capital to the business units based upon expected returns and risk levels, establishes succession plans, ensures operations maintain a consistent level of quality, evaluates risk and holds the management of each business unit accountable for the performance of its respective business unit.

SUMMARY OF BUSINESS

Ferrous and Non−Ferrous Scrap Metal Recycling

The Company has concentrated on acquiring and successfully consolidating scrap operations in Western New York State by initially acquiring 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, elimination of redundant functions, greater utilization of operating assets, and improved managerial and financial resources.

We are one of the largest full−service metals recyclers in Western New York, with six recycling facilities located in that regional market. Our operations primarily involve the collection and processing of ferrous and non−ferrous metals. We collect industrial and obsolete scrap metal, process it into reusable forms and supply the recycled metals to our ultimate consumers, including electric arc furnace mills, integrated steel mills, foundries, secondary smelters, aluminum recyclers and metal brokers. We acquire unprocessed scrap metals primarily in our local and regional markets and sell to consumers nationally and in Canada as well as to exporters and international brokers. We are also able to supply quantities of scrap aluminum to our aluminum recycling facility described below. We believe that we provide comprehensive product offerings of both ferrous and non−ferrous scrap metals.

Our platform facilities in Rochester and greater Buffalo are well located to highway access and are served by rail. In addition to buying, processing and selling ferrous and non−ferrous scrap metals, we manufacture de−oxidizing aluminum (“de−ox”), a form of refined aluminum, for the steel industry at our Lackawanna, New York aluminum recycling facility. De−ox is used by the steel industry during the steel−making process to remove oxygen from molten steel. The Lackawanna facility also produces other grades of refined aluminum used in aluminum casting applications.

Our metal recycling business has collection and processing facilities in the following locations:

Location	Number of Facilities
Buffalo, New York	1
Niagara Falls, New York	1
Lackawanna, New York (Hamburg)	2
Rochester, New York	2

Ferrous Scrap Industry. Our ferrous (iron−based) products primarily include sheared and bundled scrap metal and other scrap metal, such as turnings and busheling, cast and broken cast iron. We and others in our industry anticipate that the demand for recycled ferrous metals will increase due to the continuing transformation of the world’s steel producers from virgin iron ore−based blast furnaces to newer, technologically advanced electric arc furnace mini−mills. The electric arc furnace process, which primarily uses recycled metal compared with the traditional steel−making process that uses significantly less recycled metal, is more environmentally sound and energy efficient. By recycling steel, scarce natural resources are preserved and the need to disrupt the environment with the mining of virgin iron ore is reduced. Further, when recycled metal is used instead of iron ore for new steel production, air and water pollution generated by the production process decreases and energy demand is reduced. Currently, almost half of domestic steel and much of foreign−based steel is produced using scrap in the electric arc furnace process.

Non−Ferrous Scrap Industry. We also sort, process and package non−ferrous metals, which include aluminum, copper, stainless steel, brass, nickel−based alloys and high−temperature alloys, using similar techniques and through application of our technologies. The geographic markets for non−ferrous scrap tend to be larger than those for ferrous scrap due to the higher unit selling prices of non−ferrous metals, which justify the cost of shipping over greater distances. Non−ferrous scrap is sold under multi−load commitments or on a single−load spot basis, either mill−direct or through brokers, to intermediate or end−users which include smelters, foundries and aluminum sheet and ingot manufacturers. Secondary smelters, utilizing processed non−ferrous scrap as raw material, can produce non−ferrous metals at a lower cost than primary smelters producing such metals from ore. This is due to the significant savings in energy consumption, environmental compliance, and labor costs enjoyed by the secondary smelters. These cost advantages, and the long lead− time necessary to construct new non−ferrous primary smelting facilities, have generally resulted in sustained demand and strong prices for processed non−ferrous scrap during periods of high demand for finished non−ferrous metal products.

Lead Fabrication and Recycling

Through six physical operations located in five states, we consume approximately 106 million pounds of lead metal per year that are utilized in more than one hundred different base products. Our products are sold nationally into diverse industries such as roofing, plumbing, radiation shielding, electronic solders, ammunition, automotive, national defense industry, and others.

Our Lead Fabrication and Recycling segment has production facilities in the following locations:

- Birmingham, Alabama
- Granite City, Illinois
- Carson City, Nevada
- Healdsburg, California
- Ontario, California
- Tampa, Florida

Our sales are concentrated within four main product lines: sheet lead, shot, strip lead, and bulk lead. Sheet lead is produced in various sizes, thicknesses, and alloys based upon customer requirements. Sheets are rolled to various thicknesses, cut to customer specifications and shipped to roof flashing manufacturers, fabricators of radiation shielding, sound attenuation and roofing contractors and other users. Shot is produced and sold nationwide primarily to the recreational re−load market under the Lawrence and West Coast Shot brands. We also sell shot to cartridge manufacturers and industrial consumers. Shot is produced in several lead alloys and sizes. Strip lead is produced in rolls of various widths and lengths. Strip lead is used primarily in the roofing industry. Bulk lead is typically sold in pig, ingot, plate and rectangular form. Extruded wire and bar are used in plumbing applications, stained glass production, the electronics industry and the radiation shielding industry. Extruded pipe is used in the plumbing and roofing industries. Extruded products are available in flats, rounds, stars, pipe, and custom designed configurations. Other lead products include lead wool, anodes and babbitt.

We also operate a secondary lead smelter in Tampa, Florida. The lead smelter recycles junk batteries and other lead−bearing waste into highly refined lead and lead alloys according to customer specifications, primarily for re−use in the manufacturing of automotive batteries and wheel weights, roofing and plumbing parts, shot and other lead products.

Business Strategies

The Company's core business strategy emphasizes continued growth of the ferrous and non−ferrous scrap metal recycling business through accretive acquisitions in existing and new markets, and maintaining and enhancing its status as an efficient and competitive producer of recycled metal and de−ox aluminum products, through investments in state−of−the−art manufacturing equipment and increased production efficiencies. Ferrous and non−ferrous scrap metal recycling represents approximately 55% and 69% of our operating income for the years ended December 31, 2005 and 2004 on a proforma basis assuming Mayco was acquired on January 1, 2004, respectively, before corporate expenses, eliminations, impairment and other nonrecurring charges. Our ferrous and non−ferrous scrap metal recycling operations are the leading processors in their local markets. We intend to continue focusing on increasing our position as the premier recycled metals processor in our existing regional markets and vigorously exploring growth opportunities in contiguous and new geographic markets.

Our Lead Fabrication and Recycling business generates reliable cash flows and does not require significant capital expenditures except in connection with the lead smelting facility in Tampa, Florida. We do not currently intend to acquire additional lead smelting facilities. From time to time, we have had discussions with potential transaction parties and we would consider divestiture of our smelting facility under conditions that were economically and operationally feasible and advantageous to the Company. However, we will vigorously explore strategic opportunities to increase our market share in lead fabrication.

Expansion of Scrap Recycling. We will continue to seek expansion opportunities both within our Western New York metropolitan markets and elsewhere in the eastern United States. We will look to continue leveraging owned facilities through strategic tuck−ins. We are considering developing an auto−shredding capacity, either through a strategic joint venture or internal growth, in order to compete in that segment of the scrap recycling industry. In new markets, the Company will identify and attempt to acquire platform facilities that provide growth opportunities. We will continue to grow through sales and marketing and explore selective joint ventures with metals processors and suppliers.

Complete Value−Creating Acquisitions. Our strategy is to target acquisition candidates we believe will earn after−tax income in excess of our cost of capital. With a strong balance sheet, improving cash flows and available debt and equity capital, we believe the Company is in an attractive position to make acquisitions of operations fitting our long−term strategic plans, if reasonable purchase prices can be attained.

Invest in State−of−the−Art Processing and Manufacturing. Our goal is to be an efficient and competitive producer of both recycled metals and fabricated lead products in order to maximize the operating margins for both operations. To meet this objective, we emphasize the cost−effective purchasing and efficient processing of metals. We have made significant investments in state−of−the−art equipment to ensure that our operations have cost effective technology producing high quality products and maximizing economies of scale. We have also made significant investments in facility improvements designed to enhance productivity and protect the environment. We continue to invest in modern equipment to improve the operating capabilities of our businesses. Over the last three years, we have spent $10.5 million on capital improvements and another $10.7 million acquired through acquisition.

Capture Benefits of Integration. We have historically sought to capture the benefits of business integration whenever possible. Our aluminum melting and recovery facility located in Lackawanna, New York, outside of Buffalo, currently consumes many of the grades of aluminum scrap that the Buffalo and Rochester scrap yards process. This relationship allows these subsidiaries to take advantage of transportation efficiencies, to avoid some of the processing costs associated with preparing scrap for sale to third parties, to internalize pricing mark−ups, and to expand customer service. Intercompany transactions are executed at market rates so that no “selling” subsidiary is required to sacrifice more profitable “third−party” sales.

The Company believes it enjoys a competitive advantage over non−vertically integrated lead fabrication and recycling companies as a result of its lead smelting and refining capabilities. Our secondary lead smelter has the capability to provide the lead fabrication and recycling facilities with a predictable, high quality supply of non−alloyed or alloyed lead for production of any of their lead−based products. The smelter also uses certain lead byproducts generated by the lead fabrication and recycling facilities as a raw material. These lead supplies would be replaced by available market sources if we determine it is economically and operationally feasible and advantageous to the Company to divest our smelting operations.

FERROUS AND NON−FERROUS SCRAP METAL RECYCLING

Our recycling operations encompass buying, processing and selling scrap metals. The principal forms in which scrap metals are generated include industrial scrap and obsolete scrap. Industrial scrap results as a by−product generated from residual materials from metal product manufacturing processes. Obsolete scrap consists primarily of residual metals from old or obsolete consumer and industrial products such as doors and window frames, appliances, plumbing fixtures, automobiles and demolition of structures.

Ferrous Operations

Ferrous Scrap Purchasing. We purchase ferrous scrap from two primary sources: (i) manufacturers who generate steel and iron, known as prompt or industrial scrap; and (ii) scrap dealers, peddlers, auto wreckers, demolition firms, railroads and others who generate steel and iron scrap, known as obsolete scrap. We also collect ferrous scrap from sources other than those that are delivered directly to our processing facilities by placing retrieval boxes at these sources. In addition to these sources, we purchase, at auction or through competitive bidding, obsolete steel and iron from large industrial accounts. The primary factors that determine prices are market demand, competitive bidding, and the composition, quality, size, and quantity of the materials.

Ferrous Scrap Processing. We prepare ferrous scrap metal for resale through a variety of methods including sorting, torching, shearing, cutting, baling, briquetting or breaking. We produce a number of differently sized and shaped products depending upon consumer specifications and market demand.

Sorting. After purchasing ferrous scrap metal, we inspect the material to determine how it can most efficiently be processed to maximize profitability. In some instances, scrap may be sorted and sold without further processing. We separate scrap for further processing according to its size and metallurgical composition by using conveyor systems, crane−mounted electromagnets and/or grapples.

Torching, Shearing or Cutting. Pieces of oversized ferrous scrap, such as obsolete steel girders and used drill pipes, which are too large for other processing, are cut with hand−held acetylene torches, crane−mounted alligator shears or stationary guillotine shears. After being reduced to specific lengths or sizes, the scrap is then sold and shipped to those consumers who can accommodate larger materials in their furnaces, such as mini−mills.

Baling. We process light−gauge ferrous metals such as clips and sheet iron, and by−products from industrial manufacturing processes, such as stampings, clippings and excess trimmings, by baling these materials into large, dense, uniform blocks. We use cranes, front−end loaders and conveyors to feed the metal into hydraulic presses, which compress the materials into cubes at high pressure to achieve higher density for transportation and handling efficiency.

Briquetting. We process borings and turnings made of steel and iron into briquettes using cold briquetting methods, and sell these briquettes to steel mills or foundries. We possess the technology to control the metallurgical content of briquettes to meet customer specifications.

Breaking of Furnace Iron. We process cast iron which includes blast cast iron, steel pit scrap, steel skulls and beach iron. Large pieces of iron are broken down by the impact of forged steel balls dropped from cranes. The fragments are then sorted and screened according to size and iron content.

Ferrous Scrap Sales. We sell processed ferrous scrap to end−users such as steel mini−mills, integrated steel makers and foundries, and brokers who aggregate materials for large consumers. Most of our consumers purchase processed ferrous scrap according to a negotiated spot sales contract that establishes the price and quantity purchased for the month. The price at which we sell our ferrous scrap depends upon market demand and competitive pricing, as well as quality and grade of the scrap. In many cases, our selling price also includes the cost of rail or truck transportation to the buyer. Ferrous scrap is shipped via truck and rail transportation. Ferrous scrap transported via truck is sold predominately to mills usually located in Pennsylvania, New York and metropolitan Toronto within eight hours of our recycling facilities. Ferrous scrap transported via rail can be shipped anywhere in the continental United States. Our recycling facilities ship primarily via rail to consumers in Pennsylvania, Ohio, Illinois, and Indiana. Ferrous scrap metal sales accounted for 21.3% and 31.6% of revenue for the years ended December 31, 2005 and 2004. We believe our profitability may be enhanced by our offering a broad product line to a diversified group of scrap metal consumers. Our ferrous scrap sales are accomplished through a calendar month sales program managed regionally.

Non−Ferrous Operations

Non−Ferrous Scrap Purchasing. We purchase non−ferrous scrap from three primary sources: (i) manufacturers and other non−ferrous scrap sources who generate waste aluminum, copper, stainless steel, brass, nickel−based alloys, high−temperature alloys and other metals; (ii) producers of electricity, telecommunication service providers, aerospace, defense, and recycling companies that generate obsolete scrap consisting primarily of copper wire, titanium and high−temperature alloys and used aluminum beverage cans; and (iii) peddlers who deliver directly to our facilities material which they collect from a variety of sources. We also collect non−ferrous scrap from sources other than those that are delivered directly to our processing facilities by placing retrieval boxes at the sources. The boxes are subsequently transported to our processing facilities usually by company owned trucks.

A number of factors can influence the continued availability of non−ferrous scrap such as the level of manufacturing activity and the quality of our supplier relationships. Consistent with industry practice, we have certain long−standing supply relationships which generally are not the subject of written agreements.

Non−Ferrous Scrap Processing. We prepare non−ferrous scrap metals, principally aluminum, stainless steel, copper and brass for resale by sorting, shearing, wire stripping, cutting, chopping, melting or baling.

Sorting. Our sorting operations separate non−ferrous scrap manually and are aided by conveyor systems and front−end loaders. In addition, many non−ferrous metals are identified and sorted by using grinders and spectrometers and by torching. Our ability to identify metallurgical composition is critical to maximizing margins and profitability. Due to the high value of many non−ferrous metals, we can afford to utilize more labor−intensive sorting techniques than are employed in our ferrous operations. We sort non−ferrous scrap for further processing and upgrading according to type, grade, size and chemical composition. Throughout the sorting process, we determine whether the material can be cost effectively processed further and upgraded before being sold.

Copper and Brass. Copper and brass scrap may be processed in several ways. We sort copper predominantly by hand according to grade, composition and size. We package copper and brass scrap by baling, boxing and other repacking methods to meet consumer specifications.

Aluminum and Stainless Steel. We process aluminum and stainless steel based on type of alloy and, where necessary, size the pieces to consumer specifications. Large pieces of aluminum or stainless steel are cut using crane−mounted alligator shears and stationary guillotine shears and are baled individually along with small stampings to produce large bales of aluminum or stainless steel. Smaller pieces of aluminum and stainless steel are boxed individually and repackaged to meet consumer specifications.

The aluminum melting and recovery facility uses thermal technology in a sweat furnace to separate aluminum from scrap items such as gas meters, transmissions, engine blocks, window and door frames, kegs, and other aluminum scraps bearing iron content.

Other Non−Ferrous Materials. We process other non−ferrous metals using similar cutting, baling and repacking techniques as used to process copper and brass. Other significant non−ferrous metals we process come from such sources as catalytic converters which contain precious metals, titanium, brass and high−temperature nickel−based alloys which are often hand sorted to achieve maximum value.

Non−Ferrous Scrap Sales. We sell processed non−ferrous scrap to end−users such as specialty steelmakers, foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, and brass and bronze ingot manufacturers. Prices for non−ferrous scrap are driven by demand for finished non−ferrous metal goods and by the general level of national and international economic activity, with prices generally linked to quotations for primary metal on the London Metal Exchange or COMEX Division of the New York Mercantile Exchange. Suppliers and consumers of non−ferrous metals also use these exchanges to hedge against metal price fluctuations by buying or selling futures contracts. Most of our consumers purchase processed non−ferrous scrap according to a negotiated spot sales contract that establishes the price and quantity purchased for the month. Non−ferrous scrap is shipped predominately via third−party truck to consumers generally located east of the Mississippi River. Less than 5% of non−ferrous scrap sales are to foreign markets. Non−ferrous metal sales accounted for 32.2% and 35.8% of revenue for the years ended December 31, 2005 and 2004. The Company does not use futures contracts to hedge prices for its products.

Competition

The markets for scrap metals are highly competitive, both in the purchase of raw scrap and the sale of processed scrap. We compete to purchase raw scrap with numerous independent recyclers and large public scrap processors as well as larger and smaller scrap companies engaged only in collecting industrial scrap. Many of these producers have substantially greater financial, marketing and other resources. Successful procurement of materials is determined primarily by the price and promptness of payment for the raw scrap and the proximity of the processing facility to the source of the unprocessed scrap. We compete in a global market with regard to the sale of processed scrap. Competition for sales of processed scrap is based primarily on the price, quantity and quality of the scrap metals, as well as the level of service provided in terms of consistency of quality, reliability and timing of delivery. Our competitive advantage derives from our ability to source and process substantial volumes, deliver a broad product line to consumers, transport the materials efficiently, and sell scrap in regional, national and international markets and to provide other value−added services to our customers.

We occasionally face competition for purchases of unprocessed scrap from producers of steel products, such as integrated steel mills and mini−mills, that have vertically integrated their current operations by entering the scrap metal recycling business. Many of these producers have substantially greater financial, marketing and other resources. Scrap metals processors also face competition from substitutes for prepared ferrous scrap, such as pre−reduced iron pellets, hot briquetted iron, pig iron, iron carbide and other forms of processed iron. The availability of substitutes for ferrous scrap could result in a decreased demand for processed ferrous scrap, which could result in lower prices for such products.

LEAD FABRICATION AND RECYCLING

Products

We manufacture a wide variety of lead−based products through our sheet lead, shot, strip lead, and bulk lead product lines used primarily in radiation protection, roofing, plumbing and recreational applications:

Products	Available Form	Application
Anodes	Ball; Chunk; Oval; Flat; Round; Star	Plating: Cathodic Protection; Zinc/Copper Production
Antimony Alloys	Bar; Shot; Sheet Lead	Foundry; Ammunition; Construction
Babbitt Alloys	Bar; Ingot; Wire	Bearing Assembly and Repair; Capacitor Manufacturing
Britannia Alloys	Sheet; Strip	Engraving Metal; Organ Pipe; Gasket
Came	Extruded Channel	Stained Glass Assembly and Repair
Lead Alloys	Bar; Ingot; Ribbon; Wire; Shot; Sheet; Type; Anode; Wood; Brick; Pipe; Nuclear Case	Industrial Assembly and Repair; Stained Glass; Plumbing; Radiator; Babbitt; Pewter; Reloading
Lead Sheet	Sheet; Roll; Plate; Roof Flashings, Ribbon	Radiation Shielding; Sound Attenuation; Roof flashing; Storage Tanks; Shower Pans
Pewter	Bar; Ingot	Casting; Forming
Tin Alloys	Bar; Ingot; Wire; Sheet; Anode; Ribbon	Industrial Assembly and Repair
Type Metals	Bar; Ingot	Work−holding Applications; Corrosion Protection

Manufacturing Process

Lead Shot: Ingot or bulk lead is melted at the top levels of shot towers and poured into steel sizing pans. The molten lead drops several stories through the tower, forming a sphere and hardening while in air and ultimately landing in a water tank. After additional processing, lead shot that meets specifications is sorted by size, polished, weighed and packaged as finished product.

Sheet Lead: Ingot or bulk lead is melted and alloying elements are added. After impurities are removed from the surface, the molten lead is then poured into heated molds to form various sized slabs. The slabs are rolled down into lead sheet, strip, anodes, rolls and plates of desired thickness and cut to size.

Extruded Product: Lead ingots in alloyed form are melted and poured into a precast die. After additional processing, the prepared lead is compressed. The cool, hardened product is then cut to the desired length and its thickness is measured to ensure the product meets specifications.

Suppliers

We obtain refined lead through multi−month contracts and on a spot market basis. We have historically bought large quantities of lead when we determined that commodity pricing was favorable, kept very limited amounts of finished product in inventory and scheduled production to fill orders. Principal sources of refined lead are domestic secondary lead smelters, imported primary lead marketed by brokers and, to a lesser extent, domestic primary lead smelters. We also generate refined lead by purchasing an extensive variety of scrap lead and refining it in our processing facilities. Changing lead markets may impact the Company’s ability to secure the volume of raw materials needed at pricing considered sustainable before driving consumers to consider substitute products.

Sales, Markets and Customers Served

We sell our lead fabrications nationally. Products are sold to distributors, wholesalers, and the plumbing and building trades and other consumers. We have stable, long−standing relationships with many of our customers. We sell substantial volumes of lead products used in home construction, such as lead flashings and sheet, in many parts of the nation.

Our sales and marketing department consists of eleven internal salespeople who, in addition to sourcing leads for new business, function in a customer service role, working with existing customers. We also use independent sales representatives and product marketing organizations throughout the country.

Competition

Our lead fabrication and recycling facilities compete against one fabricator of similar products who distributes nationally, certain products of another fabricator based in the Southwest, and several smaller regional producers of similar products. To a lesser extent, we also compete against products imported from South America, Canada, Europe and Asia.

Secondary Smelter and Refiner: Gulf Coast Recycling, Inc.

In addition to providing product for resale to commodity metal users and fabricators, we seek to reduce raw material availability risk and reduce commodity price risk by owning and operating Gulf Coast Recycling, Inc. (“Gulf Coast”), a secondary lead smelter and refiner, as a source of supply to our fabricating operations. Gulf Coast recycles junk lead plate batteries into highly refined lead and lead alloys according to customer specifications, primarily for re−use in the manufacture of batteries, wheel weights, roofing and plumbing parts, boat keels, radiation protection products and other lead products. Gulf Coast regularly sells a portion of its production supply to our fabricators.

As a result of strict environmental regulations, lead acid batteries are required to be recycled instead of disposed of in landfills or incinerated. A lead secondary smelting plant uses reclaimed lead battery plates, coke, limestone and cast iron to produce lead. Historically, other by−products of the refining process were discarded often haphazardly, leading to various environmental issues faced by all battery recyclers. The combination of increased environmental awareness, more refined recycling processes and better recycling technology have lead to the development of healthy secondary markets for many of the other by−products of battery recycling. A list of lead battery components and current end uses is shown below:

Recycled Components	End Uses
Lead Sulfates (oxides)	Soft Lead Alloys, Ammunition
Lead and Lead Alloys	Hard Lead Alloys, Fishing Lures, Wheel Weights
Battery Case Materials	New Battery Cases, Various Plastic Products
Sulfuric Acid	Liquid Fertilizer, Leather Processing

The price of recycled lead is closely correlated to primary lead prices as quoted on the London Metal Exchange, with an active market for both primary and recycled product. Gulf Coast’s competitive strengths include geographic location (proximity to both suppliers of junk batteries and customers), price and long−term customer and supplier relationships. Our customers are located within trucking distance of our Tampa, Florida operation and, on a combined basis, have in the past utilized 100% of the smelting capacity of our facility. Because of the consistent, predictable demand from these long−term customers, Gulf Coast does not have a dedicated sales force to pursue additional contracts.

Tolling arrangements provide stable streams of income in addition to securing sourcing arrangements, and have evolved as a result of environmental regulations that require a manufacturer to collect one junk battery with the sale of each new battery. As a result, manufacturers have a vested interest in maintaining a healthy secondary recycling market for their batteries. Tolling agreements also reduce transportation distances of raw materials, thereby potentially reducing transportation costs associated with raw materials sourced from more distant locations.

Gulf Coast is supplied primarily by its tolling customer base and through open market purchases of junk batteries. We source industrial, marine, golf cart and automobile batteries as feedstock for our Gulf Coast smelting operations from a variety of supply sources available throughout the Southeast. Consistent feedstock sourcing is primarily a function of location and price.

We believe that our major competitors in the North American lead market are eight secondary lead producers. Competition within the North American market is based primarily on plant location, quality, price, service, timely delivery and reliability. Due to its location within reasonable trucking distance of most of its major customers, Gulf Coast can provide timely delivery at a reasonable cost for those customers. We can also take advantage of Gulf Coast’s smelting capacity to reduce competitive pressures for source lead in our lead fabrication and recycling facilities. Gulf Coast is the only operating secondary lead smelter in Florida and enjoys transportation efficiencies as compared to other consumers of scrap lead and junk batteries that compete in Florida for similar raw materials. Combined with supplies provided by our tolling customers, junk batteries generated in the Florida market provide nearly all of Gulf Coast's battery feedstock needs. We also buy scrap lead from various local sources in Florida.

Seasonality and other conditions

Both the Scrap Metal Recycling and Lead Fabrication and Recycling segments of our business generally experience seasonal slowness in the months of July and December, as customers tend to reduce production and inventories. In addition, periodic maintenance shutdowns or labor disruptions at our larger customers may have an adverse impact on our operations. Our operations can be adversely affected as well by protracted periods of inclement weather or reduced levels of industrial production, which may reduce the volume of material processed at our facilities.

Employees

At March 3, 2006, we had 457 employees. Thirty−seven of these employees, all employed in our Granite City, Illinois facility, are covered by a collective bargaining agreement which expires March 15, 2008. A strike or work stoppage could impact our ability to operate the Granite City facility. Our profitability could be adversely affected if increased costs associated with any future labor contracts are not recoverable through productivity improvements, price increases or cost reductions. We believe that we have good relations with our employees.

