ACTIVISION INC /NY
Form 5
May 11, 2001

FORM 5

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

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of
Section 17(a) of the Public Utility Holding Company Act of 193
or Section 30(f) of the Investment Company Act of 1940

[ ] Check box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

[ ] Form 3 Holdings Reported

[X] Form 4 Transactions Reported

1. Name and Address of Reporting Person*

Goldberg Lawrence

(Last) (First) (Middle)

c/o Activision, Inc.
3100 Ocean Park Boulevard

(Street)

Santa Monica California 90405

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol

Activision, Inc. (ATVI)

3. IRS or Social Security Number of Reporting Person (Voluntary)

4. Statement for Month/Year

March 31, 2001

5. If Amendment, Date of Original (Month/Year)

6.

X

Exe

7.

_X_

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficia

| 1. Title of Security (Instr.3) | 2. Transaction Date (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount Securities Beneficiall Owned a End of Issuer' Fiscal Year (Instr. 3 and 4 |
|---|---|---|---|---|---|---|
| | | | Amount | (A) or (D) | Price | |
| Common Stock, par value $.000001 per share | 2/5/01 | M4 | 25,000 | A | $10.50 | |
| Common Stock, par value $.000001 per share | 2/5/01 | S4 | 25,000 | D | $19.71 | |
| Common Stock, par value | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| $.000001 per share | 2/5/01 | M4 | 5,000 | A | $10.56 | |
| Common Stock, par value $.000001 per share | 2/5/01 | S4 | 5,000 | D | $19.71 | |
| Common Stock, par value $.000001 per share | 2/5/01 | M4 | 10,000 | A | $10.56 | |
| Common Stock, par value $.000001 per share | 2/5/01 | S4 | 10,000 | D | $19.71 | |
| Common Stock, par value $.000001 per share | 2/26/01 | M4 | 10,000 | A | $9.75 | |
| Common Stock, par value $.000001 per share | 2/26/01 | S4 | 10,000 | D | $23.68125 | 1,67 |

* If the form is filed by more than one reporting person, see instruction 4(b)(v).
  Reminder: Report on a separate line for each class of securities beneficially owned directly of indirectly.

(Print or Type Responses)

"2">Change in restricted cash (9.2) (9.2)

Proceeds from exercise of stock options

1.5 1.5

Excess income tax benefits from exercise of stock options

3.6 3.6

Repurchase of common stock for treasury

(2.6) (2.6)

Net transfers with subsidiaries

135.2 (94.8) (40.4)

Other

1.7 (2.4) (0.7)

**Net cash provided (used) by financing activities**

652.6 (102.3) 275.7 826.0

Effects of exchange rate changes on cash

0.4 0.4

Net increase in cash and cash equivalents

1.8 11.1 87.9 100.8

Cash and cash equivalents at beginning of period

| | | | | |
|---|---|---|---|---|
| 0.4 | (0.3) | 6.7 | | 6.8 |

**Cash and cash equivalents at end of period**

| | | | | |
|---|---|---|---|---|
| $2.2 | $10.8 | $94.6 | $ | $107.6 |

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

**CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION**

The following is a discussion of our financial condition and results of operations for the periods presented. This discussion should be read in conjunction with the financial statements and notes and other financial information appearing elsewhere in this Form 10-Q, as well as in our Annual Report on Form 10-K for the year ended December 31, 2006.

Our discussion of our financial condition and results of operations also includes various forward-looking statements about our industry, the demand for our products and services, and our projected results. Statements contained in this Form 10-Q that are not historical in nature are considered to be forward-looking statements. They include statements regarding our expectations, hopes, beliefs, estimates, intentions or strategies regarding the future. The words believe, expect, anticipate, intend, estimate, will, look forward to and similar expressions ar to identify forward-looking statements. Forward-looking statements contained in this Form 10-Q and elsewhere are based on certain assumptions that we consider reasonable.

The expectations set forth in this report regarding, among other things, achievement of anticipated cost savings and synergies, estimates of volumes, revenues, profitability and net income in future quarters, future prices and demand for our products, and estimated cash flows and sufficiency of cash flows to fund capital expenditures, reflect only our expectations regarding these matters. Actual results could differ materially from these expectations, depending on certain risk factors that generally affect our business such as:

- If we fail to successfully integrate past and future acquisitions or address risks associated with divestitures, our financial condition and results of operations could be adversely affected.

- If we fail to implement our business strategy, our financial condition and results of operations could be adversely affected.

- The cyclical nature of the metals industry, our end-use segments and our customers industries could limit our operating flexibility, which could negatively impact our financial condition and results of operations.

- The loss of certain members of our management may have an adverse effect on our operating results.

- In addition to our net loss for the nine months ended September 30, 2007, we had substantial historical net losses prior to 2005, and any continuation of net losses in the future may reduce our ability to raise needed capital.

- Our internal controls for financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur.

- We may encounter increases in the cost of raw materials and energy, which could cause our cost of goods sold to increase thereby reducing operating results and limiting our operating flexibility.

- We may be unable to manage effectively our exposure to commodity price fluctuations, and our hedging activities may affect profitability in a changing metals price environment and subject our earnings to greater volatility from period-to-period.

If we were to lose order volumes from any of our largest customers, our sales volumes and revenues could be reduced and our cash flows lessened.

We do not have long-term contractual arrangements with a substantial number of our customers, and our sales volumes and revenues could be reduced if our customers switch their suppliers.

We may not be able to generate sufficient cash flows to fund our capital expenditure requirements or to meet our debt service obligations.

Our business requires substantial capital investments that we may be unable to fulfill.

We may not be able to compete successfully in the industry segments we serve and aluminum may become less competitive with alternative materials, which could reduce our share of industry sales, lower our selling prices and reduce our sales volumes.

As a result of the acquisition of Corus Aluminum, a growing portion of our sales is expected to be derived from our international operations, which exposes us to certain risks inherent in doing business abroad.

We could experience labor disputes that could disrupt our business.

We may have to take further charges to earnings if our goodwill or asset values are impaired.