Recent Developments

On March 10, 2006, we signed a non−binding letter of intent to acquire substantially all of the operating assets and business operations, net of certain assumed liabilities, of an automobile shredding corporation facility and its related materials transportation corporation serving the greater Rochester, New York market. The proposed purchase price will be finalized after completion of negotiations and due diligence and satisfaction of certain conditions. The transaction is targeted for closing by the end of the second quarter of 2006. In the event a final agreement among the parties is not entered into on or before August 1, 2006, any party may terminate the letter of intent without further obligation to any other party upon delivery of written notice.

On March 13, 2006, a subsidiary of the Company organized in January of 2006 entered into a Purchase Agreement to acquire certain real property in DeWitt, New York to be used for scrap and aluminum smelting operations. The transaction is targeted to close by March 31, 2006 but is subject to certain conditions that could affect the purchase price and extend closing into the second quarter.

We are generally restricted from making business acquisitions without the written consent of our primary lender. We expect to obtain such consent for the two proposed business acquisitions described above.

Segment reporting

See Note 20 to the Company's audited financial statements for the year ended December 31, 2005, located elsewhere in this report.

Available Information

The Company makes available at no cost on its website, www.metalico.com, its reports to the SEC and any amendments to those reports as soon as reasonably practicable after we electronically file or furnish such reports to the SEC. Interested parties should refer to the Investors link on the home page of the Company's website. In addition, the Company's Code of Business Conduct and Ethics and Insider Trading Policy, the charters for the Board of Directors' Audit Committee and Compensation Committee, and the Board's Statement of Nominating Principles and Procedures, all of which were adopted by our Board of Directors, can be found on the Company's website through the Corporate Governance link on the Investors page. The Company will provide these governance documents in print to any stockholder who requests them. Any amendment to, or waiver of, any provision of the Code of Ethics and any waiver of the Code of Business Conduct and Ethics for directors or executive officers will be disclosed on our website under the Corporate Governance link.

Item 1A. Risk Factors

Set forth below are risks that we believe are material to our business operations. Additional risks and uncertainties not known to us or that we currently deem immaterial may also impair our business operations.

We are highly leveraged.

As of December 31, 2005, we had $27.5 million of total debt outstanding, net of cash and cash equivalents of $1.9 million. Subject to certain restrictions, exceptions and financial tests set forth in certain of our debt instruments, we may incur additional indebtedness in the future. We anticipate our debt service payment obligations during the next twelve months to be approximately $13.1 million, comprised of principal coming due within the next twelve months of $11.0 million plus interest of $2.1 million. As of December 31, 2005, approximately $17.8 million of our debt bears interest at variable rates and we may experience material increases in our interest expense as a result of increases in general interest rate levels. Based on actual amounts outstanding as of December 31, 2005, if the interest rate on our variable rate debt were to increase by 1%, our annual debt service payment obligations would increase by approximately $178,000. The degree to which we are leveraged could have important negative consequences to the holders of our securities, including the following:

- a substantial portion of our cash flow from operations will be needed to pay debt service and will not be available to fund future operations;
- our ability to obtain additional future financing for acquisitions, capital expenditures, working capital or general corporate purposes could be limited;
- we have increased vulnerability to adverse general economic and metals recycling industry conditions; and
- we are vulnerable to higher interest rates because interest expense on borrowings under our credit agreement (the “Credit Agreement”) is based on margins over a variable base rate.

Our business may not generate sufficient cash flow from operations and future working capital borrowings may not be available in an amount sufficient to enable us to service our indebtedness, or make necessary capital expenditures.

All borrowings under our Credit Agreement will come due when it terminates in May 2009 and we may be unable to find replacement financing.

Our indebtedness contains covenants that restrict our ability to engage in certain transactions.

Our Credit Agreement contains covenants that, among other things, restrict our ability to:

- incur additional indebtedness;

- pay dividends;
- prepay subordinated indebtedness;
- dispose of some types of assets;
- make capital expenditures;
- create liens and make acquisitions; and
- engage in some fundamental corporate transactions.

Under our Credit Agreement, we are required to satisfy specified financial covenants, including an EBITDA covenant and a capital expenditure covenant. Although we currently expect to be in compliance with the covenants and to satisfy our financial tests, our ability to comply with these covenants may be affected by general economic conditions, industry conditions, severe negative market fluctuations in metal prices, and other events beyond our control. Our breach of any of these covenants could result in a default under our Credit Agreement. In the event of a default, the lender could elect not to make additional loans to us and to declare all amounts borrowed under our Credit Agreement, together with accrued interest, to be due and payable. In that event we would likely be unable to repay all such accelerated indebtedness.

The metals recycling industry is highly cyclical.

The operating results of the scrap metals recycling industry in general, and our operations specifically, are highly cyclical in nature. They tend to reflect and be amplified by general economic conditions, both domestically and internationally. Historically, in periods of national recession or periods of slowing economic growth, the operations of scrap metals recycling companies have been materially and adversely affected. For example, during recessions or periods of slowing economic growth, the automobile and the construction industries typically experience major cutbacks in production, resulting in decreased demand for steel, copper and aluminum. This leads to significant fluctuations in demand and pricing for our products. Economic downturns in the national and international economy would likely materially and adversely affect our results of operations and financial condition. Our ability to withstand significant economic downturns in the future will depend in part on our levels of capital, debt and liquidity.

Import and export markets can be volatile.

Our business may be adversely affected by increases in steel imports into the United States which will generally have an adverse impact on domestic steel production and a corresponding adverse impact on the demand for scrap metals. We could also be negatively affected by strengthening in the U.S. Dollar. For example, beginning in July 1998, the domestic steel industry and, in turn, the metals recycling industry suffered a dramatic and precipitous collapse, resulting in a significant decline in the price and demand for scrap metals. The decline in the steel and scrap metal sectors was the result, in large part, of the increase in steel imports flowing into the United States during the last six months of 1998 and our results of operations were adversely impacted by reduced steel production in the United States during fiscal 1999. Export markets, including Asia and in particular China, are important to the scrap metal recycling industry. Weakness in economic conditions in Asia and in particular slowing growth in China could negatively affect us.

Changing lead markets may impact the Company’s ability to secure the volume of raw materials needed at pricing considered sustainable before driving consumers to substitute products. Our lead fabrication and recycling facilities may be adversely impacted by increases or decreases in lead pricing. A drop in the commodity price of lead would reduce revenues at the secondary lead smelter. The lead smelter may not be able to reduce costs enough to offset the impact of lost revenues. An increase in the cost of lead, the raw material of our lead fabrication and recycling facilities, could reduce the demand for product by making nonlead−bearing alternatives more cost attractive. Additionally, fluctuations in lead pricing could negatively impact the supply of raw material for either or both the secondary lead smelter and the fabricators.

Prices of commodities we own may be volatile.

Although we seek to turn over our inventory of raw or processed scrap metals as rapidly as possible, we are exposed to commodity price risk during the period that we have title to products that are held in inventory for processing and/or resale. Prices of commodities, including scrap metals, can be volatile due to numerous factors beyond our control, including:

• general economic conditions;

• labor costs;

• competition;

• financial condition of our major customers;

• the availability of imports;

• the availability and relative pricing of scrap metal substitutes;

• import duties; and

• tariffs and currency exchange rates.

In an increasing price environment, competitive conditions may limit our ability to pass on price increases to our customers. In a decreasing price environment, we may not have the ability to fully recoup the cost of raw scrap we process and sell to our customers.

The profitability of our scrap recycling operations depends, in part, on the availability of an adequate source of supply.

We acquire our scrap inventory from numerous sources. These suppliers generally are not bound by long−term contracts and have no obligation to sell scrap metals to us. In periods of low industry prices, suppliers may elect to hold scrap waiting for higher prices. If a substantial number of scrap suppliers cease selling scrap metals to us, we would be unable to recycle metals at desired levels and our results of operations or financial condition would be materially and adversely affected. In addition, the slowdown and loss of industrial production in the U.S. has reduced the supply of industrial grades of scrap.

We depend on third−party carriers for a significant portion of our outbound product distribution.

Our products are usually transported to consumers from our facilities by third−party truck and rail carriers. Any interruption or delay in transportation services or any significant change in transportation costs could adversely affect our results of operations or financial condition.

The loss of any member of our senior management team or a significant number of our managers could have a material adverse effect on our operations.

Our operations depend heavily on the skills and efforts of our senior management team, including Carlos E. Agüero, our Chairman, President and Chief Executive Officer, Michael J. Drury, our Executive Vice−President and four other employees who constitute our Executive Management Team. In addition, we rely substantially on the experience of the management of our subsidiaries with regard to day−to−day operations. While we have employment agreements with Messrs. Agüero and Drury and certain other members of our management team, we may nevertheless be unable to retain the services of any of those individuals. The loss of any member of our senior management team or a significant number of managers could have a material adverse effect on our operations.

The concentration of our customers and our exposure to credit risk could have a material adverse effect on our results of operations or financial condition.

Sales to the Company's ten largest customers represented approximately 26.6% of consolidated net sales for the year ended December 31, 2005. Sales to our largest customer represented approximately 6.4% of consolidated net sales for the year ended December 31, 2005. The loss of a significant customer or our inability to collect accounts receivable would negatively impact our revenues and profitability.

The loss of export markets utilized by the industry could adversely affect our results of operations or financial condition.

The loss of any significant customers could adversely affect our results of operations or financial condition.

In connection with the sale of our products, we generally do not require collateral as security for customer receivables. We have significant balances owing from some customers that operate in cyclical industries and under leveraged conditions that may impair the collectibility of those receivables. Failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations or financial condition.

A significant increase in the use of scrap metal alternatives by current consumers of processed scrap metals could reduce demand for our products.

During periods of high demand for scrap metals, tightness can develop in the supply and demand balance for ferrous scrap. The relative scarcity of ferrous scrap, particularly the "cleaner" grades, and its high price during such periods have created opportunities for producers of alternatives to scrap metals, such as pig iron and direct reduced iron pellets, to offer their products to our consumers. Although these alternatives have not been a major factor in the industry to date, we cannot assure you that the use of alternatives to scrap metals may not proliferate in the future if the prices for scrap metals rise or if the levels of available unprepared ferrous scrap decrease.

Our operations are subject to stringent regulations, particularly under applicable environmental laws.

We believe that we are currently in material compliance with applicable statutes and regulations governing the protection of human health and the environment, including employee health and safety. We can give no assurance, however, that we will continue to be in compliance or to avoid material fines, penalties and expenses associated with compliance issues in the future.

The nature of our business and previous operations by others at facilities owned or operated by us make us subject to significant government regulation, including stringent environmental laws and regulations. Among other things, these laws and regulations impose comprehensive local, state, federal, foreign and supranational statutory and regulatory requirements concerning, among other matters, the treatment, acceptance, identification, storage, handling, transportation and disposal of industrial by−products, hazardous and solid waste materials, waste water, storm water effluent, air emissions, soil contamination, surface and ground water pollution, employee health and safety, operating permit standards, monitoring and spill containment requirements, zoning, and land use, among others. Various laws and regulations set prohibitions or limits on the release of contaminants into the environment. Such laws and regulations also require permits to be obtained and manifests to be completed and delivered in connection with the operations of our businesses, and in connection with any shipment of prescribed materials so that the movement and disposal of such material can be traced and the persons responsible for any mishandling of such material can be identified. This regulatory framework imposes significant actual, day−to−day compliance burdens, costs and risks on us. Violation of such laws and regulations may and do give rise to significant liability, including fines, damages, fees and expenses, and closure of a site. Generally, the governmental authorities are empowered to act to clean up and remediate releases and environmental damage and to charge the costs of such cleanup to one or more of the owners of the property, the person responsible for the release, the generator of the contaminant and certain other parties or to direct the responsible party to take such action. These authorities may also impose a tax or other liens to secure the parties' reimbursement obligations.

Environmental legislation and regulations have changed rapidly in recent years, and it is possible that we will be subject to even more stringent environmental standards in the future. For these reasons, future capital expenditures for environmental control facilities cannot be predicted with accuracy; however, if environmental control standards become more stringent, one may expect that the expenditures necessary to comply with them could increase substantially. Due to the nature of our Lead Fabrication and Recycling and Scrap Metal Recycling businesses, it is likely that inquiries or claims based upon environmental laws may be made in the future by governmental bodies or individuals against us and any other scrap metal recycling entities that the Company may acquire. The location of some of our facilities in urban areas may increase the risk of scrutiny and claims. We cannot predict whether any such future inquiries or claims will in fact arise or the outcome of such matters. Additionally, it is not possible to predict the amounts of all capital expenditures or of any increases in operating costs or other expenses that we may incur to comply with applicable environmental requirements, or whether these costs can be passed on to customers through product price increases.

Moreover, environmental legislation has been enacted, and may in the future be enacted, to create liability for past actions that were lawful at the time taken but that have been found to affect the environment and to create public rights of action for environmental conditions and activities. As is the case with lead fabrication and recycling and scrap metal recycling businesses in general, if damage to persons or the environment has been caused, or is in the future caused, by hazardous materials activities of the Company or its predecessors, the Company may be fined and held liable for such damage. In addition, we may be required to remedy such conditions and/or change procedures. Thus, there can be no assurance that potential liabilities, expenditures, fines and penalties associated with environmental laws and regulations will not be imposed on us in the future or that such liabilities, expenditures, fines or penalties will not have a material adverse effect on our results of operations and financial condition.

We are subject to potential liability and may also be required from time to time to clean up or take certain remedial action with regard to sites currently or formerly used in connection with our operations. Furthermore, we may be required to pay for all or a portion of the costs to clean up or remediate sites we never owned or on which we never operated if we are found to have arranged for transportation, treatment or disposal of pollutants or hazardous or toxic substances on or to such sites. We are also subject to potential liability for environmental damage that our assets or operations may cause nearby landowners, particularly as a result of any contamination of drinking water sources or soil, including damage resulting from conditions existing prior to the acquisition of such assets or operations. Any substantial liability for environmental damage could materially adversely affect our operating results and financial condition, and could materially adversely affect the marketability and price of our stock.

Contamination exists at certain of our sites, and we are responsible for certain off−site contamination as well. Such sites require investigation, monitoring and remediation. The existence of such contamination typically results in federal, state, local and/or private enforcement or cost recovery actions against the Company, possibly resulting in disruption of our operations, and/or substantial fines, penalties, damages, costs and expenses being imposed against us. We expect to require future cash outlays as we incur costs relating to the remediation of environmental liabilities and post−remediation compliance. These costs may have a material adverse effect on the Company’s results of operation and financial condition.

Environmental impairment liability insurance, which we carry on our lead smelting facility, is prohibitively expensive and limited in the scope of its coverage. Our general liability insurance policies in most cases do not cover environmental damage. If we were to incur significant liability for environmental damage not covered by insurance; or for which we have not adequately reserved; or for which we are not adequately indemnified by third parties; our results of operations and financial condition could be materially adversely affected.

In the past we have upon occasion been found not to be in compliance with certain environmental laws and regulations, and have incurred fines associated with such violations which have not been material in amount. We may in the future incur additional fines associated with similar violations. We have also paid a portion of the costs of certain remediation actions at certain sites. No assurance can be given that material fines, penalties, damages and expenses resulting from additional compliance issues and liabilities will not be imposed on us in the future.

There are risks associated with certain by−products of our operations. Our operations produce recurring amounts of wastes. For example, our secondary lead smelter generates slag as a waste product of the lead smelting process. The slag is tested for hazardous materials and if determined non−hazardous, disposed of at a local sanitary landfill. Slag that tests hazardous is put back into the furnace feedstock and rerun through the furnace. We can give no assurance, however, that such a process will be successful in continuing to remove hazardous contaminants or that higher charges for waste handling and disposal will be avoided.

Due diligence reviews in connection with our acquisitions to date and environmental assessments of our operating sites conducted by independent environmental consulting firms have revealed that some soil, surface water and/or groundwater contamination, including various metals, arsenic, petrochemical byproducts, waste oils, and volatile organic compounds, is present at certain of our operating sites. Based on our review of these reports, we believe that it is possible that migratory contamination at varying levels may exist at some of our sites, and we anticipate that some of our sites could require investigation, monitoring and remediation in the future. Moreover, the costs of such remediation could be material. The existence of contamination at some of our facilities could adversely affect our ability to sell our properties, and, will generally require us to incur significant costs to take advantage of selling opportunities. Descriptions of environmental proceedings pending at this time are set out in Item 3 below.

There has been a limited established public trading market for our common stock, and we cannot guarantee that our stock price will not decline after the effective date of this report.

Our common stock began trading on the American Stock Exchange on March 15, 2005 under the symbol “MEA.” We thus have a limited history of public market trading for our common stock, and we cannot predict the price at which our common stock will trade. The price at which our common stock trades may fluctuate significantly, particularly until an orderly market develops. Prices for our common stock will be determined in the trading markets and may be influenced by many factors, including our financial results, developments generally affecting our industries, the performance of each of our business segments, our capital structure (including the amount of our indebtedness), general economic, industry and market conditions, the depth and liquidity of the market for our common stock, fluctuations in metal prices, investor perceptions of our business and us, reports by industry analysts, negative announcements by our customers, competitors or suppliers regarding their own performances, and the impact of other Risk Factors discussed in this report.

Applicable Securities and Exchange Commission rules governing the trading of “penny stocks’’ limits the trading and liquidity of our common stock, which may affect the trading price of our common stock.

Our common stock has traded below $5.00 per share. When stock trades below $5.00 per share it is considered a “penny stock’’ and is subject to Securities and Exchange Commission rules and regulations which impose limitations upon the manner in which the shares can be publicly traded. These regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser’s written agreement to a transaction prior to sale. If our common stock is considered a “penny stock,” these regulations would have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

We may be affected by efforts to organize our employees.

Approximately 8% of our active employees, all located at our facility in Granite City, Illinois, are represented by the United Steelworkers of America. Our agreement with that union expires on March 15, 2008. We are not aware at this time of any current attempts to organize other employees of the Company.

Our operations present significant risk of injury or death.

Because of the heavy industrial activities conducted at our facilities, there exists a risk of injury or death to our employees or other visitors of our operations, notwithstanding the safety precautions we take. Our operations are subject to regulation by federal, state and local agencies responsible for employee health and safety, including the Occupational Safety and Health Administration (“OSHA”). We have been fined in regard to some of these incidents. While we have in place policies to minimize such risks, we may nevertheless be unable to avoid material liabilities for any employee death or injury that may occur in the future and these types of incidents may have a material adverse effect on our financial condition.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our facilities are generally comprised of:

- indoor and outdoor processing areas;
- various pieces of production equipment;
- warehouses for the storage of repair parts and of unprocessed and processed ferrous and non−ferrous scrap;
- storage yards for unprocessed and processed scrap;
- machine or repair shops for the maintenance and repair of vehicles and equipment;

- scales for weighing scrap;
- loading and unloading facilities;
- administrative offices; and
- garages for transportation equipment.

Our scrap processing facilities have specialized equipment and furnaces for processing various types and grades of scrap metal, which may include: grapples and magnets and front−end loaders to transport and process both ferrous and non−ferrous scrap, crane−mounted alligator or stationary guillotine shears to process large pieces of scrap, wire stripping and chopping equipment, balers and torch cutting stations. Processing operators transport inbound and outbound scrap on a fleet of rolloff trucks, dump trucks, stake−body trucks and lugger trucks.

The majority of our outbound ferrous scrap products are shipped in rail cars generally provided by the railroad company which services three of the Company's scrap locations.

Fabrication facilities include shot towers, rolling mills of various sizes, extrusion presses, mold casting lines, refining kettles, battery breaking equipment and a blast furnace used to process and make a variety of lead−based products.

The following table sets forth information regarding our principal properties:

Location	Operations	Buildings Approx. Square. Ft.	Approx. Acreage	Leased/ Owned
Metalico, Inc. 186 North Ave., East Cranford, NJ	Corporate Headquarters	3,500	N/A	Leased(1)
Lake Erie Recycling Corp. 127 Fillmore Ave Buffalo, NY	Office/Scrap Processor/ Metal/Storage	312,966	24	Owned
Metalico Aluminum Recovery, Inc. 1951 Hamburg Turnpike Lackawanna, NY	Office/Aluminum Melting/ De−ox Production/Storage	81,550	2	Leased(2)
Buffalo Hauling Corp. 1951 Hamburg Turnpike Lackawanna, NY	Office/Scrap Handling/ Rail sitings for transshipping/Storage	28,992	12	Leased(3)
Metalico Rochester, Inc. 1515 Scottsville Rd Rochester, NY	Office/Scrap Processor/ Metal/Storage	74,175	12.7	Owned
Metalico Rochester, Inc. d/b/a Diversified 50 Portland Ave Rochester, NY	Office/Scrap Processor/ Metal/Storage	27,500	3.2	Owned
Metalico Niagara, Inc. 2133 Maple Ave Niagara Falls, NY	Office/Scrap Processor/ Metal/Storage	4,050	1	Leased (4)
Gulf Coast Recycling, Inc. 1901 North 66th St Tampa, FL	Lead Smelting and Refining	92,987	10	Owned

Location	Operations	Buildings Approx. Square. Ft.	Approx. Acreage	Leased/ Owned
Mayco Industries, Inc. 18 West Oxmoor Rd. Birmingham, AL	Office/ Lead Product Fabrication and Manufacturing	96,183	7.5	Owned
Metalico Granite City, Inc. 1200 16th Street Granite City, IL	Office/ Lead Product Fabrication	180,570	12.5	Owned
Santa Rosa Lead Products, Inc. 33 So. University St. Healdsburg, CA	Office/ Lead Product Fabrication and Storage	14,000	1.5	Leased(5)
33 Healdsburg Ave Healdsburg, CA	Warehouse	2,070	N/A	Leased(6)
3949 Guasti Rd. Ontario, CA	Office/Production/Storage	6,160	N/A	Leased(7)
West Coast Shot, Inc. 32 Red Rock Rd. Carson City, NV	Office/ Lead Product Fabrication	6,225	1.5	Owned

(1) The lease on our corporate headquarters is currently scheduled to expire October 31, 2006, subject to an automatic annual renewal clause that is effective unless we give notice at least four months prior to the then−effective termination date. The current annual rent is $79,332.

(2) The lease currently expires April 30, 2006. We have the right to renew for two successive three−year periods. The annual rent is $218,999 for the year ending April 30, 2006.

(3) The lease currently expires May 31, 2007. We have the right to renew for two successive three−year periods. The annual rent is $68,878 for the year ending May 31, 2006 and $70,945 for the year ending May 31, 2007.

(4) The lease currently expires October 31, 2010. We have the right to renew for five additional years. The annual rent is $30,000. We also have an option to purchase the underlying premises for a price to be determined. The option expires upon the expiration of the term of the lease, including any renewal term.

(5) The lease expires September 30, 2009. The current rent is $8,000 per month. As of April 1, 2007, the monthly rent will increase to $8,400 and the annual rent will be $100,800.

(6) We occupy a portion of the premises on a month−to−month lease for a monthly rent of $761.

(7) The lease currently expires June 15, 2007. The annual rent is $64,270 for the year ending June 15, 2006 and $65,912 for the year ending June 15, 2007.

We believe that our facilities are suitable for their present and intended purposes and that we have adequate capacity for our current levels of operation.

Item 3. 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 results from environmental compliance issues and workers compensation−related claims applicable to our operations. We are involved in litigation and environmental proceedings as described below.

TAMPA, FLORIDA

Our Gulf Coast Recycling, Inc. subsidiary (“Gulf Coast”), located in Tampa, Florida, is a party to four consent orders governing remediation and monitoring of various sites in the greater Tampa area. All agreed remediation has been completed. At this time, on−going compliance requirements for identified on−site contamination are met under the Resource Conservation Recovery Act (“RCRA”) and the Hazardous Solid Waste Act (“HSWA”) permit that was issued to Gulf Coast in January 2000. The Company incurs annual costs for monitoring environmental conditions under the orders and for the maintenance of a letter of credit supporting oversight of an off−site location in Hillsborough County, Florida. The Company does not consider these annual costs to be material.

The Company and its subsidiaries are at this time in material compliance with all of their obligations under the consent orders.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) The Company held its Annual Meeting of Stockholders on November 1, 2005.

(b) The following matters were voted upon at the Annual Meeting of Stockholders:

1. Stockholders voted on the election of nominees for the Board of Directors to serve for a term expiring at the 2006 Annual Meeting. Each individual named below was re−elected to the Board. The Inspector of Elections certified the following vote tabulations:

	FOR	WITHHELD	NON−VOTE
Carlos E. Agüero	23,070,685	295	0
Michael J. Drury	23,070,785	195	0
Earl B. Cornette	23,070,785	195	0
Bret R. Maxwell	23,070,785	195	0
Walter H. Barandiaran	23,070,785	195	0
Paul A. Garrett	23,070,785	195	0

2. A proposal to ratify the selection of McGladrey & Pullen, LLP, as our independent registered public accounting firm for the fiscal year ending December 31, 2005 was approved by the stockholders. The Inspector of Elections certified the following vote tabulations:

FOR	AGAINST	ABSTAIN	NON−VOTE
23,070,633	244	103	0

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Trading in our common stock commenced on the American Stock Exchange on March 15, 2005 under the symbol “MEA.” The table below sets forth, on a per share basis for the period indicated, the high and low closing sale prices for our common stock as reported by the American Stock Exchange.

	Price Range	
	High	Low
Fiscal Year 2005		
First Quarter (March 15 through March 28)	$ 5.88	$ 4.80
Second Quarter	$ 5.08	$ 3.40
Third Quarter	$ 3.80	$ 3.20
Fourth Quarter	$ 3.40	$ 2.75

The closing sale price of our common stock as reported by the American Stock Exchange on March 3, 2006 was $4.33

Holders

As of March 1, 2006, there were 321 holders of record of our common stock, 21 holders of warrants to purchase our common stock, 18 holders of record of our convertible preferred stock, 18 holders of convertible notes issued between November 18, 2004 and December 9, 2004, and 42 holders of stock options exercisable for shares of our common stock.

Dividends

We have never declared or paid dividends on our common stock, and we do not expect to pay cash dividends on our common stock in the foreseeable future. Instead, we anticipate that all our earnings, if any, in the foreseeable future will be used to finance the operation and growth of our business. In addition, our ability to pay dividends to holders of our capital stock is limited by our senior secured credit facility. Any future determination to pay dividends on our common stock is subject to the discretion of our board of directors and will depend upon various factors, including, without limitation, our results of operations and financial condition. In addition, at this time our senior secured credit facility prohibits the payment of dividends. There is no preferred dividend accrued or accruing on our preferred stock. The holders of our preferred stock will share with common stockholders on an as−converted basis in all dividends declared on common stock, if any. The preferred stock ranks senior to the common stock as to the payment of dividends.

Item 6. Selected Financial Data

SELECTED HISTORICAL FINANCIAL DATA

The selected historical financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes thereto appearing elsewhere in this Form 10−K. The selected income statement data for the years ended December 31, 2005, 2004 and 2003 and the selected balance sheet data as of December 31, 2005 and 2004 have been derived from our audited consolidated financial statements included elsewhere in this report. The selected income statement data for the years ended December 31, 2002 and 2001 and the selected balance sheet data as of December 31, 2003, 2002 and 2001 have been derived from audited consolidated financial statements that are not included in this Form 10−K. The historical results are not necessarily indicative of the results of operations to be expected in the future."

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
		($ thousands, except share data)			
Selected Income Statement Data:					
Revenue	$ 164,292	$ 115,363	$ 61,322	$ 59,262	$ 71,436
Costs and expenses					
Operating expenses	134,812	91,930	50,400	46,439	59,511
Selling, general and administrative expenses	12,278	9,417	5,303	6,016	6,963
Depreciation and amortization	4,464	2,951	2,068	2,085	2,723
	151,554	104,298	57,771	54,540	69,197
Operating income	$ 12,738	$ 11,065	$ 3,551	$ 4,722	$ 2,239
Income from continuing operations	$ 6,312	$ 7,093	$ 4,853	$ 3,850	$ 10,156
Discontinued operations	(723)	(429)	(2,872)	(1,051)	68
Net income	$ 5,589	$ 6,664	$ 1,981	$ 2,799	$ 10,224
Earnings per common share:					
Basic:					
Income from continuing operations	$ 0.26	$ 0.40	$ 0.53	$ 0.35	$ 1.50
Discontinued operations, net	(0.03)	(0.03)	(0.50)	(0.18)	0.01
Net Income	$ 0.23	$ 0.37	$ 0.03	$ 0.17	$ 1.51
Diluted:					
Income from continuing operations	$ 0.26	$ 0.31	$ 0.21	$ 0.17	$ 0.54
Discontinued operations, net	(0.03)	(0.02)	(0.13)	(0.05)	—
Net income	$ 0.23	$ 0.29	$ 0.08	$ 0.12	$ 0.54
Weighted Average Common Shares Outstanding:					
Basic	24,133,406	16,021,575	5,727,243	5,733,418	5,741,856
Diluted	24,317,088	22,856,379	22,805,670	22,468,655	18,919,584

	As of December 31, 2005	As of December 31, 2004	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001
Selected Balance Sheet Data:					
Total Assets	$ 101,437	$ 92,963	$ 58,031	$ 53,882	$ 55,930
Total Debt (Including Current Maturities)	$ 29,318	$ 31,835	$ 11,001	$ 9,195	$ 13,926
Redeemable Preferred and Common Stock	$ 1,000	$ 1,200	$ 9,023	$ 8,673	$ 7,474
Stockholders' Equity	$ 55,011	$ 45,500	$ 20,708	$ 20,577	$ 19,763

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes and other financial information included elsewhere in this prospectus. Some of the information contained in this discussion and analysis includes forward−looking statements. You should review the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by these forward−looking statements. Please refer to "Special Note Regarding Forward−Looking Statements" for more information. The results for the periods reflected herein are not necessarily indicative of results that may be expected for future periods.

General

We operate primarily in two distinct business segments: (i) ferrous and nonferrous scrap metal recycling ("Scrap Metal Recycling"), and (ii) product manufacturing, fabricating, smelting and refining of lead and other metals ("Lead Fabrication and Recycling"). The Scrap Metal Recycling segment includes scrap metal recycling yards located in Buffalo, Rochester, and Niagara Falls, New York, and an aluminum de−ox plant and a scrap handling company each located in Lackawanna, New York.

The Lead Fabrication and Recycling segment includes five lead fabrication and recycling plants located in Birmingham, Alabama; Healdsburg and Ontario, California; Carson City, Nevada and Granite City, Illinois and a secondary lead smelting and refining plant located in Tampa, Florida.

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.

Environmental Remediation Costs

The Company is subject to comprehensive and frequently changing federal, state and local environmental laws and regulations, and will incur additional capital and operating costs in the future to comply with currently existing laws and regulations, new regulatory requirements arising from recently enacted statutes, and possible new statutory enactments. The Company accrues losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recorded no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Determining (a) the extent of remedial actions that are or may be required, (b) the type of remedial actions to be used, (c) the allocation of costs among potentially responsible parties (PRPs) and (d) the costs of making such determinations, on a site−by−site basis, require a number of judgments and assumptions and are inherently difficult to estimate. The Company utilizes certain experienced employees responsible for site monitoring, third party environmental specialists, and correspondence and progress reports obtained from the various regulatory agencies responsible for site monitoring to estimate its accrued environmental remediation costs. The Company generally contracts with third parties to fulfill most of its obligations for remedial actions. The time period necessary to remediate a particular site may extend several years, and the laws governing the remediation process and the technology available to complete the remedial action may change before the remedial action is complete. Additionally, the impact of inflation and productivity improvements can change the estimates of costs to be incurred. It is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies, the nonexistence or inability of other PRPs to contribute to the settlements of such liabilities or other factors could necessitate the recording of additional liabilities which could be material. The majority of the Company’s environmental remediation accrued liabilities are applicable to its lead fabrication and secondary lead smelting operating segment.

Impairment of Long−lived Assets

The Company reviews long−lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are impaired, the impairment is recognized as the amount by which the carrying amount exceeds the estimated future discounted cash flows. Assets to be sold are reported at the lower of the carrying amount or the fair value less costs to sell.

Goodwill

The Company records as goodwill the excess of the purchase price over the fair value of identifiable net assets acquired. Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, prescribes a two−step process for impairment testing of goodwill, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. The Company has elected to perform its annual analysis as of December 31 of each fiscal year. No indicators of impairment were identified for the years ended December 31, 2005, 2004 and 2003.

Revenue Recognition

Revenue from product sales is recognized as goods are shipped, which generally is when title transfers and the risks and rewards of ownership have passed to customers. Brokerage sales are recognized upon receipt of materials by the customer and reported net of costs in product sales. The Company’s lead fabrication and recycling segment performs certain services under tolling arrangements and recognizes tolling revenue as services are performed. Tolling services are primarily provided by the secondary lead smelting and refining plant in Tampa, FL whereby the plant receives a customer’s junk batteries (industrial, marine, golf cart, automobile, etc.) and will return refined lead alloyed to the customer’s specifications.

Accounts Receivable and Allowance for Uncollectible Accounts Receivable

Accounts receivable consist primarily of amounts due from customers from product sales. The allowance for uncollectible accounts receivable totaled $553,000, $606,000, and $292,000 at December 31, 2005, 2004, and 2003, respectively.

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The Company generally does not charge interest on past−due amounts or require collateral on trade receivables.

The loss of any significant customer could adversely affect our results of operations or financial condition. While we believe our allowance for uncollectible accounts is adequate, changes in economic conditions or any weakness in the steel, metals, or construction industry could adversely impact our future earnings.

Inventories

Our inventories consist of ferrous and non−ferrous scrap metals and lead metals and lead products. Inventories are valued at the lower of cost or market determined on a first−in, first−out basis. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using techniques including observation, weighing and estimates. 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 turn our inventories promptly and efficiently.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company files its income tax return on a consolidated basis with its respective subsidiaries. The members of the consolidated group have elected to allocate income taxes among the members of the group by the separate return method, under which the parent company credits the subsidiary for income tax reductions resulting from the subsidiary’s inclusion in the consolidated return, or the parent company charges the subsidiary for its allocated share of the consolidated income tax liability.

RESULTS OF OPERATIONS

The Company is divided into two industry segments: Scrap Metal Recycling, which breaks down into two general product categories, ferrous and non−ferrous metals, and Lead Fabrication and Recycling, comprised of lead fabrication and recycling and lead smelting.

The following table sets forth information regarding the breakdown of revenues between the Company’s Scrap Metal Recycling segment and its Lead Fabrication and Recycling segment ($, pounds and tons in thousands):

	Revenues								
	Year Ended December 31, 2005			Year Ended December 31, 2004			Year Ended December 31, 2003		
	Weight	Net Sales	%	Weight	Net Sales	%	Weight	Net Sales	%
Scrap Metal Recycling									
Ferrous metals (tons)	171.0	$ 35,027	21.3	145.9	$ 36,404	31.6	117.7	$ 13,037	21.3
Non−ferrous metals (lbs.)	69,494	52,968	32.2	60,071	41,329	35.8	52,255	25,081	40.9
Total Scrap Metal Recycling		$ 87,995	53.5		$ 77,733	67.4		$ 38,118	62.2
Lead Fabrication and Recycling									
Fabricating (lbs.)	75,139	$ 67,174	40.9	36,005	$ 26,931	23.3	27,248	$ 13,423	21.9
Smelting (lbs.)	10,130	5,281	3.2	12,880	5,902	5.1	11,881	2,756	4.5
Tolling (lbs.)	20,806	3,842	2.4	25,581	4,797	4.2	39,315	7,025	11.4
Total Lead Fabrication and Recycling	106,075	$ 76,297	46.5	74,466	$ 37,630	32.6	78,444	$ 23,204	37.8
Total Revenue		$ 164,292	100.0		$ 115,363	100.0		$ 61,322	100.0

The following table sets forth information regarding average Metalico selling prices for the past five quarters. The fluctuation in pricing is due to many factors including domestic and export demand and our product mix.

For the quarter ending:	Average Ferrous Price per ton	Average Non−Ferrous Price per lb.	Average Lead Price per lb.
December 31, 2005	$ 214	$ 0.75	$ 0.72
September 30, 2005	$ 196	$ 0.75	$ 0.70
June 30, 2005	$ 178	$ 0.78	$ 0.71
March 31, 2005	$ 234	$ 0.77	$ 0.75
December 31, 2004	$ 297	$ 0.65	$ 0.69

The results of the Scrap Metal Recycling segment operations depend in large part upon demand and prices for recycled metals in world markets and steel products in the Northeastern United States. For example, increasing steel demand and prices led to improved profitability for the industry during the years 1995 through 1997. However, during the years 1998 and 1999, the Asian financial crisis severely curtailed demand and decreased prices, causing a negative impact on the results of our Scrap Metal Recycling segment. During the year 2000, the Company saw demand for recycled metal rise, but unusually large supplies of recycled ferrous metal became available from certain countries that were part of the former Soviet Union, thereby holding prices down. In addition, domestic demand for finished steel products was strong, but lower cost imports, primarily from Asia, caused average prices to generally decline. In the year 2001, the demand for recycled metals declined in the United States as domestic steel production declined; however, demand in Asia, particularly in China, remained firm. Selling prices also continued to be adversely affected by supplies coming out of the former Soviet Union and during the first six months of the year 2002, recycled metals prices approached record lows due primarily to this surplus coupled with weak domestic demand. Domestic demand for finished steel products declined due to the slowing United States economy and competition from lower cost imports. The result was a record low average net selling price for the ferrous manufacturing business during the year 2002.

During the second half of the year 2002, certain countries of the former Soviet Union started imposing export tariffs and bans on recycled ferrous metal. As a result, recycled ferrous metal supplies to global markets declined causing prices to increase. Demand, which is being fueled primarily by Asia, continued to remain strong and the Company continues to experience improved market conditions. Throughout much of the remainder of the year 2003, selling prices continued to rise primarily due to the tight supply of ferrous metal available in the export market and the weakness of the U.S. dollar relative to other foreign currencies.

Ferrous recyclers saw higher average selling prices and higher sales volumes during 2003 and into 2004 due primarily to higher domestic and foreign demand for scrap. The increased demand can be attributed to the broad based recovery of the U.S. and foreign economies. We believe that near record prices for many grades of ferrous scrap in 2004 resulted in an overall increase of available scrap.

As the chart above illustrates, 2005 saw fluctuating prices for our ferrous scrap. Demand for our scrap remained relatively consistent throughout the year however markets were affected by foreign buyers leaving the market for periods of time allowing domestic consumers to reduce their purchase prices.

Prices for non−ferrous metals reached record levels in 2005, as the demand for metals continues to outpace supplies. While the year 2004 saw the global aluminum industry record a deficit in supply, thus pushing aluminum prices past 11−year highs, the scenario was not much different in the case of other non−ferrous metals on account of depleting stockpiles and sustained demand. The situation was similar in the case of copper where prices too have soared to lifetime highs.

The Lead Fabrication and Recycling segment is influenced by the price of lead raw metals. The lead fabrication and recycling businesses can be positively affected by lower pricing of raw lead metals while the smelting businesses are negatively affected by lower pricing. During 2001, 2002 and the first half of 2003 the pricing of raw lead metals was at low levels due primarily to strong supply into the U.S. principally by China and the U.S. government selling off warehoused stockpiles. Beginning with the third quarter of 2003, pricing of lead raw materials began to increase. Many explanations have been offered for the increase including China changing from a net supplier of lead to a net consumer, increased demand because of recovery of the U.S. and many other foreign economies and a general recovery in the metal markets. Between December 31, 2003 and December 31, 2005, the price of lead on the London Metal Exchange increased 50%. In a business environment of increasing raw material costs like this, lead fabricators rely on their ability to pass on these increased lead raw material prices to maintain their profitability.

Revenue in the Lead Fabrication and Recycling segment, for the years ended December 31, 2005, 2004 and 2003, include one specific customer (which accounted for 10% or more of total revenue of the Company in one of those years), together with the receivable due from the customer:

	2005	2004	2003
Revenue to customer as a percentage of sales	2%	4%	11%
Receivable balance at end of period	$585,000	$403,000	$935,000

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Consolidated net sales increased by $48.9 million (42.4%) to $164.3 million in the year ended December 31, 2005, compared to consolidated net sales of $115.4 million in the year ended December 31, 2004. The purchase of the remaining 50% joint venture interest in Mayco Industries, L.L.C. on September 30, 2004 (subsequently converted to Mayco Industries, Inc.) added an additional $52.3 million and $12.0 million in sales to the years ended December 31, 2005 and 2004 respectively or a net increase of $40.3 million. Excluding the sales effect of the Mayco purchase, consolidated net sales increased by $8.6 million. This increase in sales is due to higher sales volume of $9.2 million offset by lower average selling prices of $596,000.

Scrap Metal Recycling

Ferrous Sales

Ferrous sales decreased by $1.4 million (3.8%) to $35.0 million in the year ended December 31, 2005, compared to ferrous sales of $36.4 million in the year ended December 31, 2004. The decrease was attributable to a 17.9% decrease in average selling prices accounting for $7.7 million of the decrease in sales of ferrous products offset by a 17.2% increase in sales volumes or an additional 25.1 thousand tons representing sales of $6.3 million. The average selling price for ferrous products was approximately $205 per ton for the year ended December 31, 2005, compared to $250 per ton for the year ended December 31, 2004. As discussed above, pricing was impacted by domestic and foreign buyers. The increase in ferrous volumes can largely be attributed to our November 2004 acquisition of a competitor in Rochester, New York.

Non−Ferrous Sales

Non−ferrous sales increased by $11.7 million (28.3%) to $53.0 million in the year ended December 31, 2005, compared to non−ferrous sales of $41.3 million in the year ended December 31, 2004. The increase was due to higher average selling prices and higher sales volumes. The average selling price for non−ferrous products was approximately $0.76 per pound for the year ended December 31, 2005, compared to $0.69 per pound for the year ended December 31, 2004, an increase of approximately 10.1% accounting for approximately $6.7 million of the total increase in non−ferrous sales. An increase in sales volume of approximately 9.4 million pounds sold contributed $5.0 million to the total increase in sales of non−ferrous products. The increase in non−ferrous volumes can largely be attributed to our November 2004 acquisition of a competitor in Rochester, New York.

Lead Fabrication and Recycling

Sales in our Lead Fabrication and Recycling segment increased by $38.7 million or 103% to $76.3 million for the year ended December 31, 2005, compared to sales of $37.6 million for the year ended December 31, 2004. The primary reason for the increase in sales is the purchase of the remaining 50% joint venture interest of Mayco Industries, L.L.C. on September 30, 2004.

Lead Fabrication

Lead fabrication sales increased by $40.2 million in 2005 versus 2004. The increase to sales as a result of the Mayco purchase amounted to $52.3 and $12.0 million for the years ended December 31, 2005 and 2004, respectively, producing a net incremental increase of $40.3 million for the year ended December 31, 2005.

Lead Smelting

Refined lead sales decreased by $621,000 in 2005 versus 2004. For the year ended December 31, 2005, the company experienced a $1.2 million decrease in sales volume offset by a $621,000 increase in average selling prices. The average selling price for refined lead increased approximately $0.06 per pound or 13.0% from $0.46 for the year ended December 31, 2004 to $0.52 for the year ended December 31, 2005. A decrease in reportable sales was attributable to the effect of the September 30, 2004 Mayco joint venture interest acquisition on our smelting operation in Tampa, Florida. In the previous year, the company reflected 4.6 million pounds amounting to $1.8 million in reportable sales to Mayco however, due to the purchase of the remaining 50% interest in Mayco, these sales were eliminated in consolidation for the year ended December 31, 2005. Sales volumes in 2005 were also affected by production issues at the plant during the first half of 2005 which have been addressed and resolved by year end 2005.

Lead Tolling

Tolling arrangements receive an agreed upon amount for each pound of lead processed for a customer. Refined lead sales per pound exceed the tolling amount per pound sold because they include the cost of raw materials. Tolling activity is primarily performed at our Tampa, Florida smelting facility and, as indicated in the preceding paragraph, production inefficiencies in Tampa contributed to a lack of profitability in our tolling operations in 2005. Tolling sales decreased by $1.0 million or 20.8% at our lead smelting facility from $4.8 million for the year ended December 31, 2004 to $3.8 million for the year ended December 31, 2005. In an effort to increase overall profit margins, our Gulf Coast Recycling, Inc. subsidiary has focused efforts on reducing its tolling services to concentrate more on sales of alloyed lead, further contributing to decreased tolling profitability.

Operating Expenses

Operating expenses increased by $42.9 million, or 46.6%, to $134.8 million for the year ended December 31, 2005 compared to operating expenses of $91.9 million for the year ended December 31, 2004. The increase in dollars was primarily due to the Mayco joint venture interest acquisition, which accounted for approximately $33.2 million of the increase, combined with a $5.1 million increase in the cost of purchased metals and a $4.6 million increase in other operating expenses.

Selling, General and Administrative

Selling, general and administrative expenses increased by $2.9 million or 30.9% to $12.3 million for the year ended December 31, 2005, compared to $9.4 million for the year ended December 31, 2004. The increase in costs is primarily due to the Mayco joint venture interest acquisition on September 30, 2004. The current year reflects a full year of additional expenses due to Mayco compared to only the last quarter of 2004, the net effect adding an additional $2.1 million. Excluding the Mayco effect, legal and accounting fees increased by $543,000 primarily because of one−time costs associated with the registration of the Company’s common stock with Securities and Exchange Commission in 2005 and related corporate activities.

Depreciation and Amortization

Depreciation and amortization expenses increased by $1.5 million to $4.5 million or 2.7% of sales for the year ended December 31, 2005, compared to $3.0 million or 2.6% of sales for the year ended December 31, 2004. The increase is due to the net effect of the Mayco acquisition which added an additional $783,000 in depreciation and amortization as well as the depreciation of a greater balance of depreciable assets in 2005 as compared to 2004, of which $6.3 million in depreciable additions were recorded during 2005.

Operating Income

Operating income for the year ended December 31, 2005 increased $1.6 million or 14.4% to $12.7 million compared to $11.1 million for the year ended December 31, 2004 and is a result of the factors discussed above.

Financial and Other Income/(Expense)

Interest expense was $2.5 million or 1.5% of sales during the year ended December 31, 2005, compared to $1.8 million, or 1.6% of sales, during the year ended December 31, 2004. The increase in interest expense during 2005 resulted primarily from higher interest rates incurred on higher average outstanding variable rate debt balances. In 2005, the average interest rate on our variable rate debt was 7.0% on a daily average outstanding balance of $17.1 million compared to 5.5% on a daily average outstanding balance of $11.3 million in 2004.

Income from Joint Venture

Equity in net income of Mayco Industries, L.L.C. (Mayco Industries, Inc. since September 30, 2004) was $1.1 million for the nine months ended September 30, 2004. On September 30, 2004, the Company purchased the 50% interest in Mayco Industries, L.L.C. that it did not previously own, and for the fourth quarter of 2004 and all of 2005, the results of Mayco are reported in the consolidated totals.

Income Taxes

For the year ended December 31 2005, the Company recognized income tax expense of $4.2 million, resulting in an effective income tax rate of approximately 40%. For the year ended December 31 2004, the Company recognized income tax expense of $3.4 million, resulting in an effective income tax rate of approximately 32%. The increase in effective income tax rates is the result of changes in business allocation percentages in certain states in which we operate which have impacted available net operating loss carryforwards. We expect that the future effective combined federal and state tax rates to range between 36% and 40%.

Discontinued Operations

For the year ended December 31, 2005, we recorded a discontinued operations loss of $723,000, compared to a discontinued operations loss for the year ended 2004 of $429,000. In June of 2005, the Company recorded a $300,000 charge ($200,000 net of income taxes) for the settlement of a claim for the EPA’s response costs relating to certain cleanup activities in College Grove, Tennessee in exchange for full and complete release of liability for all past and future response costs related to the site and in satisfaction of the EPA’s claim. Additionally, the Company incurred a total of $400,000 in costs associated with the demolition of several structures on the College Grove, Tennessee site of which approximately $300,000 occurred in the fourth quarter of 2005. These items were expensed to discontinued operations as incurred. Except for relatively small incidental expenses related to the demolition, all costs associated with the demolition of these structures have been recognized. The Company also recorded accrued liabilities for future and anticipated environmental monitoring costs and post closure maintenance costs for the College Grove Tennessee facility.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Consolidated net sales increased by $54.1 million (88.1%) to $115.4 million in the year ended December 31, 2004, compared to consolidated net sales of $61.3 million in the year ended December 31, 2003. The $54.1 million increase in consolidated net sales is due to higher average selling prices accounting for $35.8 million of the total increase in sales; the purchase of the remaining 50% joint venture interest in Mayco Industries, L.L.C. on September 30, 2004 added an additional $12.0 million in sales and an increase in volume sold totaling $2.3 million. Additionally, the acquisition of a scrap handling company in February 2004 and an additional scrap yard in November 2004 contributed another $3.4 million and $627,000, respectively, to the total increase in sales. The $2.3 million increase in volume is comprised of increases in sales volumes for ferrous products of $3.0 million and non−ferrous products of $3.3 million offset by a $1.6 million decrease in sales volumes for our Lead Fabricating and Recycling segment (excluding Mayco) and a $2.4 million decrease in tolling activities.

Scrap Metal Recycling

Ferrous Sales

Ferrous sales increased by $23.4 million (180%) to $36.4 million in the year ended December 31, 2004, compared to ferrous sales of $13.0 million in the year ended December 31, 2003. The increase was attributable to a 125% increase in average selling prices accounting for $20.2 million of the total increase in sales of ferrous products combined with a 23.9% increase in sales volumes or an additional 28.2 thousand tons representing an increase in sales of $3.2 million. The average selling price for ferrous products was approximately $250 per ton for the year ended December 31, 2004, compared to $111 per ton for the year ended December 31, 2003. We benefited from strong international demand during the first quarter of 2004 and robust domestic demand during the third and fourth quarter of 2004.

Non−Ferrous Sales

Non−ferrous sales increased by $16.2 million (64.8%) to $41.3 million in the year ended December 31, 2004, compared to non−ferrous sales of $25.1 million in the year ended December 31, 2003. The increase was due to higher average selling prices and higher sales volumes. The average selling price for non−ferrous products was approximately $0.69 per pound for the year ended December 31, 2004, compared to $0.48 per pound for the year ended December 31, 2003, an increase of approximately 43.8% accounting for approximately $12.5 million of the total increase in non−ferrous sales. An increase in sales volume of approximately 7.8 million pounds sold contributed $3.7 million to the total increase in sales of non−ferrous products.

As indicated in the scrap metal recycling discussions above, the Company significantly benefited from increases in metal commodity prices accounting for approximately 85.2% of the total increase in sales for the year ended December 31, 2004, excluding the addition of Mayco in the fourth quarter of 2004, as compared to the year ended December 31, 2003

Lead Fabrication and Recycling

Sales in our Lead Fabrication and Recycling segment increased by $14.4 million or 62.1% to $37.6 million for the year ended December 31, 2004, compared to sales of $23.2 million for the year ended December 31, 2003. The primary reason for the increase in sales is the purchase of the remaining 50% joint venture interest of Mayco Industries, L.L.C. on September 30, 2004.

Lead Fabrication

Lead fabrication sales increased by $13.5 million in 2004 versus 2003. The total addition to sales as a result of the Mayco purchase amounted to $12.0 million of the total increase. Excluding the effect of the Mayco purchase, sales in lead fabricating increased by $1.5 million. Rising product pricing amounted to $3.3 million of the increase, excluding Mayco, offset by a reduction in volume amounting to $1.8 million.

Lead Smelting

Refined lead sales also increased by $3.1 million in 2004 versus 2003, of which $2.9 million can be attributed to increased selling prices and an additional $207,000 resulted from increased selling volume. The average selling price for refined lead increased approximately $0.23 per pound or 100% from $0.23 to $0.46 for the year ending December 31, 2004 compared to the year ending December 31, 2003.