Our substantial leverage and debt service obligations could adversely affect our financial condition and restrict our operating flexibility.

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- Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

- The terms of our existing indebtedness may restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

These factors and other risk factors disclosed in this report and elsewhere are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also harm our results. Consequently, there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

The forward-looking statements contained in this report are made only as of the date hereof. We do not undertake, and specifically decline any obligation, to update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

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**OVERVIEW**

On July 14, 2006 TPG formed Holdings and Merger Sub for purposes of acquiring us. On August 7, 2006, we entered into an Agreement and Plan of Merger with Holdings, pursuant to which each share of our common stock (other than shares held in treasury or owned by Holdings) would be converted into the right to receive $52.50 in cash. The Acquisition was completed on December 19, 2006 at which time TPG and certain members of our management made a cash contribution of $844.9 million and a non-cash contribution of $3.9 million to Holdings in exchange for 8,520,000 share of common stock of Holdings. The non-cash contribution consisted of shares of common stock held by management. Holdings contributed this amount to Merger Sub in exchange for Merger Sub issuing 900 shares of its common stock to Holdings. The cash contribution, along with the additional indebtedness jointly entered into by us and Merger Sub, was used to acquire all of our then outstanding common stock, including non-vested restricted stock, pay the holders of all outstanding stock options, refinance substantially all of our indebtedness and pay fees and expenses associated with the Acquisition.

Immediately upon consummation of the Acquisition, Merger Sub was merged with and into the Company. As the surviving corporation in the merger, we assumed, by operations of law, all of the rights and obligations of Merger Sub. Subsequent to the Acquisition, our common shares were delisted from the New York Stock Exchange. In July 2007, we filed a registration statement on Form S-4 to register our senior notes and senior subordinated notes thereby permitting those securities to be traded freely. The registration statement was declared effective in July 2007, and, as a result, we are required to file all current, quarterly and annual filings with the SEC.

We are a global leader in aluminum rolled and extruded products, aluminum recycling and specification alloy production. We are also a recycler of zinc and a leading U.S. manufacturer of zinc metal and value-added zinc products that include zinc oxide and zinc dust. We generate substantially all of our revenues from the manufacture and sale of these products.

Our reportable segments consist of global rolled and extruded products, global recycling and global zinc. Segment performance is measured utilizing segment income which includes gross profits, plant and business specific other expense (income), selling, general and administrative expense and realized gains and losses on derivative financial instruments. Corporate general and administrative expenses, realized gains and losses on certain derivative financial instruments, unrealized gains and losses on derivative financial instruments, restructuring and other charges, interest expense, interest and other income, and provisions for income taxes are not allocated to individual segments.

In the three and nine months ended September 30, 2007, we generated revenues of $1,664.3 million and $4,879.5 million, respectively, and segment income of $54.3 million and $140.0 million, respectively, compared to revenues of $1,395.0 million and $3,255.4 million, and segment income of $76.8 million and $254.2 million in the three and nine months ended September 30, 2006, respectively. Our segment operating results for the three and nine months ended September 30, 2007 were impacted by both the acquisition of Aleris by TPG and our acquisition of Corus Aluminum. Corus Aluminum impacted our revenues and segment income for nine months to date in 2007 as compared to two months in the comparable periods of 2006. The acquired operations of Corus Aluminum generated revenues of $652.0 million and $1,953.1 million in the three and nine months ended September 30, 2007, respectively, compared to $389.1 million for the three and nine months ended September 30, 2006. The acquired operations of Corus Aluminum contributed segment losses of $0.2 million and $15.2 million in the three and nine months ended September 30, 2007, respectively, as compared to segment losses of $15.5 million for the three and nine months ended September 30, 2006.

Revenues and segment income in certain of our businesses were negatively impacted by trends in the industries of certain customers served, primarily in North America. Lower demand in the North American housing industry and from our distribution customers as well as lower auto, truck and truck trailer production have resulted in lower pounds shipped with respect to the North American rolled products and zinc businesses.

The acquisition by TPG required that all of our assets and liabilities be adjusted to fair value through purchase accounting. These adjustments resulted in an increase in the value of the acquired inventory of approximately $58.0 million. As substantially all of the acquired inventory was sold during the nine months ended September 30, 2007, we included $55.6 million of this write-up in cost of sales, significantly reducing our segment operating results in the nine months ended September 30, 2007. In addition, the application of purchase accounting rules prohibited us from reflecting $12.6 million and $43.2 million of economic benefits associated with settled derivative financial instruments in segment income in the three and nine months ended September 30, 2007, respectively. Corus Aluminum s results were negatively impacted by $12.8 million and $53.1 million in the three and nine months ended September 30, 2007 as a result of these purchase accounting adjustments. During the three and nine months ended September 30, 2006, Corus Aluminum s results were negatively impacted by $30.4 million of purchase accounting adjustments.

The acquisition of Wabash, which was completed in September 2007, contributed approximately $39.2 million of revenues and $0.6 of segment loss in the three and nine month periods ended September 30, 2007. The segment loss reflects the negative impacts of

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approximately $1.4 million of purchase accounting adjustments, primarily related to adjustments to record the acquired inventory to fair value, which was sold during the three months ended September 30, 2007.

Our continued focus on achieving productivity improvements and synergies from the implementation of companywide initiatives led to the realization of approximately $32.0 million and $88.0 million in the three and nine months ended September 30, 2007, $11.0 million and $38.0 million of which were attributable to the Corus Aluminum acquisition.

In addition, in the three months ended September 30, 2007, material margins in our North American rolled products operations were positively impacted as more favorable metal price lag more than offset tightening scrap spreads. However, in the nine months ended September 30, 2007 material margins in our North American rolled products operations were negatively impacted as less favorable metal price lag experienced in the nine months ended September 30, 2007 more than offset overall benefits of the movement in scrap spreads in the nine months ended September 30, 2007.