Lead Tolling

Tolling arrangements provide an agreed upon amount for each pound of lead processed for a customer. Refined lead sales per pound exceed the tolling amount per pound sold because they include the cost of raw materials. Tolling sales decreased by $2.2 million or 31.4% at our lead smelting facility from $7.0 million for the year ending December 31, 2003 to $4.8 million for the year ending December 31, 2004. In an effort to increase profit margins, our Gulf Coast Recycling, Inc. subsidiary has focused efforts on reducing its tolling services to concentrate more on sales of alloyed lead.

Gross Profit

Total gross profit was $23.4 million or 20.3% of sales for the year ended December 31, 2004, compared to $11.4 million or 18.6% of sales during the year ended December 31, 2003. The $12.0 million improvement in the year ended December 31, 2004 was due primarily to the Scrap Metal Recycling segment’s improved results of operations which contributed $9.7 million to the increase in gross profit. The Company also experienced increased gross profit in the Lead Fabrication and Recycling segment of $2.3 million primarily the result of the Mayco purchase which comprised $2.2 million of the increase. Included in the $23.4 million of gross profit for the year ended December 31, 2004 was $869,000 derived from tolling operations down $290,000 from $1.2 million for the year ending December 31 2003. While operating expenses decreased as a percentage of sales from 29.3% of sales for the year ended December 31, 2003 to 22.7% sales for the year ended December 31, 2004 due to more efficient processing of metals, these efficiencies were partially offset by an increase in the cost of purchased metals from 52.1% of sales for the year ended December 31, 2003 to 57.0% sales for the year ended December 31, 2004.

Selling, General and Administrative

Selling, general and administrative expenses were $9.4 million or 8.1% of sales for the year ended December 31, 2004, compared to $5.3 million or 8.6% of sales for the year ended December 31, 2003. The percentage of general and administrative expenses to sales for 2004 and 2003 decreased while total costs increased by $4.1 million. The increase in costs is due to the purchase of the remaining 50% joint venture interest of Mayco Industries, L.L.C. on September 30, 2004 adding an additional $1.1 million and the acquisition of a scrap handling company in February and an additional scrap yard in November 2004, totaling another $375,000 in expense. Other components contributing to the increase in selling, general and administrative expenses were increased employee wages and benefits of $1.4 million, professional service fees of $469,000 and other miscellaneous general and administrative expenses of $756,000.

Depreciation and Amortization

Depreciation and amortization expenses were $3.0 million or 2.6% of sales for the year ended December 31, 2004, compared to $2.1 million or 3.4% of sales for the year ended December 31, 2003. The increase is due to the depreciation of a greater balance of depreciable assets in 2004 as compared to 2003, of which $4.0 million in additions were recorded during 2004.

Operating Income

Operating income for the year ended December 31, 2004 increased $7.5 million or 208% to $11.1 million compared to $3.6 million for the year ended December 31, 2003 as a result of the factors discussed above.

Financial and Other Income/(Expense)

Interest expense was $1.8 million or 1.6% of sales during the year ended December 31, 2004, compared to $1.0 million, also 1.6% of sales, during the year ended December 31, 2003. The increase in interest expense during 2004 was due to financing the acquisition of a scrap handling company in February 2004 adding $1.1 million in debt and the sale of a total of $8.3 million in convertible debt: $3.9 million in September to finance the purchase of the remaining 50% joint venture interest in Mayco Industries, L.L.C. and $4.4 million in November and December 2004 to finance the acquisition of an additional scrap yard in November as well as the financing of higher receivable and inventory balances.

Income from Joint Venture

Income from Mayco Industries, L.L.C. (Mayco Industries, Inc. since September 30, 2004) was $1.1 million for the nine months ended September 30, 2004, compared to $756,000 for the year ended December 31, 2003. On September 30, 2004, the Company purchased the 50% interest in Mayco Industries, L.L.C. that it did not previously own, and for the fourth quarter of 2004, the results of Mayco are reported in the consolidated totals**.**

Income Taxes

For the year ended December 31, 2004, the Company recognized income tax expense of $3.4 million, resulting in an effective income tax rate of approximately 32%. For the year ended December 31, 2003, the Company reported a tax benefit of $1.4 million resulting from a $2.6 million decrease in the Company's valuation allowance on net deferred tax assets. The valuation allowances were reduced due to management's anticipation of future taxable income.

Discontinued Operations

For the year ended December 31, 2004, we recorded a discontinued operations loss of $429,000. During the fourth quarter of 2003, the company idled operations at its secondary lead smelting and refining plant in College Grove, Tennessee. The plant was substantially inactive during the fourth quarter of 2003 except for certain clean−up activities in preparation to ready the plant for sale in the future. Discontinued operating losses in 2004 represents additional incurred and anticipated environmental monitoring costs for the College Grove Tennessee plant.

QUARTERLY FINANCIAL INFORMATION
(Unaudited)

	Quarter Ended 3/31/2004	Quarter Ended 6/30/2004	Quarter Ended 9/30/2004	Quarter Ended 12/31/2004	Quarter Ended 3/31/2005	Quarter Ended 6/30/2005	Quarter Ended 9/30/2005	Quarter Ended 12/31/2005
	($ thousands, except share data)							
Selected Income Statement Data:								
Revenue	$ 23,884	$ 24,742	$ 27,362	$ 39,375	$ 40,852	$ 40,344	$ 41,546	$ 41,550
Costs and expenses								
Operating expenses	18,911	20,113	21,729	31,177	33,318	33,759	33,765	33,970
Selling, general and administrative expenses	1,645	1,982	1,894	3,896	3,154	2,939	3,079	3,106
Depreciation and amortization	559	651	642	1,099	1,101	1,121	1,094	1,148
	21,115	22,746	24,265	36,172	37,573	37,819	37,938	38,224
Operating Income	$ 2,769	$ 1,996	$ 3,097	$ 3,203	$ 3,279	$ 2,525	$ 3,608	$ 3,326
Income from continuing operations	$ 1,691	$ 1,211	$ 2,049	$ 2,142	$ 1,623	$ 1,431	$ 1,867	$ 1,391
Discontinued operations(a)	(41)	43	(125)	(306)	(20)	(225)	(42)	(436)
Net Income	$ 1,650	$ 1,254	$ 1,924	$ 1,836	$ 1,603	$ 1,206	$ 1,825	$ 955

	Quarter Ended 3/31/2004	Quarter Ended 6/30/2004	Quarter Ended 9/30/2004	Quarter Ended 12/31/2004	Quarter Ended 3/31/2005	Quarter Ended 6/30/2005	Quarter Ended 9/30/2005	Quarter Ended 12/31/2005
	($ thousands, except share data)							
Earnings (loss) per common share:								
Basic:								
Income from continuing operations	$ 0.21	$ 0.08	$ 0.09	$ 0.09	$ 0.07	$ 0.06	$ 0.08	$ 0.06
Discontinued operations, net	(0.01)	—	(0.01)	(0.01	—	(0.01)	—	(0.02)
Net income	$ 0.20	$ 0.08	$ 0.08	$ 0.08	$ 0.07	$ 0.05	$ 0.08	$ 0.04
Diluted:								
Income from continuing operations	$ 0.08	$ 0.06	$ 0.09	$ 0.08	$ 0.07	$ 0.06	$ 0.07	$ 0.06
Discontinued operations, net	—	—	(0.01)	(0.01)	—	(0.01)	—	(0.02)
Net income	$ 0.08	$ 0.06	$ 0.08	$ 0.07	$ 0.07	$ 0.05	$ 0.07	$ 0.04
Weighted Average Common Shares Outstanding:								
Basic	5,727,243	12,511,497	22,704,878	22,923,545	23,105,311	24,454,282	24,473,051	24,482,119
Diluted	21,241,285	21,816,937	22,945,293	25,156,266	26,084,039	26,105,108	26,043,791	26,035,926

(a) Discontinued operations — During the fourth quarter of 2003 the Company idled its secondary lead smelting and refining plant in College Grove, Tennessee.

LIQUIDITY AND CAPITAL RESOURCES

The Company has certain contractual obligations and commercial commitments to make future payments. The following table summarizes these future obligations and commitments as of December 31, 2005 ($ in thousands):

	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
Debt Obligations(1)	$27,084	$10,189	$ 3,865	$12,827	$ 203
Capital Lease Obligations	1,948	551	986	411	—
Operating Lease Obligations	1,567	728	588	251	—
Letters of Credit	286	286	—	—	—
Environmental Obligations	2,879	1,217	982	62	618
Total	$33,764	$12,971	$ 6,421	$13,551	$ 821

(1) Approximately 61% of debt obligations as of December 31, 2005 required accrued interest at a variable rate (the lender's base rate plus a margin). The remaining 39% of debt obligations as of December 31, 2005 required accrued interest at fixed rates (9% or less). Interest expense for 2006 is estimated to approximate $2.1 million calculated by multiplying the outstanding note balance at December 31, 2005 by the note's applicable interest rate. Interest expense for 2006 and thereafter will increase or decrease based on the amount of outstanding borrowings and fluctuations in market based interest rates.

Cash Flows

During the year ended December 31, 2005, our operating activities generated net cash of $7.2 million compared to net cash generated of $6.4 million for the year ended December 31, 2004. During the year ended December 31, 2005 net income of $5.6 million, noncash items of primarily consisting of depreciation and amortization of $4.9 million and deferred income taxes of $2.1 million were partially offset by an increase in accounts receivable of $2.2 million (used in operating activities) due to increased sales, a $2.4 million increase in inventories, other changes in working capital items totaling $703,000 and a $288,000 net gain on the sale and disposal of property and equipment. During the year ended December 31, 2004 net income of $6.7 million, noncash items of depreciation and amortization of $3.4 million and deferred income taxes of $3.0 million were partially offset by an increase in accounts receivable of $4.4 million (used in operating activities) due to increased sales.

We used $6.1 million in net cash for investing activities in the year ended December 31, 2005 compared to using net cash of $18.7 million in the year ended December 31, 2004. During the year ended December 31, 2005 we purchased a scrap yard located in Niagara Falls, New York which used cash of $1.2 million and the manufacturing and warehouse facility of Mayco in Birmingham, Alabama for $3.2 million. We also used $3.6 million for the purchase of other property and equipment and $195,000 for other assets. These uses of cash were offset by the proceeds from the sale of real property in Atlanta, Georgia of $2.0 million and other equipment sale proceeds of $126,000. During the year ended December 31, 2004 we purchased a scrap handling company located in Lackawanna, New York which used cash of $1.6 million, the outstanding membership interests of Mayco Industries, LLC for $7.6 million and an additional scrap yard in Rochester, New York for $4.9 million. We also used $4.6 million for the purchase of other property and equipment in 2004.

During the year ended December 31, 2005 we generated $68,000 of net cash from financing activities compared to $12.4 million of net cash generated during the year ended December 31, 2004. During the year ended December 31, 2005 total net borrowings amounted to $5.0 million offset by repayments totaling $4.8 million. The Company also paid $100,000 in satisfaction of redeemable common stock obligations. During the year ended December 31, 2004 total borrowings amounted to $15.8 million, used primarily to finance the acquisition of a scrap handling company in February 2004, an additional scrap yard in November 2004, and the outstanding membership interests of Mayco Industries, LLC, as well as for equipment purchases and other working capital needs. Total debt repayments in 2004 totaled $3.5 million.

The credit facility agreement with our primary lender provides maximum credit facilities of up to $35 million and is comprised of term, equipment, real estate and revolving loans, collateralized by substantially all assets of the Company. Borrowings under the revolving credit facility are generally limited to percentages of eligible accounts receivable and inventory and recent collections on accounts receivable, to a maximum of $28.5 million . Interest on revolving advances is payable monthly at the lender’s base rate plus a margin (an effective rate of 7.75% at December 31, 2005) or, if a LIBOR option loan, at the LIBOR rate plus a margin (an effective rate of 7.42% at December 31, 2005).

Under the terms of our loan agreement, the Company is required to maintain certain depository accounts with our lender and comply with certain financial covenants, including minimum EBITDA and not to exceed maximum capital expenditures, as defined. The Company also is generally restricted from entering into financing, equity and certain other transactions, as defined without the written consent of the lender. In addition, the Company is responsible to the lender for a monthly servicing fee, a contingent anniversary fee each May if its EBITDA for the fiscal year immediately prior to such anniversary date is less than its projected EBITDA for such fiscal year, unused line−of−credit and letter−of−credit fees equal to a percentage of the average daily unused portion of the revolving facility and letters−of−credit and certain other fees. Lender fees (excluding those capitalized as debt issue costs in year of issuance) are included as a component of interest expense in the period assessed.

As of December 31, 2005, the Company was in technical violation of certain covenants in our loan agreement governing incurrence of permitted purchase money indebtedness and the repurchase of outstanding stock pursuant to the exercise of a put. We also exceeded our 2005 limitation on capital expenditures as a result of the inclusion of a real estate purchase in Alabama that was otherwise expressly consented to by our lender. Our lender waived all these violations. Another provision of our loan agreement requires us to deliver projections for the forthcoming three years to our lender at least thirty days prior to the start of each fiscal year. Our projections for fiscal 2006 and thereafter were not delivered by the required date because our closing of an acquisition effective on November 1, 2005, caused us to reexamine the assumptions and conclusions underlying our earlier draft projections. Updated projections were subsequently delivered and our lender waived the covenant violation.

Except as described in the immediately preceding paragraph, the Company was in compliance with all covenants as of December 31, 2005. As of December 31, 2005, we had outstanding borrowings of approximately $17.8 million and $7.5 million of borrowing availability under our facility.

Our credit facility contains a holdback provision limiting total borrowings to $27.5 million until certain minimal conditions are met. The Company structured the credit facility to include the holdback provision of $7.5 million in order to reduce fees associated with the unused portion of the facility.

Future Capital Requirements

We expect to fund our working capital needs, interest payments and capital expenditures over the next twelve months with cash generated from operations, supplemented by borrowings available under the loan agreement and potentially available elsewhere, such as vendor financing, manufacturer financing, operating leases and other equipment lines of credit that are offered to us from time to time.

Conversion of Debt to Equity and Changes in Preferred Stock

Effective May 24, 2004, Metalico, Inc. entered into an Exchange Agreement with the holders of its preferred stock whereby the existing outstanding shares of Class A and B preferred stock, including all rights associated with such stock, were exchanged for 16,510,658 newly issued shares of preferred stock. The Company had no outstanding shares of Class B2 preferred stock at the time. The Company amended and restated its Certificate of Incorporation (the “Amended Certificate”) to, among other things, terminate the Class A, B, and B2 existing series of preferred stock, provide for revised terms for the new preferred stock, and restate and integrate into a single instrument all of the provisions of the Company's Certificate of Incorporation as so amended. Also included in the Amended Certificate were provisions that eliminated the redeemable features of the prior preferred stock and its dividend participation requirements. The holders of preferred stock are entitled to receive dividends as the Board of Directors may determine at its sole discretion, and will share with common stockholders on an as−converted basis in all dividends declared on common stock. The preferred stock ranks senior to the common stock as to the payment of dividends and the distribution of assets upon liquidation.

In addition, debt of $870,000 owed to a stockholder was converted to 435,000 shares of common stock at a conversion rate of $2.00 per share in June of 2004.

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, result of operations or cash flows.

Upon formation, Mayco Industries, L.L.C. entered into a three−year loan agreement with Foothill Capital Corporation (now known as Wells Fargo Foothill, Inc.). The agreement was structured to follow the existing Metalico, Inc. loan agreement as a template. In order to secure the financing for its 50% owned subsidiary, Metalico agreed to guarantee Mayco's borrowings under the agreement. On September 30, 2004, the Company completed the acquisition of the outstanding membership interests of Mayco Industries, L.L.C., and the conversion of Mayco to a corporation renamed Mayco Industries, Inc. Simultaneously with closing, the Company retired all of the outstanding Mayco debt, including the Foothill debt, thereby canceling the guarantee.

Mayco Industries; Real Estate Acquisition

On March 18, 2002, Mayco Industries, L.L.C. ("Mayco") was formed as a joint venture among Mayfield Manufacturing Company, Inc. (50%), an unaffiliated third party, and our Metalico−Evans, Inc. (25%), and Metalico−Granite City, Inc. (25%) subsidiaries (the L.L.C. members). Mayco entered into Asset Contribution Agreements with such members whereby substantially all of the assets and operations, except for real property, of Mayfield Manufacturing Company, Inc. and Metalico−Evans, Inc., and the lead fabricating division of Metalico−Granite City, Inc. were contributed to Mayco in return for the issuance of its L.L.C. interests to the members and the assumption by Mayco of substantially all the liabilities of the members, except those applicable to assets and operations not transferred. The net assets contributed by Metalico−Evans, Inc. and Metalico−Granite City, Inc., at the date of transfer, were reclassified to the investment in joint venture account at carrying amounts as reported by the subsidiaries, and such investment was reported in accordance with the equity method of accounting. Our participation in the joint venture was considered a strategic expansion of our lead fabrication segment. The purchase price of the 50% membership interest acquired in 2004 was determined as a result of a contractual bid process that was initiated by the Mayfield Manufacturing member. The bidding was based upon a trailing twelve−month EBITDA with each member having the opportunity to counter bid until a receiving member deemed a bid acceptable. The acquisition of the membership interests held by our co−venturer strategically enhances our position in the lead fabrication industry and allows us to exploit synergies with our other fabricating units.

The Company completed the acquisition of the outstanding membership interests of Mayco Industries, L.L.C., and the conversion of Mayco to a corporation renamed “Mayco Industries, Inc.” on September 30, 2004. The purchase was funded with debt, including borrowings under our loan agreement and convertible debt issued at a 10% discount bearing an interest rate of 7% *per annum* and maturing on September 30, 2005. The convertible debt, in the aggregate amount of $3.9 million, was converted at the option of individual holders to our common stock at a rate of $2.75 per share on March 29, 2005. In connection with the Mayco acquisition, the Company assumed and refinanced Mayco’s outstanding indebtedness of $5.4 million.

The contractual bidding process for the Mayco membership interest further obligated us to buy the underlying real estate for Mayco’s Birmingham, Alabama lead fabrication plant from an affiliate of Mayfield Manufacturing in a separate transaction. We closed the real estate acquisition on January 7, 2005 for a purchase price of approximately $3.2 million. Approximately $2.2 million of the purchase price was financed with the proceeds of a term loan provided under an amendment to our loan agreement, with the remainder funded by revolving borrowings under the same agreement. Interest on the term loan accrues at a floating rate equal to the base rate under our credit agreement plus 1%. The term loan is payable in monthly principal installments plus interest based on a five−year amortization with a one−year balloon maturity. Including the real estate transaction the total debt assumed and incurred in the Mayco transaction was approximately $16.6 million, financed as follows:

Source	Amount	Terms
Convertible debt	$ 3,850	See above (subsequently converted to common stock)
Credit facility	$ 10,380	Please refer to Liquidity and Capital Resources
Equipment financing	$ 200	Please refer to Liquidity and Capital Resources
Mortgage	$ 2,170	See above

Contingencies

On August 23, 2005, Metalico, Inc., its inactive General Smelting and Refining, Inc. (“GSR”) subsidiary, and another subsidiary, Metalico−College Grove, Inc. (“MCG”) executed a settlement agreement with the U.S. Environmental Protection Agency (the "EPA’’) resolving a claim for the EPA’s costs relating to certain cleanup activities in the vicinity of College Grove, Tennessee alleged to have involved hazardous substances traced to GSR. The settlement required Metalico, Inc., GSR and MCG to pay a total sum of $300,000 to the EPA in exchange for full and complete releases of each company from liability for all past and future response costs related to the College Grove Battery Chip Superfund Site and in satisfaction of the EPA’s claim for approximately $11.9 million. The settlement became final on November 29, 2005 after the lapse of a public comment period and payment by the Company.

We are involved in certain other legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such other proceedings and litigation will not materially affect the Company's financial position, results of operations, or cash flows.

The Company does not carry, and does not expect to carry for the foreseeable future, significant insurance coverage for environmental liability because the Company believes that the cost for such insurance is not economical however we continue to monitor products offered by various insurers that may prove to be practical. Accordingly, if the Company were to incur liability for environmental damage in excess of accrued environmental remediation liabilities, its financial position, results of operations, and cash flows could be materially adversely affected.

Item 7A. 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.

Interest rate risk

We are exposed to interest rate risk on our floating rate borrowings. As of December 31, 2005, variable rate borrowings mainly consisted of outstanding borrowings of $17.8 million under our senior secured credit facility. Borrowings under our senior secured credit facility bear interest at either the prime rate of interest plus a margin or LIBOR plus a margin. Any increase in either the prime rate or LIBOR will increase interest expense. We do not have any interest rate swaps or caps in place which would mitigate our exposure to fluctuations in the interest rate on this indebtedness. Assuming our variable borrowings were to equal the average borrowings under our senior secured credit facility during a fiscal year, a hypothetical increase or decrease in interest rates by 1% would increase or decrease interest expense on our variable borrowings by approximately $178,000 per year, with a corresponding change in cash flows.

Commodity price risk

We are exposed to risks associated with fluctuations in the market price for both ferrous and non−ferrous metals which are at times volatile. See the discussion under the section entitled “Risk Factors — The metals recycling industry is highly cyclical and import and export markets can be volatile.” We attempt to mitigate this risk by seeking to turn our inventories quickly instead of holding inventories in speculation of higher commodity prices.

Foreign currency risk

International sales account for an immaterial amount of our consolidated net sales and all of our international sales are denominated in U.S. dollars. We also purchase a small percentage of our raw materials from international vendors and these purchases are also denominated in local currencies. Consequently, we do not enter into any foreign currency swaps to mitigate our exposure to fluctuations in the currency rates.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this Item 8 are set forth at the pages indicated at Item 15(a)(1).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants during 2005.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a−15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective as of December 31, 2005. Management, including our Chief Executive Officer and Chief Financial Officer, is in the process of evaluating the effectiveness of its internal control over financial reporting as defined in Rule 13a–15(f) under the Securities Exchange Act of 1934 based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on preliminary results to date, management has not identified any material weaknesses in internal control over financial reporting as of January 1, 2006. No change in our internal control over financial reporting (as defined in Rule 13a–15(f) under the Exchange Act) occurred during the fourth quarter of our fiscal year ended December 31, 2005 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. Other Information

None.

Item 10. Directors and Executive Officers of the Registrant

Information required under this item is incorporated by reference from sections entitled “Proposal 1 — Election of Directors,” “Directors and Executive Officers,” “Committees of the Board of Directors,” “Compensation Committee Interlocks and Insider Participation,” “Section 16(A) Beneficial Ownership Reporting Compliance,” and “Code of Ethics” in our definitive proxy statement, which will be filed with the SEC before May 1, 2006.

Item 11. Executive Compensation

Information required under this item is incorporated by reference from sections entitled “Executive Compensation” “Summary Compensation Table,” “Option Grants in the Last Fiscal Year,” “Employment Contracts,” “Executive Bonus Plan,” “Long−Term Incentive Plan”, “Report of the Compensation Committee,” “Compensation of Directors,” and “Shareholder Performance” in our definitive proxy statement, which will be filed with the SEC before May 1, 2006.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information required under this item is incorporated by reference from the section entitled “Security Ownership of Certain Beneficial Owners and Management” in our definitive proxy statement, which will be filed with the SEC before May 1, 2006.

Item 13. Certain Relationships and Related Party Transactions

Information required under this item is incorporated by reference from the section entitled “Certain Relationships and Related Party Transactions” in our definitive proxy statement, which will be filed with the SEC before May 1, 2006.

Item 14. Principal Accountant Fees and Services

The aggregate fees, including billed and estimated unbilled amounts applicable to the Company and its subsidiaries for the years ended December 31, 2005 and 2004, of the Company’s principal accounting firm. McGladrey & Pullen LLP and its affiliate RSM McGladrey, Inc., were approximately:

	2005	2004
Audit Fees	$399,500	$471,000
Audit Related Fees	700	
Tax Fees	129,300	129,400
All Other	40,100	2,600

Audit Fees and Tax Fees comparability is generally affected by SEC filings made or contemplated and the volume and materiality of the Company’s business acquisitions.

Audit Fees. Consists of fees for professional services rendered for the audit of our financial statements, assistance or review of SEC filings, proposed SEC filings and other statutory and regulatory filings, preparation of comfort letters and consents and review of the interim financial statements included in quarterly reports.

Audit−Related Fees. Consists of fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not reported under “Audit Fees”.

Tax Fees. Consists of fees for professional services rendered related to tax compliance, tax advice or tax planning.

All Other Fees. Consists of fees for all other professional services, not covered by the categories noted above.

Pursuant to the Company’s Audit Committee policies, all audit and permissible non−audit services provided by the independent auditors and their affiliates must be pre−approved. These services may include audit services, audit−related services, tax services and other services. Pre−approval is generally provided for up to one year and any pre−approval is detailed as to the particular service or category of service. The independent auditor and management are required to periodically report to the Audit Committee of the Company regarding the extent of services provided by the independent auditor in accordance with this policy.

In considering the nature of the services provided by the independent registered public accountant, the Audit Committee of the Company determined that such services are compatible with the provision of independent audit services. The Audit Committee of the Company discussed these services with the independent registered public accountant and Company management to determine that they are permitted under the rules and regulations concerning auditors’ independence promulgated by the SEC to implement the Sarbanes−Oxley Act of 2002, as well as rules of the American Institute of Certified Public Accountants.

Item 15. Financial Statements and Exhibits

(a) FINANCIAL STATEMENTS

The following financial statements are included as part of this Form 10−K beginning on page F−1:

Index to Financial Statements

Table of Contents

(b) EXHIBITS

The following exhibits are filed as part of this registration statement:

3.1(1)	Third Amended and Restated Certificate of Incorporation of Metalico, Inc.
3.2(5)	Third Amended and Restated Bylaws of Metalico, Inc.
4.1(1)	Specimen Common Stock Certificate
4.2(1)	Specimen Preferred Stock Certificate
4.3(1)	Note in the original principal amount of $600,000 dated as of February 6, 2004 issued by Metalico, Inc. as maker to Carlos E. Agüero as payee
4.4(1)	Note in the original principal amount of $300,000 dated as of February 6, 2004 issued by Metalico, Inc. as maker to Michael J. Drury as payee
4.6(1)	Form of Convertible Note dated as of September 30, 2004 issued by Metalico, Inc. as maker to various Noteholders
4.7(1)	Form of Convertible Note dated as of November 18, 2004 and thereafter issued by Metalico, Inc. as maker to various Noteholders
4.8(1)	Form of Warrant Agreement dated as of November 18, 2004 and thereafter issued by Metalico, Inc. to holders of Convertible Notes in form filed as Exhibit 4.7
4.9(3)	Amendment dated as of February 5, 2005 to Note in the original principal amount of $600,000 dated as of February 6, 2004 issued by Metalico, Inc. as maker to Carlos E. Agüero as payee filed as Exhibit 4.3.

4.10(3)	Amendment dated as of February 5, 2005 to Note in the original principal amount of $300,000 dated as of February 6, 2004 issued by Metalico, Inc. as maker to Michael J. Drury as payee filed as Exhibit 4.4.
10.1(1)	Second Amended and Restated Stockholders' Agreement dated as of May 24, 2004 between Metalico, Inc. and the Holders of Common Stock and Preferred Stock signatory thereto
10.2(1)	Second Amended and Restated Registration Rights Agreement dated as of May 24, 2004 between Metalico, Inc. and the Holders of Preferred Stock signatory thereto
10.3(1)	Employment Agreement dated as of January 1, 2004 between Metalico, Inc. and Carlos E. Agüero
10.4(1)	Employment Agreement dated as of January 1, 2004 between Metalico, Inc. and Michael J. Drury
10.5(1)	Employment Agreement dated as of January 1, 2004 between Metalico, Inc. and Eric W. Finlayson
10.6(1)	Employment Agreement dated as of May 3, 2004 between Metalico, Inc. and Arnold S. Graber
10.7(1)	Metalico 1997 Long−Term Incentive Plan
10.8(1)	Metalico, Inc. Executive Bonus Plan
10.9(1)	Loan and Security Agreement, dated as of May 31, 2001 between Metalico, Inc. and its subsidiaries signatory thereto as borrowers and Foothill Capital Corporation as lender, as amended by First Amendment dated as of March 18, 2002, Second Amendment dated as of May 16, 2003, Third Amendment dated as of May 16, 2003, Fourth Amendment dated as of December 31, 2003, Joinder Agreement dated as of February 9, 2004, Fifth Amendment dated as of June 29, 2004, and Joinder Agreement dated as of September 30, 2004
10.10(1)	Sixth Amendment dated as of November 18, 2004, and Joinder Agreement dated as of November 18, 2004 to Loan and Security Agreement dated as of May 31, 2001 between Metalico, Inc. and its subsidiaries signatory thereto as borrowers and Foothill Capital Corporation (nka Wells Fargo Foothill, Inc.) as lender
10.11(2)	Waiver of Rights of RFE Investment Partners V, L.P. dated as of December 31, 2004
10.12(2)	Waiver of Rights of Seacoast Capital Partners Limited Partnership dated as of December 31, 2004
10.13(2)	Seventh Amendment dated as of January 7, 2005 to Loan and Security Agreement dated as of May 31, 2001 between Metalico, Inc. and its subsidiaries signatory thereto as borrowers and Foothill Capital Corporation (nka Wells Fargo Foothill, Inc.) as lender
10.14(4)	Eighth Amendment and Waiver dated as of February 25, 2005 to Loan and Security Agreement

	dated as of May 31, 2001 between Metalico, Inc. and its subsidiaries signatory thereto as borrowers and Foothill Capital Corporation (nka Wells Fargo Foothill, Inc.) as lender
10.15(3)	Form of Employee Incentive Stock Option Agreement, previously filed as Exhibit 99.1 to Form 8−K filed March 17, 2005 (SEC File No. 001−32453) and incorporated herein by reference.
10.16	Employment Agreement dated as of January 1, 2006 between Metalico, Inc. and Warren Jennings
14.1	Code of Business Conduct and Ethics, available on the Company’s website (www.metalico.com) and incorporated herein by reference.
21.1	List of Subsidiaries of Metalico, Inc.
31.1	Certification of Chief Executive Officer of Metalico, Inc. pursuant to Rule 13a−14(a) promulgated under the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer of Metalico, Inc. pursuant to Rule 13a−14(a) promulgated under the Securities Exchange Act of 1934, as amended
32.1	Certification of Chief Executive Officer of Metalico, Inc. pursuant to Rule 13a−14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code
32.2	Certification of Chief Financial Officer of Metalico, Inc. pursuant to Rule 13a−14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code

(1) Previously filed as an exhibit to the Form 10 filed December 20, 2004 (SEC File No. 000−50999) under the same exhibit number and incorporated herein by reference.

(2) Previously filed as an exhibit to Amendment No. 1 to Form 10 filed February 10, 2005 (SEC File No. 000−50999) under the same exhibit number and incorporated herein by reference.

(3) Previously filed as Exhibit 99.3 to Form 8−K filed March 17, 2005 (SEC File No. 001−32453) and incorporated herein by reference.

(4) Previously filed as Exhibit 10.14 to Form 10−K filed March 31, 2005 and incorporated herein by reference.

(5) Previously filed as Exhibit 3.2 to Form 8−K filed November 3, 2005 (SEC File No. 001−32453) and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

METALICO, INC.
(Registrant)

By: /s/ Carlos E. Agüero
Carlos E. Agüero
Chairman, President and Chief Executive Officer

Date: March 15, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Carlos E. Aguero Carlos E. Agüero	Chairman of the Board of Directors, President, Chief Executive Officer and Director	March 15, 2006
/s/ Eric W. Finlayson Eric W. Finlayson	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2006
/s/ Michael J. Drury Michael J. Drury	Executive Vice President and Director	March 15, 2006
/s/ Earl B. Cornette Earl B. Cornette	Director	March 15, 2006
/s/ Bret R. Maxwell Bret R. Maxwell	Director	March 15, 2006
/s/ Walter H. Barandiaran Walter H. Barandiaran	Director	March 15, 2006
/s/ Paul A. Garrett Paul A. Garrett	Director	March 15, 2006

FINANCIAL SECTION

McGladrey & Pullen
Certified Public Accountants

Metalico, Inc.
and Subsidiaries

Consolidated Financial Report
12.31.05

Contents

McGladrey & Pullen
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Metalico, Inc.

We have audited the accompanying consolidated balance sheets of Metalico, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metalico, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

McGladrey & Pullen, LLP

Peoria, Illinois
March 3, 2006, except for Note 24
as to which the date is March 13, 2006

McGladrey & Pullen LLP is a member firm of RSM International −
an affiliation of separate and independent legal entities.

Metalico, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2005 and 2004
($ thousands)

	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	$ 1,857	$ 734
Trade receivables, less allowance for doubtful accounts 2005 $553; 2004 $606	19,616	17,481
Inventories	16,273	13,683
Prepaid expenses and other	1,108	632
Deferred income taxes	358	646
Total current assets	39,212	33,176
Property and Equipment, net	28,178	25,269
Goodwill	29,067	27,530
Other Intangibles and Other Assets, net	4,157	4,562
Property Actively Marketed for Sale, net	823	2,426
	$101,437	$92,963
Liabilities and Stockholders' Equity		
Current Liabilities		
Short−term debt due related parties	$ 1,600	$ 1,600
Other short−term debt	2,854	2,535
Current maturities of long−term debt due related parties	1,013	—
Current maturities of other long−term debt	5,559	2,529
Accounts payable	7,847	7,276
Accrued expenses	4,308	4,647
Income taxes payable	—	405
Total current liabilities	23,181	18,992
Long−Term Liabilities		
Long−term debt due related parties, less current maturities	—	2,705
Other long−term debt, less current maturities	18,292	22,466
Accrued and other	1,662	1,574
Deferred income taxes	2,291	526
Total long−term liabilities	22,245	27,271
Total liabilities	45,426	46,263
Commitments and Contingencies (Notes 16, 17, 18 and 24)		
Redeemable Common Stock	1,000	1,200
Stockholders' Equity		
Capital stock		
Preferred	39,132	39,132
Common	8	6
Additional paid−in capital	15,371	11,328
Retained earnings (deficit)	1,052	(4,537)
Accumulated other comprehensive income (loss) − unrecognized pension costs	(552)	(429)
	55,011	45,500
	$101,437	$92,963

See Notes to Consolidated Financial Statements.

Metalico, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2005, 2004 and 2003
($ thousands, except share data)

	2005	2004	2003
Revenue			
Product sales	**$160,450**	$110,566	$54,297
Tolling services	**3,842**	4,797	7,025
	164,292	115,363	61,322
Costs and expenses			
Operating expenses — product sales	**129,953**	88,002	44,534
Operating expenses — tolling services	**4,859**	3,928	5,866
Selling, general and administrative expenses	**12,278**	9,417	5,303
Depreciation and amortization	**4,464**	2,951	2,068
	151,554	104,298	57,771
Operating income	**12,738**	11,065	3,551
Financial and other income (expense)			
Interest expense	**(2,533)**	(1,793)	(983)
Equity in net income of joint venture investee	**—**	1,124	756
Other	**345**	97	158
	(2,188)	(572)	(69)
Income from continuing operations before income taxes	**10,550**	10,493	3,482
Provision (credit) for federal and state income taxes	**4,238**	3,400	(1,371)
Income from continuing operations	**6,312**	7,093	4,853
Discontinued operations			
Loss from operations less applicable credit for income taxes 2005 $477; 2004 $56; 2003 $1,666	**(723)**	(429)	(2,872)
Net income	**5,589**	6,664	1,981
Preferred stock dividends	**—**	734	1,833
Income available to common stockholders	**$ 5,589**	$ 5,930	$ 148
Earnings (loss) per common share:			
Basic:			
Income from continuing operations	**$ 0.26**	$ 0.40	$ 0.53
Discontinued operations, net	**(0.03)**	(0.03)	(0.50)
Net income	**$ 0.23**	$ 0.37	$ 0.03
Diluted:			
Income from continuing operations	**$ 0.26**	$ 0.31	$ 0.21
Discontinued operations, net	**(0.03)**	(0.02)	(0.13)
Net income	**$ 0.23**	$ 0.29	$ 0.08

See Notes to Consolidated Financial Statements.

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Metalico, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2005, 2004 and 2003
($ thousands, except share data)

	Convertible Preferred Stock			Additional	Retained	Accumulated Other Compre− hensive	Compre−	
	New	Class A	Common Stock	Paid−In Capital	Earnings (Deficit)	Income (Loss)	hensive Income	Total
Balance, December 31, 2002	$ —	$ 21,359	$ 6	$ 9,980	$(10,615)	$ (153)	$ —	$20,577
Redemption of common stock warrants	—	—	—	(100)	—	—	—	(100)
Gain on extinguishment of officer− stockholder debt	—	—	—	55	—	—	—	55
Accrued dividends on convertible preferred stock	—	—	—	—	(1,833)	—	—	(1,833)
Net income	—	—	—	—	1,981	—	1,981	1,981
Other comprehensive income (loss) net of tax:								
Minimum pension liability adjustment applicable to joint venture investee	—	—	—	—	—	28	28	28
Comprehensive income							$ 2,009	
Balance, December 31, 2003	—	21,359	6	9,935	(10,467)	(125)	$ —	20,708
Redemption of common stock warrants	—	—	—	(151)	—	—	—	(151)
Conversion of dividends payable and 4,131,730 shares Class A and 3,023,704 shares Class B preferred to 16,510,658 shares New preferred	39,132	(21,359)	—	—	—	—	—	17,773
Business acquisition	—	—	—	—	—	(124)	—	(124)
Compensation recorded for warrants and options grants	—	—	—	217	—	—	—	217
Detachable stock warrants issued in conjunction with issuance of convertible notes	—	—	—	76	—	—	—	76
Issuance of 104,133 shares of common stock on exercised stock based compensation awards	—	—	—	121	—	—	—	121
Issuance of 435,000 shares of common stock on debt conversion	—	—	—	870	—	—	—	870
Issuance of 97,090 shares of common stock on sale	—	—	—	260	—	—	—	260
Accrued dividends on convertible preferred stock	—	—	—	—	(734)	—	—	(734)
Net income	—	—	—	—	6,664	—	6,664	6,664
Other comprehensive income (loss) net of tax:								
Minimum pension liability adjustment	—	—	—	—	—	(180)	(180)	(180)
Comprehensive income							$ 6,484	

Balance, December 31, 2004	39,132	—	6	11,328	(4,537)	(429)	$ —	45,500
Compensation recorded for warrants and options grants	—	—	—	83	—	—	—	83
Expiration of redemption option on 31,250 shares of redeemable common stock	—	—	—	100	—	—	—	100
Issuance of 1,400,000 shares of common stock on debt conversion	—	—	2	3,848	—	—	—	3,850
Issuance of 38,462 shares of common stock on exercised stock based compensation awards	—	—	—	12	—	—	—	12
Issuance of 1,971 shares of common stock in exchange for warrants exercised	—	—	—	—	—	—	—	—
Net income	—	—	—	—	5,589	—	5,589	5,589
Other comprehensive income (loss) net of tax:								
Minimum pension liability adjustment	—	—	—	—	—	(123)	(123)	(123)
Comprehensive income							$ 5,466	
Balance, December 31, 2005	**$39,132**	**$ —**	**$ 8**	**$15,371**	**$ 1,052**	**$ (552)**		**$55,011**

See Notes to Consolidated Financial Statements.

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Metalico, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2005, 2004 and 2003
($ thousands)

	2005	2004	2003
Cash Flows from Operating Activities			
Net income	**$ 5,589**	$ 6,664	$ 1,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**4,027**	2,634	2,132
Amortization	**611**	482	314
Amortization of note payable discounts	**288**	242	—
Impairment losses	**—**	—	2,316
Provision for doubtful accounts receivable	**45**	175	47
Deferred income taxes	**2,053**	3,010	(3,256)
Net gain on sale and disposal of property and equipment	**(288)**	(7)	(152)
Equity in net income of joint venture investee, in excess of distributions	**—**	(569)	(376)
Stock options and warrants issued	**83**	217	—
Gain on extinguishment of debt	**—**	—	(62)
Change in assets and liabilities, net of acquisitions:			
(Increase) decrease in:			
Receivables	**(2,180)**	(4,370)	1,679
Inventories	**(2,370)**	(1,196)	(2,164)
Prepaid expenses and other	**(476)**	(17)	127
Increase (decrease) in:			
Accounts payable, accrued expenses and income taxes payable	**(227)**	(854)	380
Net cash provided by operating activities	**7,155**	6,411	2,966
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment	**2,126**	117	157
Purchase of property and equipment	**(3,628)**	(4,612)	(2,291)
(Increase) decrease in other assets	**(195)**	(142)	86
(Increase) decrease in note receivable, affiliate	**—**	50	(100)
Cash paid for business acquisitions, less cash acquired	**(4,403)**	(14,106)	(1,243)
Net cash used in investing activities	**(6,100)**	(18,693)	(3,391)
Cash Flows from Financing Activities			
Net borrowings under revolving lines−of−credit	**1,596**	2,559	2,181
Proceeds from other borrowings	**3,429**	13,213	76
Principal payments on other borrowings	**(4,849)**	(3,489)	(1,608)
Proceeds from issuance of common stock on exercised warrants and options	**12**	121	—
Proceeds from other issuance of common stock	**—**	188	—
Redemption of redeemable common stock and warrants	**(100)**	(151)	(187)
Debt−issue costs	**(20)**	(56)	—
Net cash provided by financing activities	**68**	12,385	462
Net increase in cash and cash equivalents	**1,123**	103	37
Cash and cash equivalents:			
Beginning	**734**	631	594
Ending	**$ 1,857**	$ 734	$ 631

See Notes to Consolidated Financial Statements.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Metalico, Inc. and subsidiaries (the Company) operates in primarily two distinct business segments (i) ferrous and non−ferrous scrap metal recycling and (ii) product manufacturing, fabricating, smelting and refining of lead and other metals. The Company's operating facilities as of December 31, 2005, included six scrap metal recycling facilities located in Western New York, five lead product manufacturing and fabricating plants located in Birmingham, Alabama, Healdsburg and Ontario, California, Carson City, Nevada and Granite City, Illinois and a secondary lead smelting and refining plant located in Tampa, Florida. The Company markets its products on a national basis.

Reference should be made to Note 18 regarding discontinued operations of the Company.

A summary of the Company's significant accounting policies follows:

Use of estimates in the preparation of financial statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of consolidation: The consolidated financial statements include the accounts of Metalico, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and cash equivalents: For the purpose of reporting cash flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The Company generally does not charge interest on past−due amounts or require collateral on trade receivables.

Concentration of credit risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

Inventories: Inventories are valued at the lower of cost or market determined on a first−in, first−out basis.

Investment in joint venture: The investment in a 50% owned company formed as a joint venture was accounted for by the equity method of accounting under which the Company's share of the net income of the investee was recognized as income in the Company's statement of income and added to the investment account, and distributions received from the investee were treated as a reduction of the investment account. The fiscal year of the investee was the same as that of the Company. As described in Note 2, Metalico, Inc. acquired a controlling membership interest in the joint venture investee on September 30, 2004, and on such date the investee was included in the Company's consolidated financial statements and equity method accounting was no longer applicable. The equity in net income of joint venture investee as reported in the accompanying statements of income is for the nine months ended September 30, 2004, and year ended December 31, 2003.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided on a straight−line basis over the estimated service lives of the respective classes of property and equipment ranging between 3 and 10 years for office furniture, fixtures and equipment, 3 and 10 years for vehicles, 2 and 20 years for machinery and equipment and 3 and 39 years for buildings and improvements.

Goodwill: The Company records as goodwill the excess of the purchase price over the fair value of identifiable net assets acquired. Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, prescribes a two−step process for impairment testing of goodwill, which is performed annually, as well as when an event triggering impairment may have occurred. The first step tests for impairment, while the second step, if necessary, measures the impairment. The Company has elected to perform its annual analysis as of December 31 of each fiscal year. No indicators of impairment were identified for the years ended December 31, 2005, 2004 and 2003.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 1. Significant Accounting Policies (Continued)

Other intangible and other assets: Covenants not−to−compete are amortized on a straight−line basis over the terms of the agreements, not exceeding 5 years. Debt issue costs are amortized over the average term of the credit agreement using the effective interest method. Customer lists are amortized on a straight−line basis not to exceed 10 years, and trademarks and know how have an indefinite life.

Impairment of long−lived and intangible assets: The Company reviews long−lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are impaired, the impairment is recognized as the amount by which the carrying amount exceeds the estimated future discounted cash flows. Assets to be sold are reported at the lower of the carrying amount or the fair value less costs to sell.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company files its income tax return on a consolidated basis with its respective subsidiaries. The members of the consolidated group have elected to allocate income taxes among the members of the group by the separate return method, under which the parent company credits the subsidiary for income tax reductions resulting from the subsidiary’s inclusion in the consolidated return, or the parent company charges the subsidiary for its allocated share of the consolidated income tax liability.

Revenue recognition: Revenue from product sales is recognized as goods are shipped, which generally is when title transfers and the risks and rewards of ownership have passed to customers. Brokerage sales are recognized upon receipt of materials by the customer and reported net of costs in product sales. The Company’s lead fabrication and recycling segment performs certain services under tolling arrangements and recognizes tolling revenue as services are performed. Tolling services are primarily provided by the secondary lead smelting and refining plant in Tampa, FL whereby the plant receives a customer’s junk batteries (industrial, marine, golf cart, automobile, etc.) and will return refined lead alloyed to the customer’s specifications.

Stock−based compensation: SFAS No. 123, *Accounting for Stock−Based Compensation*, established financial accounting and reporting standards for stock−based compensation plans. The standard requires a fair value−based method to determine the compensation costs of such plans. As allowed by the standard, the Company continued to account for its stock−based employee compensation arrangements in accordance with the prior standard, Accounting Principles Board Opinion No. 25: *Accounting for Stock Issued to Employees*, through December 31, 2005. The Company has adopted the disclosure only provisions of SFAS No. 123, which allows companies to disclose in notes to financial statements the pro forma compensation costs for stock−based employee compensation arrangements. Had compensation cost for all of the stock−based compensation awards been determined based on the grant date fair values of awards (the method described in SFAS No. 123), reported net income would have been reduced to the pro forma amounts shown below:

	2005	2004	2003
Net income:			
As reported	$ 5,589	$ 6,664	$ 1,981
Pro forma	$ 5,504	$ 6,659	$ 1,981
Earnings per share on income from continuing operations available to common stockholders:			
As reported			
Basic	0.26	0.40	0.53
Diluted	0.26	0.31	0.21
Proforma			
Basic	0.26	0.40	0.53
Diluted	0.26	0.31	0.21

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 1. Significant Accounting Policies (Continued)

Environmental remediation costs: The Company is subject to comprehensive and frequently changing federal, state and local environmental laws and regulations, and will incur additional capital and operating costs in the future to comply with currently existing laws and regulations, new regulatory requirements arising from recently enacted statutes, and possible new statutory enactments. The Company accrues losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recorded no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Determining (a) the extent of remedial actions that are or may be required, (b) the type of remedial actions to be used, (c) the allocation of costs among potentially responsible parties (PRPs) and (d) the costs of making such determinations, on a site−by−site basis, require a number of judgments and assumptions and are inherently difficult to estimate. The Company utilizes certain experienced employees responsible for site monitoring, third party environmental specialists, and correspondence and progress reports obtained from the various regulatory agencies responsible for site monitoring to estimate its accrued environmental remediation costs. The Company generally contracts with third parties to fulfill most of its obligations for remedial actions. The time period necessary to remediate a particular site may extend several years, and the laws governing the remediation process and the technology available to complete the remedial action may change before the remedial action is complete. Additionally, the impact of inflation and productivity improvements can change the estimates of costs to be incurred. It is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies, the nonexistence or inability of other PRPs to contribute to the settlements of such liabilities or other factors could necessitate the recording of additional liabilities which could be material. The majority of the Company’s environmental remediation accrued liabilities are applicable to its lead fabrication and secondary lead smelting operating segment.

Earnings per common share: Basic earnings per share (EPS) data has been computed on the basis of the weighted−average number of common shares outstanding during each period presented. Accrued dividends on convertible preferred stock for each applicable year reduced the earnings available to common stockholders in the basic EPS computation. Diluted EPS data has been computed on the basis of the assumed conversion, exercise or issuance of all potential common stock instruments, unless the effect is to reduce the loss or increase the net income per common share.

Note 2. Business Acquisitions

Business acquisition (scrap metal recycling segment): On November 1, 2005, the Company acquired the net assets and business operations of a ferrous and non−ferrous scrap metal recycler in Western New York. The results of operations acquired have been included in the accompanying consolidated financial statements since that date. The aggregate purchase price was approximately $2,220, including cash of $1,220. The cash portion of the acquisition was financed by debt, including borrowings under Metalico Inc.’s loan agreement with its primary lender and the issuance of an installment note to the seller for $1,000.

The allocation of the purchase price is subject to adjustment but is not expected to materially change. Such allocation is as follows:

Assets:	
Inventories	$ 220
Property and equipment	559
Goodwill	1,528
Liabilities assumed:	
Debt	(68)
Other liabilities	(19)
Net assets acquired	$ 2,220

The $1,528 of goodwill is deductible for income tax purposes

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 2. Business Acquisitions (Continued)

Unaudited pro forma consolidated results of operations for the years ended December 31, 2005 and 2004, as though the acquisition had been made as of January 1, 2004, follow:

	2005	2004
Revenue	$166,217	$117,167
Income from continuing operations	6,672	7,197
Earnings per share:		
Basic	0.28	0.40
Diluted	0.27	0.31

Business acquisition (scrap metal recycling segment): On November 18, 2004, a Company subsidiary acquired 100% of the outstanding capital stock of a ferrous and non−ferrous scrap metal recycler. The results of operations acquired have been included in the accompanying consolidated financial statements since that date. The aggregate purchase price was approximately $6,825, including cash of $4,950, a non−compete obligation of $875 and redeemable common stock of $1,000. The value of the 200,000 redeemable common shares issued was determined based on the put rights of the holder at the closing date.

The cash portion of the acquisition was financed by debt, including borrowings under Metalico Inc.'s loan agreement with its primary lender and the issuance of convertible notes of approximately $4,422 to certain related and unrelated parties. The convertible notes holders were also issued detachable warrants to purchase 0.20 shares of common stock for every one share of common stock into which the principal amount of such holder's respective convertible note may be converted, exercisable for a period of three years from the date of the convertible note with an exercise price of $4.00 per share. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Assets:	
Cash	$ 20
Accounts receivable	1,086
Inventories	967
Other current assets	40
Equipment and furniture and fixtures	1,686
Covenant not−to−compete	875
Other intangibles	1,055
Goodwill	4,346
Liabilities assumed:	
Debt, including capital lease obligations	(1,574)
Accounts payable and accrued expenses	(1,550)
Deferred income taxes	(126)
Net assets	$ 6,825

The $4,346 of goodwill is not deductible for income tax purposes.

Unaudited pro forma consolidated results of operations for the years ended December 31, 2004 and 2003, as though the acquisition had been made as of January 1, 2003, follow:

	2004	2003
Revenue	$127,772	$67,171
Income from continuing operations	6,975	4,756
Earnings per share:		
Basic	0.39	0.51
Diluted	0.31	0.21

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 2. Business Acquisitions (Continued)

Joint venture and acquisition of controlling membership interest (lead fabrication and recycling segment): On March 18, 2002, Mayco Industries, L.L.C. (Mayco) was formed as a joint−venture between Mayfield Manufacturing Company, Inc. (Mayfield), Metalico−Evans, Inc., and Metalico−Granite City, Inc. (the L.L.C. members) and entered into Asset Contribution Agreements with such members whereby substantially all of the assets and operations, except for real property, of Mayfield Manufacturing Company, Inc., Metalico−Evans, Inc. and the lead fabricating division of Metalico−Granite City, Inc. were contributed to Mayco in return for the issuance of its L.L.C. interests to the members and the assumption by Mayco of substantially all the liabilities of the members, except those applicable to assets and operations not transferred. The net assets contributed by Metalico−Evans, Inc. and Metalico−Granite City, Inc., at the date of transfer, were reclassified to the investment in joint venture account at carrying amounts as reported by the subsidiaries, and such investment was reported in accordance with the equity method of accounting. Mayco is in the business of fabricating, processing and marketing lead, steel and aluminum products.