Further impacting our operating results in the three and nine months ended September 30, 2007 was interest expense of $58.3 million and $168.8 million, respectively, compared to $26.6 million and $54.3 million in the three and nine months ended September 30, 2006, respectively. The increased interest expense reflects the increased indebtedness resulting primarily from the acquisition of Corus Aluminum and the Acquisition.

In addition, we recorded unrealized losses on our derivative financial instruments of $21.6 million and unrealized gains of $26.0 million in the three and nine months ended September 30, 2007, respectively, compared to unrealized losses of $24.3 million and $7.1 million in the respective prior year periods. The unrealized losses in the third quarter of 2007 resulted from settlement of contracts with previously unrealized gains coupled with unfavorable movements in LME aluminum and zinc prices. The increase in the unrealized gains during the nine months ended September 30, 2007 resulted primarily from favorable movements of LME aluminum and zinc prices relative to the contractual terms of those derivatives.

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The following table presents key financial and operating data on a consolidated basis for the three and nine months ended September 30, 2007 and 2006. The 2007 periods reflect the change in the basis of accounting necessitated by the Acquisition and are referred to as the Successor Periods throughout this Form 10-Q while the 2006 periods are referred to as the Predecessor Periods.

| | (Successor) For the three months ended September 30 2007 | (Predecessor) For the three months ended September 30 2006 | Percent change | (Successor) For the nine months ended September 30 2007 | (Predecessor) For the nine months ended September 30 2006 | Percent change |
|---|---|---|---|---|---|---|
| | (in millions, except percentages) | | | | | |
| Revenues | $ 1,664.3 | $ 1,395.0 | 19% | $ 4,879.5 | $ 3,255.4 | 50% |
| Cost of sales | 1,575.8 | 1,289.6 | 22 | 4,603.7 | 2,933.6 | 57 |
| Gross profit | 88.5 | 105.4 | (16) | 275.8 | 321.8 | (14) |
| Gross profit as a percentage of revenues | 5.3% | 7.6% | | 5.7% | 9.9% | |
| Selling, general and administrative expense | 83.8 | 54.2 | 55 | 204.1 | 114.2 | 79 |
| Restructuring and other charges | 2.3 | 2.6 | (12) | 11.2 | 2.3 | 387 |
| (Gains) losses on derivative financial instruments | (12.4) | 10.7 | * | (47.7) | 5.5 | * |
| Operating income | 14.8 | 37.9 | (61) | 108.2 | 199.8 | (46) |
| Interest expense | 58.3 | 26.6 | 119 | 168.8 | 54.3 | 211 |
| Interest income | (3.4) | (.9) | 278 | (5.6) | (1.5) | 273 |
| Loss on early extinguishment of debt | | 53.7 | (100) | | 53.7 | (100) |
| Other expense (income), net | 0.8 | (2.8) | * | 8.1 | (1.7) | * |
| (Loss) income before provisions for income taxes and minority interests | (40.9) | (38.7) | (6) | (63.1) | 95.0 | * |
| (Benefit from) provision for income taxes | (44.6) | (14.7) | 203 | (49.0) | 35.0 | * |
| Income (Loss) before minority interests | 3.7 | (24.0) | * | (14.1) | 60.0 | * |
| Minority interests, net of provision for income taxes | 0.2 | 0.2 | | 0.6 | 0.6 | |
| **Net income (loss)** | $ 3.5 | $ (24.2) | *% | $ (14.7) | $ 59.4 | *% |
| **Total segment income** | $ 54.3 | $ 76.8 | | $ 140.0 | $ 254.2 | |
| Corporate general and administrative expenses | (20.5) | (18.9) | | (57.6) | (52.1) | |
| Restructuring and other charges | (2.3) | (2.6) | | (11.2) | (2.3) | |
| Loss on early extinguishment of debt | | (53.7) | | | (53.7) | |
| Interest expense | (58.3) | (26.6) | | (168.8) | (54.3) | |
| Unrealized (losses) gains on derivative financial instruments | (21.6) | (24.3) | | 26.0 | (7.1) | |
| Realized hedge gain on foreign currency derivative | 1.9 | 9.8 | | 0.9 | 9.8 | |
| Interest and other income, net | 5.6 | 0.8 | | 7.6 | 0.5 | |
| **(Loss) income before provision for income taxes and minority interests** | $ (40.9) | $ (38.7) | | $ (63.1) | $ 95.0 | |

* Result not meaningful

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**Results of Operations**

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2006**

***Revenues and Shipments***

The following tables show revenues and shipments by segment and the percentage changes from the prior year period:

| | (Successor) | (Predecessor) | |
|---|---|---|---|
| | For the three months ended September 30 | | Percent |
| | 2007 | 2006 | change |
| | (in millions, except percentages) | | |
| Revenues: | | | |
| Global rolled and extruded products | $ 1,146.3 | $ 877.6 | 31% |
| Global recycling | 425.1 | 375.7 | 13 |
| Global zinc | 133.0 | 148.8 | (11) |
| Intersegment revenues | (40.1) | (7.1) | 465 |
| Consolidated revenues | $ 1,664.3 | $ 1,395.0 | 19% |
| Pounds shipped: | | | |
| Global rolled and extruded products | 596.0 | 505.4 | 18% |
| Global recycling | 820.8 | 776.0 | 6 |
| Global zinc | 86.9 | 98.9 | (12) |
| Total pounds shipped | 1,503.7 | 1,380.3 | 9% |

Consolidated revenues for the three months ended September 30, 2007 increased $269.3 million compared to the three months ended September 30, 2006. The acquired operations of Corus Aluminum contributed $652.0 million in the three months ended September 30, 2007 as compared to $389.1 million in the three months ended September 30, 2006. The three months ended September 30, 2007 included three months of revenues versus approximately two months in the corresponding period in 2006. The other acquisitions made in 2007 contributed revenues of approximately $38.6 million for the three months ended September 30, 2007. Excluding the impact of Corus Aluminum and the 2007 acquisitions, global rolled and extruded products revenues decreased $32.8 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Global recycling segment revenues increased $49.4 million in the three months ended September 30, 2007 compared to the prior year period due primarily to higher shipment levels associated with the acquisition of Wabash and the strengthening of the euro against the U.S. dollar. Global zinc revenues decreased $15.8 million in the third quarter of 2007 compared to the third quarter of 2006 as lower shipment levels more than offset higher LME zinc prices.

Global Rolled and Extruded Products Revenues

Global rolled and extruded products revenues for the three months ended September 30, 2007 increased $268.7 million compared to the three months ended September 30, 2006. The increase in revenues resulted primarily from the acquisition of Corus Aluminum, which generated incremental revenues of $262.9 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. Additionally, the other acquisitions made in 2007 contributed revenues of approximately $38.6 million for the three months ended September 30, 2007. Excluding the impact of Corus and other acquisitions made in 2007, increases in the average price of primary aluminum passed along to our customers resulted in an increase in revenues of approximately $20.0 million. Shipment levels in the three months ended September 30, 2007, excluding the impact of Corus Aluminum and the other acquisitions made in 2007, decreased by 10% which resulted in decreased revenues of approximately $33.0 million. The reduction in shipments was due to reduced demand in the North American housing industry and across most other industries served by our North American operations. Despite the lower demand, rolling margins during the third quarter of 2007 were comparable to the prior year period.

Global Recycling Revenues

Global recycling revenues increased $49.4 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006 primarily as a result of the acquisition of Wabash and the impact of currency exchange rates. Wabash contributed approximately $39.2 million of revenues, and the strengthening of the euro against the U.S. dollar increased revenues by approximately $12.8 million.

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Global Zinc Revenues

Global zinc revenues decreased $15.8 million in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The decrease resulted primarily from a 12% reduction in shipments due to reduced demand for zinc, primarily from our tire and rubber customers. The reduction in shipments resulted in decreased revenues of approximately $20.5 million. The impact of decreased shipments was partially offset by higher average selling prices per ton related to products shipped, driven by an increase in the LME price of zinc.

***Segment Income and Gross Profit***

The following table shows segment income reconciled to gross profit for the three months ended September 30, 2007 and 2006:

| | (Successor) For the three months ended September 30 2007 | (Predecessor) 2006 | Percent change |
|---|---|---|---|
| | (in millions, except percentages) | | |
| Segment income: | | | |
| Global rolled and extruded products | $ 41.7 | $ 40.4 | 3% |
| Global recycling | 9.0 | 22.2 | (59) |
| Global zinc | 3.6 | 14.2 | (75) |
| Total segment income | $ 54.3 | $ 76.8 | (29)% |
| Items not included in gross profit: | | | |
| Segment selling, general and administrative expense | $ 63.3 | $ 35.3 | 79% |
| Realized losses on derivative financial instruments | (32.0) | (3.8) | (742) |
| Other expenses, net | 2.9 | (2.9) | * |
| Gross profit | $ 88.5 | $ 105.4 | (16)% |

Global Rolled and Extruded Products Segment Income

Global rolled and extruded products segment income for the three months ended September 30, 2007 increased $1.3 million compared to the three months ended September 30, 2006. This net increase was primarily due to the following:

The acquired operations of Corus Aluminum generated a loss of $0.2 million in the three months ended September 30, 2007 as compared to a loss of $15.5 million in the comparable period in 2006. Results for the three months ended September 30, 2006 were impacted by purchase accounting adjustments to record acquired inventory to fair value of $9.1 million. Purchase accounting rules effectively eliminate the profit associated with acquired work-in-process and finished goods inventories by requiring those inventories to be adjusted to fair value through the purchase price allocation. Also, forgone benefits associated with acquired derivatives totaled approximately $12.9 million and $21.3 million in the three months ended September 30, 2007 and 2006, respectively, as a result of the application of purchase accounting rules. Positively impacting the operating results of Corus Aluminum in the three months ended September 30, 2007 were benefits from acquisition-related synergies, productivity improvements and six sigma initiatives;

Productivity improvements and cost reductions, including the implementation of six sigma initiatives, increased segment income by approximately $13.0 million, excluding Corus Aluminum, in the three months ended September 30, 2007;

Increased year-over-year favorable impact of metal price lag, excluding Corus Aluminum and other acquisitions made in 2007, which more than offset the impact of reduced scrap spreads;

Lower volumes, excluding the impact of Corus Aluminum and other acquisitions made in 2007, during the third quarter of 2007 compared to the prior year period, which reduced segment income by approximately $13.0 million;

Additional amortization expense related to the amortization of the fair value of finite-lived intangible assets resulting from the Acquisition reduced segment income by approximately $16.4 million; and

Excluding Corus Aluminum, approximately $0.2 million and $0.5 million of economic benefits associated with settled derivative financial instruments were not included within segment income in the three months ended September 30, 2007 and 2006, respectively, as a result of purchase accounting rules.

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Global Recycling Segment Income

Global recycling segment income in the three months ended September 30, 2007 decreased by $13.2 million compared to the same period in 2006 primarily due to higher amortization expense associated with finite-lived intangible assets resulting from the Acquisition, changes in currency exchange rates and the loss associated with the acquisition of Wabash. Increased amortization expense reduced segment income by $6.9 million. Changes in currency exchange rates, primarily associated with the Brazilian real, contributed approximately $2.3 million of the decrease in segment income. Wabash generated a segment loss of $0.6 million, which reflects the negative impact of purchase accounting adjustments totaling approximately $1.4 million.

Global Zinc Segment Income

Global zinc segment income decreased by $10.6 million, in the three months ended September 30, 2007 compared to the same period in 2006. This decrease is primarily attributable to lower shipment levels, tightening margins and the increased amortization expense related to the values estimated in the preliminary appraisals of the finite-lived intangible assets. Lower shipments resulted in approximately $4.7 million of the reduction in segment income. The impact of increased amortization expense associated with the Acquisition reduced segment income by approximately $4.0 million.