On September 30, 2004, (Closing Date) Metalico, Inc. acquired the 50% membership interests of Mayco owned by Mayfield and converted Mayco into a wholly owned subsidiary renamed Mayco Industries, Inc. As a result of the acquisition and conversion, the Company owns 100% of the stock of Mayco. The aggregate purchase price for the 50% membership interests acquired was approximately $8,115 and was paid in cash and financed by debt, including borrowings under Metalico Inc.'s loan agreement with its primary lender and convertible debt of $3,850 issued to certain related and unrelated parties at a 10% discount. In conjunction with the acquisition, the Company also refinanced substantially all of Mayco's outstanding debt as of the Closing Date.

Metalico, Inc. accounted for the acquisition as a purchase in a manner similar to a step−acquisition and included Mayco in its consolidated financial statements as of September 30, 2004, the date it obtained a controlling interest. The Company reported its equity in net income of Mayco through September 30, 2004, and thereafter Mayco's revenue and expenses from its results of operations have been included in the accompanying consolidated financial statements since that date. The Company's allocation of its investment in Mayco to the net assets it obtained a controlling interest in was as follows:

Assets:	
Cash	$ 551
Accounts receivable	6,200
Inventories	3,879
Prepaid expenses	121
Property and equipment	3,734
Debt−issue costs	111
Covenant not−to−compete	100
Other intangibles	1,366
Goodwill	5,205
Liabilities assumed:	
Debt	(6,157)
Accounts payable and accrued expenses	(4,039)
Other liabilities	(84)
Net assets	$10,987

The $5,205 of goodwill is deductible for income tax purposes.

Unaudited pro forma consolidated results of operations for the years ended December 31, 2004 and 2003, as though the acquisition of the controlling interest in Mayco had been made as of January 1, 2003, follow:

	2004	2003
Revenue	$147,077	$91,499
Income from continuing operations	7,611	4,836
Earnings per share:		
Basic	0.43	0.52
Diluted	0.33	0.21

Under the terms of the acquisition, Metalico, Inc. was also obligated to acquire the underlying real property for Mayco's Birmingham, Alabama lead fabrication plant (owned by an affiliate of Mayco) in a separate transaction which was completed in January 2005. The purchase price of the real property acquired and recorded in 2005 was $3,183.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 2. Business Acquisitions (Continued)

Business acquisition (scrap metal recycling segment): Metalico, Inc. formed a new subsidiary, and in February 2004 that subsidiary acquired a substantial portion of the net assets and business operations of a ferrous and non−ferrous scrap metal recycling, scrap handling, storing, loading, processing and brokerage business and on premise coal offloading service and product warehousing activities. The results of operations acquired have been included in the accompanying consolidated financial statements since that date. The aggregate purchase price was approximately $2,672, including cash of $1,612 and a note payable of $1,060. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition.

Equipment	$ 978
Covenant not−to−compete	216
Goodwill	1,478
	$ 2,672

The $1,478 of goodwill is deductible for income tax purposes.

Unaudited pro forma consolidated results of operations for the years ended December 31, 2004 and 2003, as though the acquisition had been made as of January 1, 2003, follow:

	2004	2003
Revenue	$115,470	$64,603
Income from continuing operations	7,090	4,852
Earnings per share:		
Basic	0.40	0.53
Diluted	0.31	0.21

Business acquisition (scrap metal recycling segment): On October 31, 2003, a Company subsidiary acquired a substantial portion of the assets and business operations of a ferrous and non−ferrous scrap metal recycler. The results of operations acquired have been included in the accompanying consolidated financial statements since that date. The aggregate purchase price was approximately $2,600, including cash of $1,243, short and long−term debt of $1,157, and common stock valued at $200. The value of the 62,500 common shares issued was determined based on a negotiated amount between the Company and the sellers at the closing date. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition.

Inventories	$ 189
Other current assets	13
Property and equipment	600
Goodwill	1,798
Net assets acquired	$ 2,600

The $1,798 of goodwill is deductible for income tax purposes.

Unaudited pro forma consolidated results of operations for the year ended December 31, 2003, as though the acquisition had been made as of January 1, 2003, follow:

	2003
Revenue	$63,149
Income from continuing operations	4,810
Earnings per share:	
Basic	0.52
Diluted	0.20

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 3. Major Customer

Revenue for the years ended December 31, 2005, 2004 and 2003, includes revenue from net sales to the following customer (which accounted for 10% or more of the total revenue of the Company in any of those years), together with the trade receivables due from such customer as of December 31, 2005 and 2004:

	Net Sales to Customer as a Percentage of Total Revenue, Years Ended December 31,			Trade Receivables Balances as of December 31,	
	2005	2004	2003	2005	2004
Customer A	2%	4%	11%	$ 585	$ 403

Note 4. Inventories

Inventories as of December 31, 2005 and 2004, were as follows:

	2005	2004
Raw materials	$ 5,713	$ 5,052
Finished goods and work−in−process	3,655	1,976
Ferrous scrap metal	2,498	1,813
Non−ferrous scrap metal	4,407	4,842
	$16,273	$13,683

Note 5. Investment in Joint Venture and Related Party Transactions

Reference should be made to Note 2 regarding the Company’s joint venture formation of Mayco Industries, L.L.C. (Mayco) effective March 18, 2002, and acquisition of a controlling interest in Mayco effective September 30, 2004.

Condensed financial information of Mayco for the nine months ended September 30, 2004 and year ended December 31, 2003, was as follows:

	2004	2003
Net sales	$34,409	$32,656
Costs and expenses:		
Cost of sales	27,088	25,163
Selling, general and administrative expenses	3,903	4,382
Depreciation	894	1,120
Interest expense	264	298
Other expense, net	12	182
Net income	2,248	1,511

Sales to and purchases from Mayco during the nine months ended September 30, 2004 and year ended December 31, 2003, were as follows:

	2004	2003
Sales	$ 1,880	$ 1,679
Purchases	865	800

Effective March 18, 2002, the Company entered into an agreement with Mayco for certain administrative, financial and management services to be provided by Metalico, Inc. to Mayco. As consideration for such services, Mayco was required to pay the Company a fee of $10 per month. The agreement was terminated effective September 30, 2004, with the Company’s acquisition of the controlling interest in Mayco as described in Note 2. Management fees for the nine months ended September 30, 2004, and year ended December 31, 2003, were $90 and $120, respectively.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 6. Property and Equipment

Property and equipment as of December 31, 2005 and 2004, consisted of the following:

	2005	2004
Land	$ 2,921	$ 1,810
Buildings and improvements	14,205	11,347
Office furniture, fixtures and equipment	516	543
Vehicles and machinery and equipment	24,332	22,247
	41,974	35,947
Less accumulated depreciation	13,796	10,678
	$28,178	$25,269

Note 7. Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004, were as follows:

	2005	2004
Balance, beginning	$27,530	$16,501
Acquired during the year	1,537	11,029
Balance, ending	$29,067	$27,530

Note 8. Other Intangible and Other Assets

Other intangible and other assets as of December 31, 2005 and 2004, consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		2005	
Covenants not−to−compete	$ 2,243	$ 1,112	$ 1,131
Trademarks	969	—	969
Customer lists	1,055	211	844
Know how	397	—	397
Debt−issue costs	918	792	126
Lease and other deposits	690	—	690
	$ 6,272	$ 2,115	$ 4,157
		2004	
Covenants not−to−compete	$ 2,293	$ 886	$ 1,407
Trademarks	969	—	969
Customer lists	1,055	—	1,055
Know how	397	—	397
Debt−issue costs	898	618	280
Lease and other deposits	454	—	454
	$ 6,066	$ 1,504	$ 4,562

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 8. Other Intangible and Other Assets (Continued)

The changes in the net carrying amount of amortized intangible and other assets by classifications for the years ended December 31, 2005 and 2004, were as follows:

	Covenants Not−to−Compete	Customer Lists	Debt−Issue Costs
		2005	
Balance, beginning	$ 1,407	$ 1,055	$ 280
Acquisitions/additions (reductions)	(50)	—	20
Amortization	(226)	(211)	(174)
Balance, ending	$ 1,131	$ 844	$ 126
		2004	
Balance, beginning	$ 423	$ —	$ 388
Acquisitions/additions	1,191	1,055	167
Amortization	(207)	—	(275)
Balance, ending	$ 1,407	$ 1,055	$ 280

Amortization expense recognized on all amortized intangible assets totaled $611, $482 and $314 for the years ended December 31, 2005, 2004 and 2003. Estimated aggregate amortization expense on amortized intangible and other assets for each of the next 5 years and thereafter is as follows:

Years Ending December 31:	Amount
2006	$ 447
2007	270
2008	250
2009	252
2010	195
Thereafter	687
	$ 2,101

Note 9. Property Actively Marketed for Sale

Property actively marketed for sale as of December 31, 2005 and 2004, consisted of the following:

	2005	2004
Real property and equipment	$ 1,358	$ 3,106
Less accumulated depreciation	535	680
	$ 823	$ 2,426

As described in Note 18, the Company discontinued operations at its secondary lead smelting and refining plant in College Grove, Tennessee (Metalico−College Grove, Inc.) in 2003, and was actively marketing the plant for sale. The cost and accumulated depreciation of the equipment at such plant that the Company was carrying on its books as of December 31, 2005 and 2004, is reported as property actively marketed for sale and included in the table above.

As described in Note 2, all of the operations of Metalico, Inc.'s subsidiary in Atlanta, Georgia were contributed to a joint venture investee in 2002 and, subsequent thereto, the Company actively marketed for sale the real property owned by that subsidiary, and its cost and accumulated depreciation were included in the table above as of December 31, 2004. The Company sold the property in 2005 and recognized a gain on sale of approximately $405.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 10. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of December 31, 2005 and 2004, consisted of the following:

	2005			2004		
	Current	Long−Term	Total	Current	Long−Term	Total
Environmental remediation costs	$ 1,217	$ 1,662	$ 2,879	$ 1,460	$ 1,574	$ 3,034
Payroll and employee benefits	1,580	—	1,580	1,548	—	1,548
Interest and bank fees	171	—	171	101	—	101
Workers' compensation insurance	162	—	162	507	—	507
Other	1,178	—	1,178	1,031	—	1,031
	$ 4,308	$ 1,662	$ 5,970	$ 4,647	$ 1,574	$ 6,221

Note 11. Pledged Assets and Short and Long−Term Debt

Short−term debt as of December 31, 2005 and 2004, consisted of the following:

	2005	2004
Revolving line−of−credit notes payable under secured credit facility to primary lender, terms as described below	$ 2,854	$ 2,535
Notes payable to related parties (officer−stockholders), due on demand, interest payable monthly at 5% through February 2005, and 7% thereafter, unsecured	1,600	1,600
	$ 4,454	$ 4,135

Long−term debt as of December 31, 2005 and 2004, consisted of the following:

Senior debt:		
Revolving line−of−credit notes payable under secured credit facility with primary lender, terms as described below	$11,415	$10,138
Term notes payable under secured credit facility with primary lender, due in monthly principal installments from $12 to $62 plus interest at the lenders base rate plus a margin (an effective rate of 8.25% at December 31, 2005), remainder due May 2009, collateralized by substantially all assets of the Company	3,539	5,027
Note payable to bank, due in monthly installments of $3, including interest at 7.2%, remainder due April 2019, collateralized by a mortgage on real property	293	304
Other, primarily equipment notes payable and capitalized leases for related equipment, interest from 1.9% to 9.8%, collateralized by certain equipment	1,947	1,522
Subordinated debt (subordinate to debt with primary lender):		
Note payable to corporation for stock repurchase, due in quarterly installments of $5, remainder due April 2008, without interest, collateralized by common shares held by escrow agent	285	305
Note payable to corporation in connection with business acquisition, due in principal installments of approximately $11 every other month plus interest at 5%, unsecured	242	305
Non−compete obligations payable to individuals in connection with business acquisitions, due in installments from $11 to $15 from monthly to every other month, unsecured	927	1,165
Note payable to corporation in connection with business acquisition, due in monthly installments of approximately $15 including interest at 5%, remainder due November 2007, collateralized by equipment	440	596
Note payable to corporation in connection with business acquisition, due November 2007, interest payable monthly at 5%, collateralized by land and buildings acquired under the terms of the purchase agreement	400	400
Note payable to corporation in connection with business acquisition, due in quarterly principal installments of approximately $63 plus interest at 7%, due November 2009, unsecured	1,000	—
Balance carried forward	20,488	19,762

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 11. Pledged Assets and Short and Long−Term Debt (Continued)

	2005	2004
Balance brought forward	$20,488	$19,762
Convertible notes payable in connection with business acquisition, due from November to December 2006, interest payable monthly at 7%, unsecured, conversion terms as described below (includes related party notes of $1,013)	4,422	4,422
Convertible notes payable in connection with business acquisition, due September 2005, interest payable monthly at 7%, unsecured, conversion terms at a rate of $2.75 per share (includes related party notes of $1,692), converted to 1,400,000 shares of common stock in March 2005	—	3,850
	24,910	28,034
Less current maturities	6,572	2,529
Less unamortized discount	46	334
Long−term portion	$18,292	$25,171

On May 31, 2001, the Company entered into a Loan and Security Agreement with Foothill Capital Corporation, now known as Wells Fargo Foothill, Inc. (primary lender) to refinance a credit facility with another bank, and for general corporate purposes, including financing working capital, capital expenditures and other expenses. The financing arrangement, inclusive of amendments, provides a maximum credit facility up to $35,000 through May 31, 2009, comprised of term and revolving loans, collateralized by substantially all assets of the Company. Borrowings under the Revolver are generally limited to eligible accounts receivable and inventory levels and recent collections on accounts receivable as defined, to a maximum of $28,500. Interest on Revolver advances is payable monthly at the lender's base rate plus a margin (an effective rate of 7.75% and 5.75% at December 31, 2005 and 2004, respectively) or, if a LIBOR option loan, payable quarterly at the LIBOR rate plus a margin (an effective rate of 7.42% and 5.46% at December 31, 2005 and 2004, respectively).

Under the terms of the credit facility with the primary lender, the Company is required to maintain certain depository accounts with the lender and comply with certain financial covenants, including minimum EBITDA and not to exceed maximum capital expenditures, as defined. The Company also is generally restricted from entering into financing, equity and certain other transactions, as defined without written consent of the primary lender. In addition, the Company is responsible to the primary lender for a monthly servicing fee, a contingent anniversary fee each May if its EBITDA for the fiscal year immediately prior to such anniversary date is less than its projected EBITDA for such fiscal year, unused line−of−credit and letter−of−credit fees equal to a percentage of the average daily unused portion of the Revolver and letters−of−credit and certain other fees. Lender fees (excluding those capitalized as debt issue costs in year of issuance) are included as a component of interest expense in the period assessed.

As of December 31, 2005, the Company was in technical violation of certain covenants in its loan agreement governing incurrence of permitted purchase money indebtedness and the redemption of 31,250 shares of redeemable common stock. The Company also exceeded its 2005 limitation on capital expenditures as a result of the inclusion of a real property purchase in Alabama that was otherwise expressly consented to by the primary lender. The lender waived all these violations on February 15, 2006. Another provision of the loan agreement requires the Company to deliver projections for the forthcoming three years to the lender at least thirty days prior to the start of each fiscal year. Projections for fiscal 2006 and thereafter were not delivered by the required date because the closing of an acquisition effective on November 1, 2005, caused the Company to reexamine the assumptions and conclusions underlying its earlier draft projections. Updated projections were subsequently delivered and the lender waived the covenant violation on February 15, 2006.

The convertible notes due from November to December 2006 may be converted at the option of the individual holders to the Company's common stock at a rate of $3.25 per share at any time until the day before maturity. The outstanding principal balance will automatically convert to common shares of the Company at $3.25 per share at such time as (a) the common stock underlying such conversion has been registered under applicable securities laws and the Company's common stock issued upon conversion of the convertible notes is freely tradable and (b) shares of the Company's common stock have traded for a price equal to or greater than $4.00 per share for twenty trading sessions on the American Stock Exchange or a comparable securities exchange or its equivalent. The Company's common stock was listed by AMEX effective March 15, 2005. The convertible notes holders were also issued detachable warrants to purchase 0.20 shares of common stock for every one share of common stock into which the principal amount of such holder's respective convertible note may be converted, exercisable for a period of three years from the date of the convertible note with an exercise price of $4.00 per share.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 11. Pledged Assets and Short and Long−Term Debt (Continued)

Aggregate annual maturities required on long−term debt at December 31, 2005, are as follows:

Years Ending December 31:	Amount
2006	$ 6,572
2007	2,691
2008	2,159
2009	13,094
2010	145
Thereafter	203
	$24,864

Note 12. Capital and Redeemable Stock

Capital stock voting rights, par value, dividend features and authorized, issued and outstanding shares are summarized as follows as of December 31, 2005 and 2004:

	2005		2004	
	Authorized	Issued and Outstanding	Authorized	Issued and Outstanding
Convertible preferred stock, voting, $.001 par value:				
New	16,650,000	16,510,658	16,650,000	16,510,658
Common stock, voting, $.001 par value	40,000,000	7,972,725(a)	40,000,000	6,563,542(a)

(a) 200,000 and 262,500 of these shares were redeemable as of December 31, 2005 and 2004, respectively.

Preferred stock is carried at original issue price less issue costs and common stock is carried at par value in the accompanying consolidated financial statements.

Conversion of dividends payable and Class A and B preferred to New preferred: Effective May 24, 2004, Metalico, Inc. entered into an Exchange Agreement with the holders of its preferred stock whereby the outstanding shares of Class A and B preferred stock including all rights associated therewith, including dividends payable, were exchanged for 16,510,658 newly issued shares of preferred stock. In conjunction therewith, Metalico, Inc. amended and restated its Certificate of Incorporation (Third Amendment) to, among other things, terminate the Class A, B and B2 series of preferred stock, provide for revised terms for the new preferred stock and restate and integrate into a single instrument all of the provisions thereof as so amended. Also included in the Third Amendment were provisions that eliminated the redeemable features of preferred stock and its dividend participation requirements.

Preferred stock rights and privileges include the following:

Preference and ranking: Holders of preferred stock have preferential rights over the common stockholders with regard to dividends and distribution of assets upon a liquidation. Holders of preferred stock also have certain rights to designate and elect directors to the Board of Directors. Prior to the Third Amendment effective date of May 24, 2004, the Class B preferred ranked senior to the Class A preferred as to the payment of dividends and the distribution of assets upon voluntary or involuntary liquidation, dissolution or winding up of the Company.

Dividends: Effective with the Third Amendment on May 24, 2004, dividends payable of $8,950 were exchanged for 4,107,918 issued shares of New preferred stock and preferred stock dividend participation requirements were eliminated, and thereafter the holders of preferred stock are entitled to receive dividends as the Board of Directors of the Company may determine at its sole discretion, and shall share with common stockholders on an as−converted basis in all dividends declared on common stock.

Prior to May 24, 2004, no dividends were payable to common stockholders until the preferred stock was fully converted into common stock and all accrued dividends on the preferred stock were paid. Accruing dividends on the Class A and B preferred stock were payable in cash or common stock (effective April 29, 2002) at the election of the holder. So long as any share of Class B preferred was outstanding, no dividends were payable on any other shares of stock and upon conversion of all shares of Class B preferred, no dividends were payable on any other shares until all accruing dividends relating to the Class B preferred were paid in full. Dividends accrued on preferred stock at a rate of 5% per annum of the original issue price and were without interest.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 12. Capital and Redeemable Stock (Continued)

Conversion features: The preferred stock can be converted, in part or in full, at any time, at the holder's option, into that number of common shares computed by multiplying the number of shares to be converted by the relevant original issue price and dividing the result by the conversion price then in effect, with such conversion price being $3.00 per share as of December 31, 2005.

Mandatory conversion features: Provided neither a qualified offering nor a sale of the Company, as defined, have occurred, holders of 67% of the preferred stock may force all of the preferred stock to be converted into common stock. Upon certain events defined as conversion events, including the consummation of any qualified offering with a price per share of common stock of at least $7.50, all of the preferred stock will be converted into common stock at the then−current conversion price formula.

Class B redeemable features: Prior to the Third Amendment effective date of May 24, 2004, by written notice given any time after May 31, 2006, the holders of at least a majority of the Class B preferred shares had the right to require the Company to redeem all of its outstanding Class B preferred shares for a price per share equal to the fair market value of the Company divided by the number of outstanding shares of common stock (each share of preferred being treated as if converted into common for such calculation). Since the Class B preferred shares were redeemable based on the terms described above prior to May 24, 2004, the Class B preferred stock was reported as redeemable preferred stock outside of the stockholders' equity section of the Company's balance sheet.

Liquidation rights: If Metalico, Inc. is voluntarily or involuntarily liquidated, dissolved or wound up, the holders of its equity securities shall have the following preferences and rights against the property of the Company available for distribution to such holders (provided that the following provisions do not apply following, or in connection with, a conversion event as defined in the Third Amended and Restated Certificate of Incorporation) first, the holders of the preferred stock shall be entitled to receive an aggregate amount equal to the greater of (x) the product determined by multiplying the total number of shares of former preferred stock exchanged or deemed exchanged for preferred shares on the date of the Third Amendment by the original issue price, pro rata among the holders of the preferred stock determined, with respect to each share of preferred stock, by dividing (i) the product determined by multiplying (A) the number of shares of former preferred stock exchanged or deemed exchanged with respect to such share of preferred stock on the date of the Third Amendment by (B) the original issue price by (ii) the number of shares of preferred stock received or deemed received upon such exchange, and (y) the amount determined on an as−converted basis, pro rata in accordance with the number of common shares held by each of them and then second the balance to the holders of common stock, pro rata, in accordance with the number of common shares held by each of them.

Common stock features include the following:

Redeemable features: Certain holders of common shares have put rights, the exercise of which is outside the Company's control. The aggregate value of the remaining redemption rights totaled $1,000 and $1,200 at December 31, 2005 and 2004, respectively, which has been reported as redeemable common stock outside of the stockholders' equity section of the Company's balance sheet. The remaining put rights as of December 31, 2005, consist of 200,000 shares where the holder has the right to put such shares to the Company at a minimum price of $5.00 after November 18, 2005. Reference should be made to note 24 regarding subsequent events applicable to the redeemable common stock.

Of the common shares, approximately 16,650,000 shares were reserved as of December 31, 2005, for issuance upon the conversion of the preferred stock as described above.

Changes in redeemable preferred and common stock for the years ended December 31, 2005, 2004 and 2003, were as follows:

	2005	2004	2003
Balance, beginning	$ 1,200	$ 9,023	$ 8,673
Issuance of 76,923 shares of Class B preferred stock on conversion of certain stockholder debt to equity	—	—	400
Issuance of 62,500 shares of common stock	—	—	200
Redemption of 37,037 shares of redeemable common stock	—	—	(250)
Conversion of 3,023,704 shares of Class B preferred to New preferred	—	(8,823)	—
Issuance of 200,000 shares of common stock	—	1,000	—
Redemption of 31,250 shares of redeemable common stock	(100)	—	—
Expiration of redemption option on 31,250 shares of redeemable common stock	(100)	—	—
Balance, ending	$ 1,000	$ 1,200	$ 9,023

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 12. Capital and Redeemable Stock (Continued)

Stock purchase warrants: The Company issued common stock purchase warrants in December 2000, representing 30,000 shares of common stock. The stock purchase warrants had an exercise price of approximately $2.92 per share and were exercisable at any time through November 2005. During 2005, 15,000 warrants were exercised in a cashless exchange resulting in the issuance of 1,971 common shares. The remaining 15,000 warrants expiration date was extended to November 2006.

The Company issued common stock purchase warrants to subordinated bank lenders in May 2001, representing 3,624,185 shares of common stock with an exercise price of $0.01 per share. In conjunction with the payoff of the remaining subordinated debt owed to various banks in January 2004, 2,174,511 of the warrants were redeemed for approximately $251. Of the warrants redeemed, $100 was recorded in 2003 since the payoff agreement was effective December 31, 2003. In conjunction with agreements with the banks, 1,449,674 of the warrants were endorsed by the banks to the Company without recourse in 2003 and 2002. As of December 31, 2005 and 2004, none of the warrants issued in 2001 were outstanding.

In conjunction with the issuance of convertible notes to finance a business acquisition (see Note 2), the convertible notes holders were also issued 272,146 of detachable common stock purchase warrants that are exercisable for a period of three years from the date of the convertible note with an exercise price of $4.00 per share.

Note 13. Income Tax Matters

Net deferred tax assets (liabilities), resulting from the differences in the timing of the recognition of certain income and expense items for financial and tax accounting purposes, consisted of the following components as of December 31, 2005 and 2004:

	2005	2004
Deferred tax assets:		
Inventories	$ 264	$ 375
Accrued liabilities	1,502	1,496
Loss carryforwards	1,271	2,922
Other	—	54
	3,037	4,847
Less valuation allowance	1,201	984
	1,836	3,863
Deferred tax liabilities:		
Property and equipment	2,048	2,324
Intangible and other	1,721	1,419
	3,769	3,743
	$(1,933)	$ 120

The deferred tax amounts mentioned above have been classified on the accompanying balance sheets as of December 31, 2005 and 2004, as follows:

	2005	2004
Current assets	$ 358	$ 646
Long−term assets (liabilities)	(2,291)	(526)
	$(1,933)	$ 120

Management has recorded a valuation allowance on the net deferred tax assets. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The increase in the valuation allowance during 2005 is attributable to loss carryforwards for state purposes related to non−operating subsidiaries unlikely to produce future taxable income in order to utilize these loss carryforwards before they expire. Certain of these valuation reserves were established upon business acquisitions and, if reversed in the future, will result in a decrease to goodwill.