***Selling, General and Administrative Expense***

Consolidated selling, general and administrative expense ( SG&A ) increased $29.6 million in the three months ended September 30, 2007 as compared to the prior year period. As a percentage of revenues, consolidated SG&A increased to 5.0% in the three months ended September 30, 2007 from 3.9% in the three months ended September 30, 2006. Segment SG&A increased by $28.0 million primarily as a result of higher amortization expense of $27.2 related to the preliminary valuation of finite-lived intangible assets as a result of the Acquisition. Additionally, Corus Aluminum was included for the full third quarter in 2007 compared to two months for the comparable period in the prior year. Partially offsetting these increases in SG&A is lower incentive compensation expense. Corporate SG&A increased $1.6 million as lower incentive and stock compensation expense were offset by sponsor management fees of $2.3 million and administrative expenses associated with our new European headquarters of $1.4 million.

***Restructuring and Other Charges***

During the three months ended September 30, 2007, we incurred $2.3 million of restructuring and other charges primarily related to costs associated with potential acquisitions that were not consummated as well as start up costs associated with our European headquarters.

***(Gains) Losses on Derivative Financial Instruments***

Amounts recorded within (Gains) losses on derivative financial instruments include the realized and unrealized gains and losses associated with derivatives that we do not account for as hedges. During the three months ended September 30, 2007, we recorded $29.2 million of realized gains on our metal derivative financial instruments and $4.8 million of realized gains on our currency derivative financial instruments. The realized gains on our metal derivatives resulted primarily from the settlement of forward sales contracts that hedged a portion of our aluminum inventories. These derivative financial instruments, while reducing the impact of declining LME prices on our operating results, also reduce our ability to benefit from increasing LME prices. Realized currency gains resulted primarily from the weakening of the U.S. dollar against the euro. We recorded gains upon the settlement of our currency derivative financial instruments which fixed the amount of euros we were to receive on anticipated U.S. dollar denominated sales by our European operations at rates more favorable than the prevailing rates at the time of settlement. These realized gains have been included within segment income of the respective segments to which the derivatives relate. Further, purchase accounting rules under U.S. GAAP prohibited us from including in segment income $12.6 million of additional economic benefits related to metal and currency derivative financial instruments that settled during the quarter. See the prior discussion of segment income as well as Item 3. Quantitative and Qualitative Disclosures About Market Risk for additional information regarding our derivative financial instruments and their impact on segment performance.

During the three months ended September 30, 2007, we also recorded unrealized losses of $27.2 million on metal derivative financial instruments and unrealized gains of $5.6 million on currency derivative financial instruments. The unrealized losses on metal derivatives resulted primarily from the unfavorable movements of the LME prices of aluminum. The unrealized gains on currency derivatives resulted from favorable movements in the U.S. dollar to euro exchange rates from the later of June 30, 2007 or the time the contractual terms of the derivative instruments were agreed upon to September 30, 2007. In addition, the unrealized losses resulted from the reversal of unrealized gains recorded during the second quarter of 2007 on those derivative financial instruments

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that settled during the three months ended September 30, 2007. The unrealized gains are not included within segment income and do not represent the realized gains or losses that will be recognized upon settlement. Such realized gains and losses will be determined based upon the prevailing LME and exchange rates at the time of settlement.

During the three months ended September 30, 2006, we recorded net realized and unrealized losses of $10.7 million on our metal and currency derivative financial instruments.

***Interest Expense***

Interest expense of $58.3 million increased $31.7 million in the three months ended September 30, 2007 from the comparable period of 2006. The increase resulted from higher levels of debt outstanding primarily as a result of the acquisition of Corus Aluminum and the Acquisition.

***Other Income, Net***

Other income, net in the three months ended September 30, 2007 primarily represents net losses on the translation of U.S. dollar denominated accounts receivable and accounts payable held by our European entities. The weakening of the U.S. dollar during the three months ended September 30, 2007 resulted in these net receivables being worth fewer euros to our European entities. As the euro is the functional currency of these entities, such changes are recorded within the consolidated statement of operations. These losses are partially offset by gains associated with certain euro denominated transactions held by our U.S. entities.

***Provision for Income Taxes***

Our effective tax (benefit) rate was (110.0)% and (37.0)% for the three months ended September 30, 2007 and 2006, respectively. Our annual effective tax rate is currently expected to be 78.4%. The quarterly effective tax rate results from the application of the expected annual effective tax rate to our year to date income before income taxes and, in part, represents the difference between the expected annual tax rate used in the three months ended September 30, 2007 and our current estimate of 78.4%. The annual effective tax rate differs from the federal statutory rate applied to losses before income taxes as a result of the mix of income, losses and tax rates between tax jurisdictions. Also, in the three months ended September 30, 2007, the Company reported a discrete item to reflect a change in the combined German statutory rate for corporate income tax and trade tax from approximately 38.4% to 29.5% effective January 1, 2008, resulting from legislation that was enacted on July 6, 2007. The income tax benefit reported for the first nine months was adjusted to reflect the effects of the change in the tax law and resulted in a tax benefit of $31.6 million during the third quarter after the application of the newly enacted rates to the existing deferred balances.

We have valuation allowances recorded to reduce certain deferred tax assets to amounts that are more likely than not to be realized. The remaining valuation allowances relate to our potential inability to utilize certain foreign net operating loss carry forwards and U.S. state net operating loss and tax credit carry forwards. We intend to maintain these existing valuation allowances until sufficient positive evidence exists (such as cumulative positive earnings and estimated future taxable income) to support their reversal. Any subsequent reversal of the valuation allowances will be recorded against goodwill, other identifiable intangible assets or income tax expense.

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**Results of Operations**

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

***Revenues and Shipments***

The following tables show revenues and shipments by segment and the percentage changes from the prior year period:

| | (Successor) For the nine months ended September 30 2007 | (Predecessor) 2006 | Percent change |
|---|---|---|---|
| | (in millions, except percentages) | | |
| Revenues: | | | |
| Global rolled and extruded products | $ 3,299.8 | $ 1,767.9 | 87% |
| Global recycling | 1,267.1 | 1,110.3 | 14 |
| Global zinc | 423.6 | 397.4 | 7 |
| Intersegment revenues | (111.0) | (20.2) | * |
| Consolidated revenues | $ 4,879.5 | $ 3,255.4 | 50% |
| Pounds shipped: | | | |
| Global rolled and extruded products | 1,727.7 | 1,070.9 | 61% |
| Global recycling | 2,433.8 | 2,321.0 | 5 |
| Global zinc | 263.5 | 314.9 | (16) |
| Total pounds shipped | 4,425.0 | 3,706.8 | 19% |

Consolidated revenues for the nine months ended September 30, 2007 increased $1,624.1 million compared to the nine months ended September 30, 2006. The acquired operations of Corus Aluminum contributed revenues of $1,953.1 million during the nine months ended September 30, 2007 compared to revenues of $389.1 million in the comparable period of 2006. Also, Wabash and the other 2007 acquisitions contributed additional revenues of approximately $102.8 million. Excluding the impact of Corus Aluminum and other acquisitions made in 2007, global rolled and extruded products revenues decreased $95.7 million in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006 as lower shipment levels more than offset the impact of higher average primary aluminum prices. Global recycling segment revenues increased $156.8 million in the nine months ended September 30, 2007 compared to the prior year period due to higher shipment levels, the acquisition of Wabash, as well as the strengthening of the euro against the U.S. dollar. Global zinc revenues increased $26.2 million in the first nine month of 2007 as compared to the first nine month of 2006 as higher average primary zinc prices more than offset a reduction in shipments.

Global Rolled and Extruded Products Revenues

Global rolled and extruded products revenues for the nine months ended September 30, 2007 increased $1,531.9 million compared to the nine months ended September 30, 2006. The increase in revenues resulted primarily from the acquisition of Corus Aluminum, which generated revenues of $1,953.1 million in the nine months ended September 30, 2007 compared to $389.1 million in the comparable period of 2006. Also, the other acquisitions made in 2007 that are reflected in the global rolled and extruded products segment contributed additional revenues of approximately $63.6 million. Excluding the impact of Corus Aluminum and the other acquisitions made in 2007, the global rolled and extruded products segment experienced a 15% reduction in shipment levels which reduced revenues by an estimated $172.9 million in the first nine months of 2007 as compared to the first nine month of 2006. The reduction in shipments was due to reduced demand in the North American housing market and across most other industries served by our North American operations. This decrease was partially offset by increases in the average price of primary aluminum passed along to our customers, which increased revenues by an estimated $88.3 million. Despite the lower demand, rolling margins in the first nine months of 2007 were comparable to the prior year period.

Global Recycling Revenues

Global recycling revenues increased $156.8 million in the nine months ended September 30, 2007 compared to the prior year period primarily as a result of increased shipment levels, the acquisition of Wabash and currency exchange rate fluctuations. Shipped volumes, exclusive of Wabash, increased by approximately 3%, due primarily to strong European industrial activity year over year, partially offset by reduced shipments in North America. Wabash contributed approximately $39.2 of revenues in the nine months ended September 30, 2007. In addition, the strengthening of the euro against the U.S. dollar increased revenues an estimated $39.3 million.

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Global Zinc Revenues

Global zinc revenues increased $26.2 million in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006 driven by higher average LME prices of zinc partially offset by reduced volumes shipped. The increase related to the higher average LME prices of zinc resulted in an increase in segment revenues of approximately $72.1 million. The reduction in shipments is primarily due to lower demand for zinc, primarily from our tire and rubber customers, and our decision to exit lower margin business, resulting in decreased revenues of approximately $47.5 million.

***Segment Income and Gross Profit***

The following table shows segment income reconciled to gross profit for the nine months ended September 30, 2007 and 2006:

| | (Successor) | (Predecessor) | |
|---|---|---|---|
| | For the nine months ended September 30 | | Percent |
| | 2007 | 2006 | change |
| | (in millions, except percentages) | | |
| Segment income: | | | |
| Global rolled and extruded products | $ 80.0 | $ 135.2 | (41)% |
| Global recycling | 49.9 | 69.8 | (29) |
| Global zinc | 10.1 | 49.2 | (79) |
| Total segment income | $ 140.0 | $ 254.2 | (45)% |
| Items not included in gross profit: | | | |
| Segment selling, general and administrative expense | $ 146.5 | $ 62.1 | 136% |
| Realized (gains) losses on derivative financial instruments | (20.8) | 8.2 | * |
| Other expenses, net | 10.1 | (2.7) | * |
| Gross profit | $ 275.8 | $ 321.8 | (14)% |

Global Rolled and Extruded Products Segment Income

Global rolled and extruded products segment income for the nine months ended September 30, 2007 decreased $55.2 million compared to the nine months ended September 30, 2006. This net decrease was primarily due to the following:

$85.4 million impact in the first nine months of 2007 related to the application of purchase accounting rules under U.S. generally accepted accounting principles. Cost of sales increased by approximately $39.7 million in the first nine months of 2007 as a result of the adjustment to record acquired inventory to fair value, as compared to $9.1 million in the comparable period in 2006. Purchase accounting rules effectively eliminate the profit associated with acquired work-in-process and finished goods inventories by requiring those inventories to be adjusted to fair value through the purchase price allocation. Further, approximately $45.7 million and $21.3 million of economic benefits associated with settled derivative financial instruments were not included within segment income for the nine months ended September 30, 2007 and 2006, respectively, as a result of the application of purchase accounting rules;

Additional amortization expense in the first nine months of 2007 of $21.7 million was recorded as a result of the finite-lived intangible assets recorded in 2007 in connection with the Acquisition.