Loss carryforwards for state tax purposes as of December 31, 2005, total approximately $42,300 applicable to the various states in which the Company files its tax returns. A valuation allowance has been recorded for approximately 96% of these loss carryforwards applicable to non−operating subsidiaries filing as single entities under applicable state tax laws. The ability of such non−operating subsidiaries to produce future taxable income in order to utilize the loss carryforwards before they expire is unlikely.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 13. Income Tax Matters (Continued)

The provision (credit) for income taxes for the years ended December 31, 2005, 2004 and 2003, consisted of the following:

	2005	2004	2003
Continuing operations:			
Current	$ 2,112	$ 533	$ 219
Deferred	2,126	2,867	(1,590)
	$ 4,238	$ 3,400	$ (1,371)
Discontinued operations:			
Current	$ (404)	$ (199)	$ —
Deferred	(73)	143	(1,666)
	$ (477)	$ (56)	$ (1,666)

The income tax provision (credit) attributable to income from continuing operations differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the years ended December 31, 2005, 2004 and 2003, due to the following:

	2005	2004	2003
Computed "expected" tax expense (credit)	$ 3,693	$ 3,673	$ 1,219
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal income tax effect	275	273	91
Change in valuation allowance	81	(118)	(2,610)
Other, net	189	(428)	(71)
	$ 4,238	$ 3,400	$ (1,371)

The total income tax provision (credit) for the years ended December 31, 2005, 2004 and 2003, was $3,761, $3,344 and $(3,037), respectively. Those amounts have been allocated to the following financial statement items:

	2005	2004	2003
Income from continuing operations	$ 4,238	$ 3,400	$ (1,371)
Discontinued operations	(477)	(56)	(1,666)
	$ 3,761	$ 3,344	$ (3,037)

Note 14. Stock Based Compensation Plans

In 1997, the Company established the Long−Term Incentive Plan (the Plan). The Plan allows for a number of shares of the Company's common stock equal to up to 10% of the total authorized amount of common shares to be issued upon the exercise of stock based awards granted to officers, consultants and certain other employees from time to time. The primary purpose of the Plan is to provide additional performance and retention incentives to officers and other key employees by facilitating their purchase of an ownership interest in the Company. The Plan is administered by the Compensation Committee of the Board of Directors. Awards may be granted in various forms, including options, warrants, appreciation rights, restricted stock and common stock and are granted based upon several factors, including seniority, job duties and responsibilities, job performance and overall Company performance. Awards vest over a period as determined by the Compensation Committee. Under the terms of the Plan, officers, consultants and other employees may be granted awards to purchase common stock at exercise prices set on the date an award is granted and as determined by the Board of Directors. Exercise or purchase price per share amounts are generally approved at or above the grant date estimated fair value of the Company's common stock; however, certain awards issued in 2005 and 2004 included terms with exercise prices below the grant date estimated fair value of the Company's common stock, and those awards issued resulted in compensation expense recognition at the grant date. Awards issued under the Plan generally vest ratably over two or three years and are exercisable for up to five years from the date of grant.

The Company receives no monetary consideration for the granting of stock based awards pursuant to the Plan. However, it receives the option price for each share issued to grantees upon the exercise of the options.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 14. Stock Based Compensation Plans (Continued)

In 2004, the Board of Directors approved an Executive Bonus Plan for executive officers to be administered by the Compensation Committee. The Compensation Committee identifies a series of corporate and individual goals annually, and each executive officer is allocated a measure of responsibility for particular goals. Individual incentive awards are based on the achievement of allocated goals and discretionary evaluations of the eligible employees. Awards are contemplated to include a cash payment and stock options to be granted pursuant to the Long−Term Incentive Plan.

Awards issued by the Company through December 31, 2005, consist of options, warrants and stock purchase rights and are fixed plan awards, since the exercise price that a grantee is required to pay upon exercise, and number of shares that a grantee is entitled to receive, are known at the grant date. As permitted under generally accepted accounting principles, grants under those plans are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recognized for grants that are fixed plan awards except for 119,917 options issued in 2005 at exercise prices below fair value (from $2.50 to $3.50 per share) and 55,000 options and 100,000 warrants issued in 2004 at exercise prices below fair value (from $.01 to $1.00 per share) that resulted in compensation expense of approximately $83 and $217 for the years ended December 31, 2005 and 2004, respectively.

The fair value of each award was estimated at the grant date using the Black−Scholes method in 2005 and 2004 and the minimum value method in 2003, with the following assumptions for grants: dividend rate of 0% for all years; risk−free interest rates of between 3 and 7%; expected lives of 5 years and a volatility rate of 45% and 35% using a comparable company in 2005 and 2004, respectively, and 0% in 2003.

A summary of the status of the fixed awards at December 31, 2005, 2004 and 2003, and changes during the years ended on those dates is as follows:

	2005		2004		2003	
	Shares	Weighted−Average Exercise Price	Shares	Weighted−Average Exercise Price	Shares	Weighted−Average Exercise Price
Outstanding at beginning of year	375,937	$ 1.31	352,276	$ 1.76	227,276	$ 1.64
Granted	546,200	3.76	185,000	0.66	125,000	2.00
Exercised	(38,462)	0.30	(104,133)	0.64	—	—
Expired	(11,400)	2.65	(57,206)	2.09	—	—
Outstanding at end of year	872,275	2.87	375,937	1.31	352,276	1.76
Exercisable at end of year	365,808		260,067		174,726	
Fair value per award of awards granted during the year	$ 1.13		$ 1.05		$ —	

A further summary about awards outstanding at December 31, 2005, was as follows:

	Options and Warrants Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted−Average Remaining Contractual Life	Number Exercisable
0.01	115,000	3.4 years	103,472
1.00	30,000	3.4 years	16,111
2.00	86,250	3.0 years	56,500
2.50	98,325	1.9 years	73,614
3.00	40,000	3.6 years	19,306
3.03	172,950	5.0 years	—

3.50	109,750	4.0 years	35,555
3.53	10,000	5.0 years	—
4.00	15,000	4.1 years	4,583
4.03	25,000	5.0 years	—
4.90	170,000	4.0 years	56,667

Metalico, Inc. and Subsidiaries

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Note 15. Pension Plans

The Company has four defined−contribution 401(k) pension plans, two for employees not covered by a collective bargaining agreement (Non−union), and the other two for employees at its Granite City, Illinois plant covered by a collective bargaining agreement (Union). The plans offer substantially all employees a choice to elect to make contributions pursuant to salary reduction agreements upon attaining certain age and length−of−service requirements. Under the Non−union plans, the Company may make matching contributions on behalf of the participants of the plan, not to exceed 100% of the amount of each participant's elective salary deferral, up to a maximum percentage of a participant's compensation as defined by the plan. Under the Union plans, and in accordance with its labor contract that covers the Company's union employees at the Granite City, Illinois plant, Company contributions are required based on a specified rate per month. The Company matched participant contributions during 2005, 2004 and 2003, under the Non−union plan at 100% of a participant's elective salary deferrals, up to a maximum of 4% of a participant's compensation. The plans also provide a profit sharing component where the Company can make a discretionary contribution to the plans, which is allocated based on the compensation of eligible employees. No profit sharing contributions were made for 2005, 2004 and 2003. Company matching and profit sharing contributions are subject to vesting schedules, and forfeitures are applied to reduce Company contributions. Participants are immediately vested in their elective contributions. 401(k) pension expense for the years ended December 31, 2005, 2004 and 2003, was approximately $423, $272 and $173, respectively.

In connection with the Company's acquisition of a controlling membership interest in Mayco effective September 30, 2004, as described in Note 2, the Company reassumed plan sponsorship of a frozen defined benefit pension plan at the Granite City, Illinois plant covering substantially all hourly employees at such location. Mayco previously assumed plan sponsorship effective with the joint venture formation on March 18, 2002, also described in Note 2.

Information relative to this defined benefit pension plan, as of and for the years ended December 31, 2005 and 2004, is presented as follows:

The Company uses a December 31 measurement date for the defined benefit pension plan.

Obligations and Funded Status

	2005	2004
Changes in benefit obligations:		
Obligations at beginning of year	$ 908	$ 754
Service cost	—	—
Interest cost	56	54
Participant contributions	—	—
Amendments	—	—
Actuarial losses	126	189
Benefits paid	(74)	(89)
Obligations at end of year	$ 1,016	$ 908
Changes in plan assets:		
Fair value of assets at beginning of year	$ 674	$ 720
Actual return on assets	19	43
Company contributions	9	—
Participant contributions	—	—
Benefits paid	(74)	(89)
Fair value of assets at end of year	$ 628	$ 674
Funded status (plan assets less than benefit obligations) at end of year	$ (388)	$ (234)
Amounts not recognized:		
Unrecognized net (gain) loss	552	429
Unrecognized prior service cost (benefit)	—	—
Net amount recognized on balance sheet	$ 164	$ 195

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 15. Pension Plans (Continued)

	2005	2004
Amounts recognized on balance sheet as:		
Prepaid benefit cost	$ —	$ —
Accrued benefit cost	(388)	(234)
Intangible assets	—	—
Accumulated other comprehensive income	552	429
Net amount recognized on balance sheet	$ 164	$ 195
Aggregate accumulated benefit obligation for the defined benefit pension plan	$ 1,016	$ 908
Aggregate amounts were:		
Projected benefit obligations	$ 1,016	$ 908
Accumulated benefit obligations	1,016	908
Fair value of plan assets	628	674

Components of Net Periodic Benefit Cost and Additional Information

	2005	2004
Components of net periodic benefit cost:		
Service cost	$ —	$ —
Interest cost	56	54
Expected return on plan assets	(48)	(55)
Amortization of prior service cost	—	—
Recognized actuarial (gain) loss	32	21
Net periodic benefit cost	$ 40	$ 20
Additional information:		
Increase in minimum liability included in other comprehensive income	$ 123	$ 304

Assumptions

	2005	2004
Weighted−average assumptions used in computing ending obligations:		
Discount rate	5.50%	5.75%
Rate of compensation increase	N/A	N/A
Weighted−average assumptions used in computing net cost:		
Discount rate	5.75%	6.25%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	8.00%	8.00%

The expected long−term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long−term returns and long−term volatility for various asset categories to the target asset allocation of the defined benefit pension plan, as well as taking into account historical returns.

Using the asset allocation policy as currently in place for the defined benefit pension plan (60% in total equity securities — 45% large/mid cap stocks and 15% small cap stocks; 40% in fixed income securities), the Company determined the expected rate of return at a 50% probability of achievement level based on (a) forward−looking rate of return expectations for passively−managed asset categories over a 20−year time horizon and (b) historical rates of return from 1926 through 2004 for passively−managed asset categories with available data. Applying an approximately 75% / 25% weighting (for conservatism) to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.65% which was rounded to 8%.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 15. Pension Plans (Continued)

Plan Assets

Asset Category	Percentage of Plan Assets at December 31, 2005	2004
Equity securities	58%	70%
Debt securities	39%	29%
Other	3%	1%
Total	100%	100%

Cash Flows

The Company expects to contribute approximately $51 to its defined benefit pension plan in the year ending December 31, 2006.

The following benefit payments, are expected to be paid:

Years Ending December 31:	Amount
2006	$ 72
2007	70
2008	68
2009	68
2010	66
Years 2011−2015	299

Note 16. Lease Commitments

The Company leases administrative and operations space under noncancelable agreements that expire between 2006 and 2010, and require various minimum annual rentals. In addition, certain leases also require the payment of property taxes, normal maintenance, and insurance on the properties. The Company also leases certain vehicles and equipment under noncancelable lease agreements that expire between 2006 and 2010.

The approximate minimum rental commitment as of December 31, 2005, excluding executory costs, is due as follows:

Years Ending December 31:	Amount
2006	$ 728
2007	366
2008	222
2009	177
2010	74
	$ 1,567

Total rental expense for the years ended December 31, 2005, 2004 and 2003, was approximately $1,280, $1,054 and $753, respectively.

Note 17. Other Commitments and Contingencies

Environmental Remediation Matters

In late May 2005, the Company reached agreement in principle with the U.S. Environmental Protection Agency (the EPA) on the principal terms of a settlement of a claim for the EPA’s costs relating to certain cleanup activities alleged to have involved hazardous substances traced to its inactive General Smelting and Refining, Inc. (GSR) subsidiary. On August 23, 2005, Metalico, Inc., GSR, and another subsidiary, Metalico−College Grove, Inc. (MCG) executed a settlement agreement with the EPA pursuant to which Metalico, Inc., GSR and MCG paid a total sum of $300 to the EPA in exchange for full and complete releases of each company from liability for all past and future response costs related to the College Grove Battery Chip Superfund Site and in satisfaction of the EPA’s claim for approximately $11,871. The settlement became final on November 29, 2005 after the lapse of a comment period and payment by the Company. The Company recorded a $300 charge to discontinued operations related to the settlement during 2005. No accrual for remediation costs had been recorded by the Company previously because it was not able to reasonably estimate the amount of any range of potential obligation for remediation of the Site.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 17. Other Commitments and Contingencies (Continued)

Metalico, Inc. began operations in Tennessee by acquiring GSR in 1997. Operations ceased at GSR in December 1998, and thereafter it commenced closure activities. Metalico, Inc. incorporated MCG in July 1998 as another wholly−owned subsidiary and later in 1998 MCG purchased substantially all of the net assets of GSR inclusive of a new plant that was constructed (and completed in 1998) adjacent to the GSR plant originally acquired. Secondary lead smelting and refining operations in Tennessee have been conducted thereafter by MCG.

In connection with the purchase of GSR, anticipated environmental remediation costs to maintain the original plant owned by GSR in accordance with environmental regulations were accrued. In 2003, the Company increased the accrued liability based on an interim measures work plan submitted to the Tennessee Department of Environment and Conservation (TDEC) in January 2004 and an estimate of remaining remediation and maintenance costs applicable to the GSR property. As of December 31, 2005 and 2004, estimated remaining environmental remediation costs reported as a component of accrued expenses were approximately $1,017 and $1,216, respectively. Of the $1,017 accrued as of December 31, 2005, approximately $428 is reported as a current liability and the remaining $589 is estimated to be incurred and paid as follows: $63 from 2007 through 2008 and $526 thereafter. These costs include the post−closure monitoring and maintenance of the landfills at this facility and decontamination and related costs incurred applicable to completed demolition of property owned by MCG. While changing environmental regulations might alter the accrued costs, management does not currently anticipate a material adverse effect on estimated accrued costs. The Company maintains an escrow fund to accumulate money necessary to pay for estimated future post−closure maintenance costs for the two closed landfills at its former plant at College Grove, Tennessee. These funds of approximately $296 and $219 as of December 31, 2005 and 2004, respectively, are included as a component of other long−term assets in the accompanying balance sheets. Under certain circumstances, a regulatory agency controls the escrow account and will release withdrawals to the Company upon written evidence of permitted closure or post−closure billings or of expenditures made by the Company in such an effort.

Metalico, Inc.'s subsidiary in Tampa, Florida, Gulf Coast Recycling, Inc. (GCR), entered into an agreement with the EPA in 2002 to settle a claim made by the EPA in connection with a Consent Decree originally issued in 1991 obligating GCR to perform remedial design and remedial action in connection with a battery disposal Superfund site and to reimburse the EPA for all response costs, including oversight costs, incurred by EPA related to the site. The agreement required the Company to pay an asserted claim by the EPA for response costs applicable to the site through September 30, 1999, in an initial payment of $200 in 2002 and an additional $220 plus interest payable in eight quarterly installments thereafter. EPA reserves the right to seek additional response costs pursuant to the Consent Decree for the time period after September 30, 1999.

In September 2002, the EPA issued a notice of potential liability and offer to negotiate for removal action at a site located near GCR where a battery case chips pollutant condition exists on the subject property site. In April 2003, GCR purchased the site from the property owner. In March 2004, GCR signed an Administrative Order on Consent (AOC) with the EPA that included a claim for past response costs of the EPA and required GCR to pay for all future EPA response costs applicable to the site in accordance with the AOC. GCR retained external consultants to perform the remediation and removal actions required by the AOC in 2004, and has estimated its accrued remediation costs applicable thereto. In connection therewith, the Company included approximately $40, and $150 in accrued liabilities applicable to GCR's outstanding remediation issues attributable to such site as of December 31, 2005 and 2004, respectively, which are included in the accrued remediation total amounts for GCR as noted below.

The Company has various other environmental liability exposure issues at GCR, including on−site and other off−site clean−up and remediation matters. GCR has been named as a PRP in connection with certain Superfund sites and has entered into certain Consent Decrees related thereto with the EPA and also Agreed Interim Orders with the State of Florida Department of Environmental Protection (FDEP) regarding on−site remediation matters.

GCR has included an estimate of liability regarding the matters discussed above inclusive of the EPA and FDEP past response costs claims and an estimate of future response costs as obtained from environmental consultants or otherwise to address the applicable remediation actions in its accrued environmental remediation liabilities. Accrued liabilities in the accompanying December 31, 2005 and 2004, balance sheets include approximately $1,680 and $1,473, respectively, applicable to GCR's various outstanding remediation issues. Of the $1,680 accrued as of December 31, 2005, approximately $790 is reported as a current liability and the remaining $890 is estimated to be incurred and paid as follows: $830 from 2007 through 2008 and $60 thereafter. In the opinion of management, the accrued amounts mentioned above applicable to GCR are adequate to cover its existing environmental obligations related to such plant.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 17. Other Commitments and Contingencies (Continued)

In March 2005, GCR received an information request and notice of potential liability from the EPA (the Request and Notice) regarding contamination at a truck dump facility in Seffner, Florida (the Seffner Site) alleged to have occurred in the 1970's. GCR has previously cleaned certain locations on the Seffner Site at the request of FDEP. The Request and Notice stated among other things that FDEP referred the Seffner Site to the EPA in June of 2004. It further stated that the EPA believes that GCR may have potential liability as a generator of hazardous substances found in the Seffner Site and that the EPA has reason to believe that GCR contributed battery casings to the Seffner Site, and requested additional information from GCR. It also identified, in addition to GCR, five other potentially responsible parties (PRP's). The Request and Notice did not assert a claim against GCR. GCR delivered the requested information to the EPA on May 3, 2005. The EPA issued a request for additional information about the Seffner Site on May 24, 2005, to which GCR responded on July 22, 2005. Additional correspondence between GCR and the EPA regarding the Seffner Site has transpired during the last six months of 2005. In view of GCR's past remediation efforts at the Seffner Site, the existence of other known PRPs who may be liable for Seffner Site contamination, and the preliminary nature of the EPA's inquiry, the Company and its legal counsel are unable to reasonably estimate a range of potential loss/liability, if any, which may be incurred with respect to this matter. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company does not carry, and does not expect to carry for the foreseeable future, significant insurance coverage for environmental liability because the Company believes that the cost for such insurance is not economical. Accordingly, if the Company were to incur liability for environmental damage in excess of accrued environmental remediation liabilities, its financial position, results of operations, and cash flows could be materially adversely affected.

Other Matters
The Company is involved in certain other legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such other proceedings and litigation will not materially affect the Company's financial position, results of operations, or cash flows.

Note 18. Discontinued Operations

During 2003, the Company's Board of Directors approved a plan for the shutdown of operations and closure of its secondary lead smelting and refining plant in College Grove, Tennessee (Metalico−College Grove, Inc.). The plant was substantially idle during the fourth quarter of 2003 except for certain clean−up activities in connection with its closure and attempts to ready the plant for sale, and the Company was actively marketing the plant for sale. Management recorded depreciation on property and equipment of the plant in 2003 through May 2003 when the decision was made to formally close the plant and recorded an impairment loss on property and equipment of approximately $2,316 in connection with management's estimate of net realizable value of the remaining property and equipment of the plant. The Company had previously recorded impairment losses on Metalico−College Grove, Inc. goodwill and property and equipment in 1999 and 2000 of significant amounts based on production issues, net losses incurred, and other negative recurring factors applicable to such plant. Reference should be made to Note 9 for the equipment owned by Metalico−College Grove, Inc. reported as property actively marketed for sale in the accompanying December 31, 2005 and 2004 consolidated balance sheets.

The income (loss) from the discontinued subsidiary for the years ended December 31, 2005, 2004 and 2003, consisted of the following:

	2005	2004	2003
Revenue	$ —	$ —	$ 4,373
Costs and expenses	1,200	488	9,071
Operating	(1,200)	(488)	(4,698)
Other income (expense)	—	3	160
	$(1,200)	$ (485)	$(4,538)

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 19. Segment Reporting

The Company had two operating segments for the years ended December 31, 2005, 2004 and 2003. Reference should be made to Note 18 regarding discontinued operations. The segments are distinguishable by the nature of their operations and the types of products sold. The accounting policies of the operating segments are generally the same as described in Note 1. Corporate and Other includes the cost of providing and maintaining corporate headquarters functions, including salaries, rent, legal, accounting, travel and entertainment expenses, depreciation, utility costs, outside services and interest cost other than direct equipment financing. Listed below is financial data as of or for the years ended December 31, 2005, 2004 and 2003, for these segments:

	Scrap Metal Recycling	Lead Fabrication and Recycling	Corporate and Other	Consoli−dated
		2005		
Revenues from external customers	$87,995	$ 76,297	$ —	$164,292
Operating profit (loss)	9,221	7,566	(4,049)	12,738
Depreciation and amortization expense	2,268	2,036	160	4,464
Interest expense	236	8	2,289	2,533
Total assets	52,790	45,945	2,702	101,437
Capital expenditures on property and equipment acquired in business acquisitions	559	3,183	—	3,742
Capital expenditures on other property and equipment	2,550	1,071	7	3,628
Capital expenditures on goodwill	1,467	70	—	1,537
		2004		
Revenues from external customers	$77,733	$ 37,630	$ —	$115,363
Operating profit (loss)	11,975	2,683	(3,593)	11,065
Depreciation and amortization expense	1,528	1,274	149	2,951
Interest expense	153	12	1,628	1,793
Equity in net income of joint venture investee	—	1,124	—	1,124
Total assets	49,895	41,430	1,638	92,963
Capital expenditures on property and equipment acquired in business acquisitions	2,664	3,734	—	6,398
Capital expenditures on other property and equipment	3,155	1,349	108	4,612
Capital expenditures on goodwill	5,824	5,205	—	11,029
Capital expenditures on other intangibles	2,146	1,577	56	3,779
		2003		
Revenues from external customers	$38,118	$ 23,204	$ —	$ 61,322
Operating profit (loss)	3,858	1,423	(1,730)	3,551
Depreciation and amortization expense	1,060	870	138	2,068
Interest expense	35	16	932	983
Equity in net income of joint venture investee	—	756	—	756
Total assets	28,612	24,395	5,024	58,031
Capital expenditures on property and equipment acquired in business acquisitions	600	—	—	600
Capital expenditures on other property and equipment	1,365	917	9	2,291
Capital expenditures on goodwill	1,813	—	—	1,813

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 19. Segment Reporting (Continued)

The Company's revenue by product line or service for the years ended December 31, 2005, 2004 and 2003, consisted of the following:

	2005	2004	2003
Scrap Metal Recycling			
Ferrous metals	$ 32,574	$ 33,042	$13,037
Non−ferrous metals	52,968	41,329	25,081
Scrap handling	2,453	3,362	—
	87,995	77,733	38,118
Lead Fabrication and Recycling			
Fabricating	67,174	26,931	13,423
Smelting	5,281	5,902	2,756
Tolling	3,842	4,797	7,025
	76,297	37,630	23,204
	$164,292	$115,363	$61,322

Note 20. Statements of Cash Flows Information

The Company made (received) net cash payments for income and franchise taxes of approximately $2,195, $163 and $185 (net of refunds $42, $146 and $46) and for interest of approximately $2,463, $2,004 and $788 during the years ended December 31, 2005, 2004 and 2003, respectively.

The following describes the Company's noncash investing and financing activities:

	2005	2004	2003
Net assets acquired in business acquisitions (see Note 2)	$ 2,220	$20,484	$ 2,600
Issuance of short and long−term debt for business acquisition	1,000	1,935	1,157
Issuance of redeemable common stock for business acquisition	—	1,000	200
Issuance of common stock on debt conversion	3,850	870	—
Issuance of common stock in exchange for warrants exercised	44	—	—
Debt payoff in exchange for proceeds from sale of equipment	199	—	—
Issuance of common stock on accounts payable conversion	—	62	—
Issuance of common stock for note receivable	—	10	—
Discount on debt issued	—	500	—
Redemption of redeemable common stock in exchange for accounts payable	—	—	63
Redemption of common stock warrants in exchange for accounts payable	—	—	100
Increase (decrease) in minimum pension liability adjustment	123	304	(28)

Note 21. Fair Value of Financial Instruments

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments,* requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate the value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts disclosed do not represent the underlying value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, trade receivables, accounts payable and accrued liabilities: The carrying amounts approximate the fair value due to the short maturity of these instruments.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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Note 21. Fair Value of Financial Instruments (Continued)

Notes payable and long−term debt: The carrying amount is estimated to approximate fair value because the interest rates fluctuate with market interest rates or the fixed rates are based on estimated current rates offered to the Company for debt with similar terms and maturities.

Redeemable common stock: The carrying amount approximates the fair value based on redemption amount requirements and the relative short term applicable to such instruments.

Other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, nonfinancial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the trained work force, customer goodwill and similar items.