The acquired operations of Corus Aluminum, which incurred a loss of $15.2 million in the nine months ended September 30, 2007 as compared to a loss of $15.5 in the comparable period in 2006. These losses were due to $75.7 million and $30.4 million of higher costs associated with the impacts of purchase accounting discussed above in the nine months ended September 30, 2007 and 2006, respectively. Additionally, increased amortization expense resulted in a reduction in segment income of approximately $7.9 million in the nine months ended September 30, 2007. Positively impacting the operating results of Corus Aluminum in the nine months ended September 30, 2007 were $38.0 million of benefits from acquisition-related synergies, productivity improvements and six sigma initiatives, and increased volumes and pricing as the operations are benefiting from an improved European economy;

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Lower volumes, excluding the impact of Corus Aluminum and other acquisitions made in 2007, during the first nine month of 2007 compared to the prior year period, which reduced segment income by approximately $44.5 million;

Lower year over year benefits from metal price lag, excluding the impact of Corus Aluminum and other acquisitions made in 2007, substantially offset improvements in rolling margins and scrap spreads; and

Productivity improvements and cost reductions, including the implementation of six sigma initiatives, increased segment income by approximately $32.0 million, excluding Corus Aluminum, partially offsetting the unfavorable impact that lower metal price lag benefits had on material margins.

Global Recycling Segment Income

Global recycling segment income in the nine months ended September 30, 2007 decreased by $19.9 million compared to the same period in 2006 primarily due to higher amortization expense associated with finite-lived intangible assets resulting from the Acquisition, changes in currency exchange rates and the loss associated with the acquisition of Wabash. Increased amortization expense associated with finite-lived intangible assets associated with the Acquisition resulted in a reduction to segment income of $6.9 million. Changes in currency exchange rates, primarily the Brazilian real, resulted in approximately $3.8 million of the decrease as compared to the corresponding period in 2006. Wabash generated a segment loss of $0.6 million, which reflects the negative impact of purchase accounting adjustments totaling approximately $1.4 million.

Global Zinc Segment Income

Global zinc segment income decreased by $39.1 million in the nine months ended September 30, 2007 compared to the same period in 2006, primarily due to lower demand and increased amortization expense associated with finite-lived intangible assets resulting from the Acquisition and the due to the impact of purchase accounting adjustments. Lower demand resulting in both lower volumes and lower margins reduced segment income by approximately $22.7 million. Increased amortization expense resulted in a reduction of segment income of approximately $4.0 million in the nine months ended September 30, 2007. Purchase accounting adjustments negatively impacted the nine months ended September 30, 2007 by $11.2 million.

***Selling, General and Administrative Expense***

Consolidated selling, general and administrative expense ( SG&A ) increased $89.9 million in the nine months ended September 30, 2007 as compared to the prior year period. As a percentage of revenues, consolidated SG&A expense increased from 3.5% in the nine months ended September 30, 2006 to 4.2% in the nine months ended September 30, 2007. Segment SG&A increased $84.4 million primarily as a result of the inclusion of nine months of Corus Aluminum compared to two months in the comparable period in the prior year. In addition, segment SG&A was impacted by higher amortization expense related to the preliminary valuation of finite-lived intangible assets as a result of the Acquisition. Corporate SG&A increased $5.5 million primarily due to sponsor management fees of $6.9 million and administrative expenses associated with our new European headquarters of $2.8 million which more than offset reduced incentive and stock based compensation expenses.

***Restructuring and Other Charges***

During the nine months ended September 30, 2007, we incurred $11.2 million of costs primarily related to potential acquisitions that were not consummated and start-up costs associated with our European headquarters.

***(Gains) Losses on Derivative Financial Instruments***

Amounts recorded within (Gains) losses on derivative financial instruments include the realized and unrealized gains and losses associated with derivatives that we do not account for as hedges under SFAS No 133. During the nine months ended September 30, 2007, we recorded $17.2 million of realized gains on our metal derivative financial instruments and $4.5 million of realized gains on our currency derivative financial instruments. The realized gains on our metal derivatives resulted primarily from the settlement of forward sales contracts that hedged a portion of our aluminum inventories. These derivative financial instruments, while reducing the impact of declining LME prices on our operating results also reduce our ability to benefit from increasing LME prices. These realized gains have been included within the income of the respective segments to which the derivatives relate. Further, purchase accounting rules under U.S. GAAP prohibited us from including in segment income $45.4 million of additional economic benefits related to metal and currency derivative financial instruments that settled during the nine months ended September 30, 2007. See the prior discussion of segment income as well as Item 3. Quantitative and Qualitative Disclosures About

Market Risk for additional information regarding our derivative financial instruments.

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During the nine months ended September 30, 2007, we also recorded unrealized gains of $14.3 million on metal derivative financial instruments and $11.7 million on currency derivative financial instruments. These gains resulted from the favorable movement of the LME prices of aluminum and zinc as well as U.S. dollar to euro exchange rates from the earlier of December 31, 2007 or the time the contractual terms of the derivative instruments were agreed upon to September 30, 2007. The gains are not included within segment income and do not represent the realized gains or losses that will be recognized upon settlement. Such gains and losses will be determined based upon the prevailing LME and exchange rates at the time of settlement.

During the nine months ended September 30, 2006 we recorded net realized and unrealized losses of $5.5 million on our metal and currency derivative financial instruments.

***Interest Expense***

Interest expense of $168.8 million increased $114.5 million in the nine months ended September 30, 2007 from the comparable period of 2006. The increase resulted primarily from higher levels of debt outstanding as a result of the acquisition of Corus Aluminum and the Acquisition.

***Other Expense, Net***

Other expense, net of $8.1 million in the nine months ended September 30, 2007 primarily represents net losses on the translation of U.S dollar denominated accounts receivable and accounts payable held by our European entities. The weakening of the U.S. dollar during the three months ended September 30, 2007 has resulted in these net receivables being worth fewer euros to our European subsidiaries. As the euro is the functional currency of these subsidiaries, such changes are recorded within the consolidated statement of operations. These losses are partially offset by gains associated with certain euro denominated transactions held by our U.S. entities.

***Provision for Income Taxes***

Our effective tax (benefit) rate was (78.4)% and 36.8% for the nine months ended September 30, 2007 and 2006, respectively. The effective tax rate for the nine months ended September 30, 2007 differed from the federal statutory rate applied to losses before income taxes primarily as a result of the mix of income, losses and tax rates between tax jurisdictions. Also, in the nine months ended September 30, 2007, the Company reported a discrete item to reflect a change in the combined German statutory rate for corporate income tax and trade tax from approximately 38.4% to 29.5% effective January 1, 2008, resulting from legislation that was enacted on July 6, 2007. The income tax benefit reported for the first nine months was adjusted to reflect the effects of the change in the tax law and resulted in a tax benefit of $31.6 million during the nine months after the application of the newly enacted rates to the existing deferred balances.

**LIQUIDITY AND CAPITAL RESOURCES**

We expect to finance our operations and capital expenditures from internally generated cash and amounts available under our credit facilities. We have traditionally financed our acquisitions and capacity expansions from a combination of cash on hand, funds from long-term borrowings and equity issuances. The Acquisition has significantly increased our level of indebtedness. Our ability to pay principal and interest on our debt, fund working capital and make anticipated capital expenditures depends on our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. We believe that based on current and anticipated levels of operations and conditions in our industry and markets, a combination of cash on hand, internally generated funds and borrowings available to us will be adequate to fund our current level of operational needs and to make required payments of principal and interest on our debt for the foreseeable future.

***Cash Flows from Operations***

Net cash provided by operating activities was $210.8 million in the nine months ended September 30, 2007 and $150.8 million in the nine months ended September 30, 2006. Cash flows from operations in the nine months ended September 30, 2007 benefited from strong operating results, which produced $130.8 million of operating cash as well as our continued focus on working capital management. Reduced inventory levels generated $150.8 million of operating cash flows while accounts receivable increased $86.6 million despite a $147.0 million increase in revenues during the month of September 2007 as compared to December 2006. The $21.6 million decrease in accounts payable and accrued expenses resulted primarily from the timing of our vendor payments partially offset by incentive compensation payments made in the first quarter of 2007.

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***Cash Flows from Investing Activities***

Net cash used by investing activities of $462.1 million primarily reflects capital expenditures of $135.5 million and cash used to fund acquisitions of $326.2 million in the nine months ended September 30, 2007. Capital expenditures in the nine month period ended September 30, 2007 increased from the comparable period of the prior year period by $82.0 million primarily as a result of the acquisition of Corus Aluminum. Capital expenditures in 2007 relate primarily to expansions at our rolling mills in Duffel, Belgium, Koblenz, Germany, Lewisport, Kentucky and Uhrichsville, Ohio. Cash flows from investing activities for the nine months ended September 30, 2007 also reflects the payment related to the acquisitions of Wabash and other acquisitions made in 2007, payments associated with the Acquisition and a payment of 70.0 (approximately $95.5) million to Corus Group plc for the working capital adjustment related to the acquisition of Corus Aluminum.

Overall capital expenditures for 2007 are expected to be approximately $185.0 million.

***Cash Flows from Financing Activities***

Net cash provided by financing activities generally reflect changes in our borrowings and debt obligations associated with payments against amounts outstanding and proceeds from the issuance of new debt. Net cash from our financing activities totaled $245.7 million for the nine months ended September 30, 2007 compared to $826.0 million for the nine months ended September 30, 2006. Cash flows from financing activities in the nine months ended September 30, 2007 includes the issuance of the new senior notes to fund the acquisition of Wabash and usage of amounts available under the revolving credit facility.

**EBITDA**

We report our financial results in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. However, our management believes that certain non-GAAP performance measures, which we use in managing the business, may provide investors with additional meaningful comparisons between current results and results in prior periods. EBITDA is an example of a non-GAAP financial measure that we believe provides investors and other users of our financial information with useful information. Management uses EBITDA as a performance metric and believes this measure provides additional information commonly used by our stockholders, noteholders and lenders with respect to the performance of our fundamental business activities, as well as our ability to meet our future debt service, capital expenditures and working capital needs.

Our EBITDA calculations represent net income (loss), before interest income and expense, provision for income taxes, depreciation and amortization and minority interests, net of provision for income taxes. EBITDA is also used for internal analysis purposes and is a component of the fixed charge coverage financial covenants under our revolving credit facility and our term loan facility. EBITDA should not be construed as an alternative to net income as an indicator of our performance, or cash flows from our operating activities, investing activities or financing activities as a measure of liquidity, in each case as such measure is determined in accordance with GAAP. EBITDA as we use it may not be comparable to similarly titled measures used by other entities. EBITDA as presented below is different than EBITDA as defined under the indentures for the senior notes, senior subordinated notes and the credit agreements for our credit facilities.

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | 2007 (Successor) | 2006 (Predecessor) | 2007 (Successor) | 2006 (Predecessor) |
| | (in millions) | | | |
| EBITDA | $ 86.0 | $ 18.7 | $ 254.4 | $ 211.2 |
| Interest expense | (58.3) | (26.6) | (168.8) | (54.3) |
| Interest income | 3.4 | 0.9 | 5.6 | 1.5 |
| Benefit from (provision for) income taxes | 44.6 | 14.7 | 49.0 | (35.0) |
| Depreciation and amortization | (72.0) | (31.7) | (154.3) | (63.4) |
| Minority interest, net of provision for income taxes | (0.2) | (0.2) | (0.6) | (0.6) |
| Net income (loss) | $ 3.5 | $ (24.2) | $ (14.7) | $ 59.4 |
| Depreciation and amortization | 72.0 | 31.7 | 154.3 | 63.4 |
| (Benefit from) provision for deferred income taxes | (44.5) | (15.9) | (50.3) | (2.9) |

| | | | | |
|---|---|---|---|---|
| Excess income tax benefits from exercise of stock options | | (0.6) | | (3.6) |
| Restructuring and other charges (credits): | | | | |
| Charges | 2.3 | 2.6 | 11.2 | 2.3 |
| Payments | (2.7) | (2.2) | (11.9) | (5.9) |
| Stock-based compensation expense | 1.1 | 2.6 | 2.9 | 7.1 |
| Non-cash loss on early extinguishment of debt | | 16.4 | | 16.4 |
| Unrealized losses (gains) on derivative financial instruments | 21.6 | | | |