Note 22. Earnings Per Share

Following is information about the computation of the earnings per share (EPS) data for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Income from continuing operations available to common stockholders	$ 6,312	24,133,406	$ 0.26
Effect of Dilutive Securities			
Common stock warrants	—	89,675	
Options and rights	—	94,007	
Diluted EPS			
Income from continuing operations available to common stockholders plus assumed conversions	$ 6,312	24,317,088	$ 0.26

	Year Ended December 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Income from continuing operations	$ 7,093		
Less preferred stock dividends	(734)		
Basic EPS			
Income from continuing operations available to common stockholders	6,359	16,021,575	$ 0.40
Effect of Dilutive Securities			
Common stock warrants	—	126,431	
Options and rights	—	114,566	
Convertible notes	—	505,012	
Dividends payable	—	1,141,249	
Convertible preferred stock	734	4,947,546	
Diluted EPS			
Income from continuing operations available to common stockholders plus assumed conversions	$ 7,093	22,856,379	$ 0.31

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 22. Earnings Per Share (Continued)

	Year Ended December 31, 2003		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Income from continuing operations	$ 4,853		
Less preferred stock dividends	(1,833)		
Basic EPS			
Income from continuing operations available to common stockholders	3,020	5,727,243	$ 0.53
Effect of Dilutive Securities			
Common stock warrants	—	2,263,643	
Dividends payable	—	2,433,219	
Convertible preferred stock	1,833	12,381,565	
Diluted EPS			
Income from continuing operations available to common stockholders plus assumed conversions	$ 4,853	22,805,670	$ 0.21

Note 23. Pending Adoption of Accounting Standards

FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*: In May 2003, the Financial Accounting Standards Board (FASB) issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Statement No. 150 requires that certain freestanding financial instruments be reported as liabilities in the balance sheet. Depending on the type of financial instrument, it will be accounted for at either fair value or the present value of future cash flows determined at each balance sheet date with the change in that value reported as interest expense in the statement of income. Prior to the application of Statement No. 150, either those financial instruments were not required to be recognized, or if recognized were reported in the balance sheet as equity and changes in the value of those instruments were normally not recognized in net income.

The applicable common stock discussed in Note 12 becomes mandatorily redeemable upon the election by the holder, which constitutes a conditional obligation. If the holder exercises the election, the obligation is no longer conditional. Accordingly the provisions of Statement 150 would then apply, which would require that a liability be recorded for the fair value of the stock.

The application of Statement 150 to the redeemable common stock is deferred indefinitely pending further FASB action. At such time as the deferral of Statement 150 is rescinded and, assuming that the Statement is not modified, the Statement will be applicable to the common stock as referred to in the preceding paragraph.

FASB Statement No. 151, *Inventory Costs*: In November 2004, the FASB issued Statement No. 151, *Inventory Costs.* This Statement clarifies the accounting for abnormal amounts of idle facility costs, handling costs and wasted materials. The Statement requires that those items be recognized as current−period charges under all circumstances and that the allocation of fixed production overhead to inventory be based on normal production capacities. This Statement is effective for fiscal years beginning after June 15, 2005. The Company does not expect the application of Statement No. 151 to have a material impact on its financial statements.

FASB Statement No. 153, *Exchange of Nonmonetary Assets*: In December 2004, the FASB issued Statement No. 153, *Exchange of Nonmonetary Assets*. This Statement addresses the measurement of exchanges of nonmonetary assets and 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. 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. This Statement is effective for periods beginning after June 15, 2005. The Company does not expect the application of Statement No.153 to have a material effect on its financial statements.

Metalico, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
($ thousands, except share data)

Note 23. Pending Adoption of Accounting Standards (Continued)

FASB Statement No. 123 (revised 2004), *Share−Based Payment:* In December 2004, the FASB published Statement No. 123 (revised 2004), *Share−Based Payment* (FAS 123(R) or the Statement). FAS 123(R) requires that the compensation cost relating to share−based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share−based compensation arrangements including stock options, restricted share plans, performance−based awards, share appreciation rights, and employee share purchase plans. FAS 123(R) is a replacement of FASB Statement No. 123, *Accounting for Stock−Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related interpretive guidance.

The effect of the Statement will be to require entities to measure the cost of employee services received in exchange for stock options based on the grant−date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. FAS 123(R) permits entities to use any option−pricing model that meets the fair value objective in the Statement.

The Company is required to apply FAS 123(R) in the 1st quarter of 2006.

FAS 123(R) allows two methods for determining the effects of the transition: the modified prospective transition method and the modified retrospective method of transition. Under the modified prospective transition method, an entity would use the fair value based accounting method for all employee awards granted, modified or settled after the effective date. As of the effective date, compensation cost related to the nonvested portion of awards outstanding as of that date would be based on the grant−date fair value of those awards as calculated under the original provisions of Statement No. 123; that is, an entity would not remeasure the grant−date fair value estimate of the unvested portion of awards granted prior to the effective date of FAS 123(R). Under the modified retrospective method of transition, an entity would revise its previously issued financial statements to recognize employee compensation cost for prior periods presented in accordance with the original provisions of Statement No. 123.

Although it has not yet completed its study of the transition methods, the Company believes it will elect the modified prospective transition method. The impact of this Statement on the Company in the year ending December 31, 2006, and beyond will depend upon various factors, among them being the Company’s future compensation strategy. The pro forma compensation costs for the Company as disclosed in Note 1, have been calculated using the Black−Scholes option pricing model. The Company intends to use the Black−Scholes option pricing model for future awards.

Note 24. Subsequent Events

On February 10, 2006, the Company entered into an agreement with the holder of the shares of its redeemable common stock. Under the terms of the holder’s original put rights, the Company was required to redeem the 200,000 shares for their carrying value of $1,000, a rate of $5.00 per share. In lieu of receiving the $5.00 per share redemption price from the Company, the holder agreed to liquidate his shares in the public trading market. In consideration of the holder’s forbearance from exercising the put rights, the Company has agreed to pay the holder the shortfall, if any, between the proceeds received by the holder from market sales of the stock and $5.00 per share. Additionally, the Company is required to pay interest monthly at 7% per annum on the unliquidated balance determined by multiplying the number of shares yet unsold by $5.00.

On March 10, 2006, the Company signed a non−binding letter of intent to acquire substantially all of the operating assets and business operations, net of certain assumed liabilities, of an automobile shredding corporation and its related materials transportation corporation serving the greater Rochester, New York market. The proposed purchase price will be finalized after completion of negotiations, due diligence and satisfaction of certain conditions. The transaction is targeted for closing by the end of the second quarter of 2006. In the event a final agreement among the parties is not entered into on or before August 1, 2006, any party may terminate the letter of intent without further obligation to any other party upon delivery of written notice.

On March 13, 2006, Metalico Syracuse, Inc., a subsidiary of Metalico, Inc. formed in January 2006, entered into a Purchase Agreement to acquire certain real property in DeWitt, New York to be used for scrap and aluminum smelting operations. The transaction is targeted to close by March 31, 2006, but is subject to certain conditions that could affect the purchase price and extend closing into the second quarter.

As described in Note 11, the Company is generally restricted from entering into business acquisition transactions without written consent of its primary lender. In the opinion of management, such consent is expected to be obtained with respect to the two proposed business acquisitions described above.

Exhibit 10.16

EMPLOYMENT AGREEMENT

This Agreement (herein so called) is made and entered into as of the 1st day of January, 2006 by and between **Metalico, Inc.**, a Delaware corporation (hereinafter referred to as "Employer"), and **Warren Jennings** (hereinafter referred to as "Employee").

W I T N E S S E T H:

WHEREAS, Employer desires to employ Employee, and Employee desires to be employed by Employer, as an executive subject to the direction and control of Employer, upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. **Employment, Duties and Acceptance.**

1.1 **Employment by Employer**. Employer employs Employee, as of the date hereof (the "Effective Date") to render full−time services to Employer in a supervisory and managerial capacity, and to manage its operations and that of its subsidiaries. Employee shall perform the duties that are consistent with such position as he shall reasonably be directed to perform by Employer.

1.2 **Acceptance of Employment**. Employee accepts such employment and shall render the services described above.

1.3 **Place of Employment**. Employee's principal place of employment shall be Employer's business location in Union County, New Jersey, subject to reasonable travel as the rendering of the services hereunder may require.

2. **Term**. The term of Employee's employment by Employer hereunder (the "Employment Period") shall be for a period of three (3) years from the Effective Date terminating on December 31, 2008, subject to the termination provisions of Sections 6.1 through 6.5 hereof. There shall be automatic one (1) year extensions of the Employment Period thereafter unless this Agreement is terminated upon 30 days written notice by Employee or Employer, unless superseded by subsequent Agreement by the parties.

3. **Compensation**. During the Employment Period, for all services rendered by Employee under this Agreement, Employer shall pay Employee an annual salary at the rate of $180,000 ("Base Salary") for year one (1), with such annual increases thereafter for years (2) and (3) as Employer shall determine but expected to be in a range

of 3% to 5 % each calendar year. Employee's salary shall be payable in accordance with the customary payroll policy of Employer in effect at the time such payment is made, or as may otherwise be mutually agreed upon by the parties. The base salary may be increased from time to time at the discretion of the Board of Directors, taking into account Employer's growth and earnings. In addition, Employer shall provide to Employee an automobile with applicable insurance comparable with other senior management.

3.1 **Incentive Stock Options and Bonus Plan.** Employee shall be eligible to participate in Employer's Executive Management Stock Option and Bonus Plan. Grants shall be made annually with amounts based on individual and Company performance at the discretion of the Compensation Committee of the Board of Directors. Stock option grants shall have vesting requirements and the strike price shall be based on the fair market value on the date of grant. Bonuses shall be distributed annually at the discretion of the Compensation Committee and the Board of Directors.

3.2 **Changes in Common Stock of Employer.** If from time to time during the term of this Agreement:

3.2.1 There is a dividend of any security, stock split or other change in the character or amount of any of the outstanding securities of Employer; or

3.2.2 There is any consolidation, merger or sale of all, or substantially all, of the assets of Employer, then, in such event, any and all new, substituted or additional securities or other property to which Employee is entitled by reason of his ownership of the Stock Options, Stock Grants, stock purchases, or the shares deliverable upon their exercise or purchase shall be immediately subject to the provisions of this Agreement and be included on a pro rata basis based upon the number of vested and unvested shares then held by Employee for all purposes of this Agreement with the same force and effect as the stock presently subject to this Agreement and with respect to which such securities or property were distributed. Whenever a specific number of Stock Options, Stock Grants, or stock purchases are stated in this Agreement, that number shall be amended so as to reflect the original intention of the parties.

4. **Benefits**. Employee shall be entitled, during each calendar year, to four (4) weeks paid vacation. Vacation shall vest with Employee on the first day of each calendar year. Employee shall also be entitled to holidays, sick leave, and shall, along with his spouse and family, be eligible for participation in such group insurance program, including hospitalization, major medical, life, vision and dental as afforded general management of Employer. Employer shall provide in the Employee's name term life insurance in the face amount of not less than Two Hundred and Fifty Thousand Dollars ($250,000), and subject to the provisions of Section 6.2, Employer may elect to provide disability insurance. Employer agrees to reimburse Employee for all reasonable out−of−pocket expenses incurred by Employee in the fulfillment of his duties hereunder, including travel expenses. Such reimbursements shall be made promptly, within thirty

(30) days of Employee's submission to Employer of an itemized list of such expenses, together with receipts therefore indicating the date upon and the purpose for which such expenses were incurred and such other information as may be reasonably required from time to time by Employer to substantiate such expenditures for federal income tax purposes.

5. **Status as Employee**. At all times during the Employment Period, Employee shall be deemed to be an Employee of Employer for purposes of determining Employee's coverage under and eligibility to participate in, any Employee benefit plans or programs which Employer now has or may hereafter initiate. In the event it is necessary to amend any such plan or program in order to assure that Employee is not discriminated against thereunder, Employer shall promptly use its best efforts to make all such amendments or cause the same to be made.

6. **Termination**.

6.1 **Termination upon Death**. If Employee dies during the Term, this Agreement shall terminate, except that the representative of Employee's estate shall be entitled to receive the compensation herein provided for the month in which death occurs, the amount accrued and payable under Section 4 hereof, except as otherwise stated herein. All unvested options granted the Employee shall immediately be 100% fully vested and all rights and privileges granted Employee shall accrue to the estate.

6.2 **Termination upon Disability**. If during the Term, Employee becomes physically or mentally disabled, whether totally or partially, so that Employee is unable substantially to perform his services hereunder for (i) a period of six consecutive months, or (ii) for shorter periods aggregating six months during any consecutive twelve month period (Employee's disability for such period "Disability"), Employer may, at its option, at any time after the last day of the six consecutive months of disability or the day on which such shorter periods of disability during any consecutive twelve month period equal an aggregate of six months, by written notice to Employee, terminate the Term of Employee's employment hereunder. Nothing in this Section 6.2 shall be deemed to extend the Term. Upon such termination, Employee shall be entitled to receive the compensation herein provided for the month in which Disability occurs, the amount accrued and payable under Section 4 hereof, except as otherwise stated herein. All unvested options granted the Employee shall immediately be 100% fully vested and all rights and privileges granted Employee shall accrue to the estate.

6.3 **Termination for Cause**. If Employee neglects his duties hereunder and such gross neglect shall not be discontinued promptly after written notice thereof, is convicted of any felony, fails or refuses to comply with the reasonable written policies of Employer or directives of the executive officers of Employer that are not inconsistent with his position and such failure shall not be discontinued promptly after written notice thereto, or materially breaches affirmative or negative covenants or undertakings hereunder and such breach shall not be remedied promptly, evidenced by proper Employer documentation or other written notice to Employee, Employer may at any time by thirty days written notice to Employee terminate the Term of Employee's employment hereunder. Except for accrued and unpaid salary and vacation to the date of termination, Employee shall have no right to receive unvested options, grants or any compensation or benefit from Employer hereunder.

6.4 **Termination by Employer Without Cause**. If Employee's employment hereunder shall be terminated by reason of a breach of this Agreement by Employer, Employer shall pay to Employee, as liquidated damages and not as a penalty, in a lump sum immediately subsequent to the date of such termination, an amount equal to the Base Salary of Employee for a twelve month period. It is expressly understood and agreed that Employee shall not be obligated to mitigate the damages caused by a termination of this employment for which he shall be entitled to such liquidated damages. It is further expressly agreed and understood that said payments of liquidated damages shall be in complete satisfaction of any and all claims, liabilities and damages of any nature whatsoever relating to or growing out of Employee's employment or Employer's termination without cause of Employee's employment, except as otherwise stated herein. Also, all unvested options and stock grants granted the Employee shall immediately be 100% fully vested.

6.5 **Voluntary Termination**. In the event Employee voluntarily terminates his employment with Employer, during or after the Employment Period, Employee shall have no right to receive any compensation or benefit from Employer hereunder, except for accrued and unpaid compensation and vacation due on the date of such termination, except as otherwise stated herein.

6.6 **Stock Options and Change in Control**. Employer and Employee hereby acknowledge that, from time to time, Employer has issued and may in the future issue to Employee options to purchase shares of the capital stock of Employer, either pursuant to this Employment Agreement or otherwise (the "Options"). Employer and Employee hereby agree that if there is a Change in Control (as hereinafter defined) of Employer, then all of the Options and Grants then issued and outstanding to Employee shall automatically and immediately become vested and exercisable (the "Vested Options"). The date on which the Change in Control occurs shall be the "Vesting Date." Employee's right to exercise the Vested Options shall expire on the third anniversary of the Vesting Date. For purposes of this Section 6.6, a "Change in Control" shall mean the occurrence of: (a) the sale of all or substantially all of the capital stock of Employer owned by Carlos E. Agüero or his equivalent beneficial owner; (b) the resignation from the Board of Directors of Carlos E. Agüero unless caused by his death or disability; (c) the acquisition at any time by a "person" or "group" (as those terms are used in Sections 13(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (excluding, for this purpose, Employer or any subsidiary or any employee benefit plan of Employer or any subsidiary) of beneficial ownership (as defined in Rule 13d−3 under the Exchange Act) directly or indirectly, of securities representing 50% or more of the combined voting power in the election of directors of the then−outstanding securities of Employer or any successor of Employer; (d) the termination of service as directors, for any reason other than death or disability from the Board of Directors of Employer (the

“Board”), during any period of two (2) consecutive years or less, of individuals who at the beginning of such period constituted a majority of the Board, unless the election of or nomination for election of each new director during such period was approved by a vote of at least two−thirds of the directors still in office who were directors at the beginning of the period; (e) approval by the stockholders of Employer of any merger or consolidation or statutory share exchange as a result of which the common stock of Employer shall be changed, converted or exchanged (other than a merger or share exchange with a wholly−owned subsidiary of Employer) or liquidation of Employer or any sale or disposition of 50% or more of the assets or earning power of Employer except for a tax free distribution of any portion of Employer to its shareholders; or (f) approval by the stockholders of Employer of any merger or consolidation or statutory share exchange to which Employer is a party as a result of which the persons who were stockholders of Employer immediately prior to the effective date of the merger or consolidation or statutory share exchange shall have beneficial ownership of less than 50% of the combined voting power in the election of directors of the surviving corporation following the effective date of such merger or consolidation or statutory share exchange. “Change in Control” shall not include any reduction in ownership by Employer of a subsidiary of Employer or any other entity designated by the Board in which Employer owns at least a 50% interest (including, but not limited to, partnerships and joint ventures.)

7. **Certain Covenants of Employee**.

7.1 **Covenants Against Competition**. Employee acknowledges that (i) the principal businesses of Employer involves diversified metals recycling and product manufacturing, and such other and related activities as Employer may become involved in (collectively, the “Business”); (ii) the Employer’s Business is national in scope; and (iii) his work for Employer has brought him and shall continue to bring him into close contact with many confidential affairs not readily available to the public. In order to induce Employer to enter into this Agreement, Employee covenants and agrees that:

7.1.1 **Non−Compete.**

(a) During Employee’s employment with Employer, Employee shall not in the Eastern or Midwestern United States, including any market region in which Employer, its subsidiaries or affiliates has done or contemplates doing business, directly or indirectly, (i) engage in a business which is competitive with the Employer’s Business for his own account; (ii) except for employment by Employer, its subsidiaries or affiliates, enter the employ of, or render any services to, any person engaged in such activities; or (iii) become interested in any person engaged in a business which is competitive with the Employer’s Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, employee, trustee, consultant or in any other relationship or capacity; provided, however, that Employee may own, directly or indirectly, solely as an investment, securities of any entity which are traded on any national securities exchange or in the over−the−counter market if Employee (a) is not a controlling person of, or a member of a group which controls, such entity, or

(b) does not, directly or indirectly, own 1% or more of any class of securities of such entity; and

(b) for a period of up to two (2) years following the termination (whether voluntary or involuntary) of Employee's employment with Employer or any of its affiliates or subsidiaries, Employer may elect to enforce one−year covenants set forth below by paying to Employee for each one−year period a lump sum amount equal to one hundred percent (100%) of his base salary. This lump sum amount shall be paid within ten (10) days of Employee's termination. The severance paid shall constitute a payment to enforce the following covenants; (i) Employee shall not in the United States of America directly or indirectly contract, solicit, sell to, serve or divert anyone who was a transporter, supplier or customer of Employer or did business with Employer during Employee's employment with Employer; or (ii) Employee shall not within two hundred (200) miles of a plant owned by the Employer, its subsidiary or an affiliate directly or indirectly engage in a business which is competitive with the Employer's business for his own account or as a partner, shareholder, officer, director, principal, agent, employee, trustee, consultant or in any other capacity directly or indirectly.

7.1.2. **Confidential Information**. During and after the term of Employee's employment with Employer, Employee shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others except in connection with the business and affairs of Employer, all confidential matters of Employer and its subsidiaries or affiliates, including, without limitation, trade "know−how", secrets, customer lists, details of contracts, pricing policies, operational methods, marketing plans or strategies, business acquisition plans, new personnel acquisition plans, research projects, and other business affairs of Employer, its subsidiaries, or affiliates, heretofore or hereafter, and shall not disclose them to anyone, either during or after employment by Employer, except as required in the course of performing duties hereunder or with Employer's express written consent. Confidential matters shall not include information that is public knowledge, obtained from third parties and/or required to be disclosed by law.

7.1.3 **Property of Employer**. All memoranda, notes, lists, records and other documents (and all copies thereof) made or compiled by Employee or made available to Employee concerning the business of Employer, its subsidiaries or its affiliates shall be Employer's property and shall be delivered to Employer promptly upon the termination of Employee's employment with Employer, or at any other time on request.

7.1.4. **Employees of Employer**. During Employee's employment with Employer, and for a period of two years following the termination (whether voluntary or involuntary) of Employee's employment with Employer or any of its subsidiaries or affiliates (the "Restricted Period"), Employee shall not, directly or indirectly, solicit or encourage any Employee of Employer, its subsidiaries or its affiliates to leave the employment of Employer, its subsidiaries or its affiliates.

7.2 **Rights and Remedies upon Breach**. If Employee breaches, or threatens to commit a breach of, any of the provisions of Section 7.1 (the “Restrictive Covenants”), Employer shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Employer under law or in equity:

7.2.1 **Accounting**. The right and remedy to require Employee to account for and pay over to Employer all compensation, profits, monies, accruals, increments or other benefits (collectively, “Benefits”) derived or received by Employee as the result of any transactions constituting a breach of any of the Restrictive Covenants, and Employee shall account for and pay over such Benefits to Employer.

7.3 **Injunctive Relief**. Employee acknowledges that due to the confidential nature of his employment relationship, any breach of the Restrictive Covenants by Employee shall cause irreparable harm to Employer and Employer may, at its option, obtain injunctive relief. Employee further acknowledges that the scope and content of the Restrictive Covenants are reasonable.

7.4 **Severability of Covenants**. If a Court of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect, without regard to the invalid portions.

7.5 **Blue−Penciling**. If a Court of competent jurisdiction construes any of the Restrictive Covenants, or any part thereof, to be unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

7.6 **Employer’s Default**. If Employer defaults on payments due under Section 3(A) herein, then unless Employer cures the default within sixty (60) days, the Restrictive Covenants shall be terminated and declared null and void.

8. **Indemnification**. Employer shall indemnify and defend Employee if Employee is made a party, or threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that Employee is or was an officer or director or Employee of Employer or any of its subsidiaries or affiliates, in which capacity Employee is or was serving, against expenses (including reasonable attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent and in the manner set forth in and permitted by the general corporation law of the state of incorporation of Employer, and any other applicable law, as from time to time in effect.

9. **No Conflicting Agreement**. Employee represents and warrants that as of the effective date of this Agreement, he shall not be a party to any Agreement, contract or understanding which would in any way restrict or prohibit him from undertaking or performing his employment in accordance with the terms and conditions of this Agreement.

10. **Other Provisions**.

10.1 **Notices**. Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, telegraphed or telexed, or sent by certified, registered or express mail, postage prepaid, and shall be deemed given when so delivered personally, telegraphed or telexed, or if mailed, two days after the date of mailing, as follows:

(i) if to Employer, to:	Metalico, Inc. 186 North Avenue East Cranford, NJ 07016
(ii) if to Employee, to:	Warren Jennings 23 Everson Place Basking Ridge, NJ 07920

10.2 **Entire Agreement**. This Agreement contains the entire Agreement between the parties with respect to the subject matter hereof and supersedes all prior Agreements, written or oral, with respect thereto.

10.3 **Waivers and Amendments**. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

10.4 **Governing Law**. The parties hereto have relied on New Jersey law in negotiating this Agreement, and it is expressly agreed that this Agreement shall be governed and construed in accordance with the laws of the State of New Jersey applicable to Agreements made and to be performed entirely within such State, without regard to its conflicts of laws provisions.

10.5 **Assignment**. This Agreement, and the Employee’s rights and obligations hereunder, may not be assigned by Employee. Employer may assign this Agreement and its rights, together with its obligation, as stated in Section 6.6, hereunder in connection with any sale, transfer or other disposition of all or substantially all of its assets or business, whether by merger, consolidation or otherwise.

10.6 **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

10.7 **Heading**. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

METALICO, INC.

By:

Carlos E. Agüero
President

WARREN JENNINGS
Employee

Exhibit 21.1

Subsidiaries

Subsidiary	*State of Incorporation*
Buffalo Hauling Corp.	New York
General Smelting and Refining, Inc.	Tennessee
Gulf Coast Recycling, Inc.	Florida
HHP Corporation	Tennessee
Lake Erie Recycling Corp.	New York
Mayco Industries, Inc.	Alabama
Metalico Alabama Realty, Inc.	Alabama
Metalico Aluminum Recovery, Inc.	New York
Metalico Niagara, Inc.#	New York
Metalico−College Grove, Inc.	Tennessee
Metalico−Evans, Inc	Georgia
Metalico−Granite City, Inc	Illinois
Metalico−Hartford, Inc.*	Connecticut
Metalico Rochester, Inc.**	New York
Metalico Syracuse, Inc.	New York
River Hills by the River, Inc.+	Florida
Samuel Frank Metal Company, Inc.++	New York
Santa Rosa Lead Products, Inc.	California
West Coast Shot, Inc.	Nevada

\# Formerly known as Metalico−Buffalo, Inc.
* Inactive
** Formerly known as Metallico Lyell Acquisitions, Inc.
\+ Wholly−owned subsidiary of Gulf Coast Recycling, Inc.
\++ Wholly−owned subsidiary of Metalico Rochester, Inc.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES−OXLEY ACT OF 2002

I, Carlos E. Agüero, Chairman, President and Chief Executive Officer, certify that:

1. I have reviewed this report on Form 10−K of Metalico, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosures controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

/s/ Carlos E. Agüero
Carlos E. Agüero
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES−OXLEY ACT OF 2002

I, Eric W. Finlayson, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10−K of Metalico, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosures controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

/s/ Eric W. Finlayson
Eric W. Finlayson
Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES−OXLEY ACT OF 2002

In connection with the Annual Report of Metalico, Inc. (the “Company”) on Form 10−K for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Executive Officer hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes−Oxley Act of 2002 that based on his knowledge

(1) the Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

March 15, 2006

/s/ Carlos E. Agüero
Carlos E. Agüero
Chairman, President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Metalico, Inc. and will be retained by Metalico, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10−K and shall not be considered filed as part of the Form 10−K.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES−OXLEY ACT OF 2002

In connection with the Annual Report of Metalico, Inc. (the “Company”) on Form 10−K for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Financial Officer hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes−Oxley Act of 2002 that based on his knowledge

(1) the Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

March 15, 2006

/s/ Eric W. Finlayson
Eric W. Finlayson
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Metalico, Inc. and will be retained by Metalico, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10−K and shall not be considered filed as part of the Form 10−K.