

KAISER ALUMINUM CORP

Form S-1

September 27, 2006

As filed with the Securities and Exchange Commission on September 27, 2006  
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

KAISER ALUMINUM CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**3334**  
(Primary Standard Industrial  
Classification Code Number)

**94-3030279**  
(I.R.S. Employer  
Identification Number)

**27422 Portola Parkway, Suite 350**  
**Foothill Ranch, California 92610-2831**  
**(949) 614-1740**  
(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive  
Offices)

**John M. Donnan**  
**Vice President, General Counsel and Secretary**  
**Kaiser Aluminum Corporation**  
**27422 Portola Parkway, Suite 350**  
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(Name, Address, Including Zip Code, and Telephone  
Number,  
Including Area Code, of Agent for Service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable on or after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 (the Securities Act ), check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price Per Share(1)</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee</b>
Common Stock, \$0.01 par value per share	2,895,648	\$38.50	\$111,482,448	\$11,929

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act based on the average of the high and low prices of the Common Stock on the Nasdaq Global Market on September 20, 2006.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

PRELIMINARY PROSPECTUS

Subject to Completion

September 27, 2006

**2,517,955 Shares  
Common Stock**

This is an offering of common stock of Kaiser Aluminum Corporation. All of the shares of common stock are being sold by the selling stockholder named in this prospectus. We will not receive any proceeds from the sale of the shares by the selling stockholder.

Our common stock is traded on the Nasdaq Global Market under the symbol KALU. On September 26, 2006, the last reported sales price of our common stock on the Nasdaq Global Market was \$39.30 per share. Our common stock is subject to certain transfer restrictions that potentially prohibit or void transfers by any person or group that is, or as a result of such a transfer would become, a 5% stockholder.

**Investing in our common stock involves risks. Before buying any shares you should carefully read the discussion of material risks of investing in our common stock contained in Risk Factors beginning on page 10 of this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to the selling stockholder	\$	\$

The underwriters may also purchase up to an additional 377,693 shares of common stock from the selling stockholder at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus to cover over-allotments, if any. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be \$ and total proceeds, before expenses, to the selling stockholder will be \$ .

Delivery of the shares of common stock will be made on or about , 2006.

The underwriters are offering the common stock as set forth under Underwriting.

**UBS Investment Bank**

**Bear, Stearns & Co. Inc.**

The date of this prospectus is , 2006

You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may be used only where it is legal to sell our common stock. The information contained in this prospectus is current only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock.

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Kaiser Aluminum, Kaiser Select™, Kaiser Precision Select™, Kaiser Precision Rod™, our logo and certain other names of our products are our trademarks, trade names or service marks. Each trademark, trade name or service mark of any other company appearing in this prospectus belongs to its holder.

Prospectus summary

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the risks discussed under Risk factors and the financial statements and notes thereto included elsewhere in this prospectus. In this prospectus, all references to (1) Kaiser, we, us, the company and our refer to Kaiser Aluminum Corporation and its subsidiaries unless the context otherwise requires or where otherwise indicated; (2) the Union VEBA Trust refers to the voluntary employees beneficiary association trust, or VEBA, that provides benefits for certain eligible retirees represented by certain unions and their spouses and eligible dependents; and (3) the Salaried Retiree VEBA Trust refers to the VEBA that provides benefits for certain other eligible retirees and their surviving spouses and eligible dependents.*

**OUR COMPANY**

We are a leading independent fabricated aluminum products manufacturing company with 2005 net sales of approximately \$1.1 billion. We were founded in 1946 and operate 11 production facilities in the United States and Canada. We manufacture rolled, extruded, drawn and forged aluminum products within three product categories consisting of aerospace and high strength products (which we refer to as Aero/ HS products), general engineering products and custom automotive and industrial products.

We produced and shipped approximately 482 million pounds of fabricated aluminum products in 2005, which comprised 86% of our total net sales. Of our total fabricated product shipments in 2005, approximately 29% were Aero/ HS products, approximately 44% were general engineering products and the remaining approximately 27% consisted of custom automotive and industrial products. Of our total fabricated products net sales in 2005, approximately 38% were Aero/ HS products, approximately 38% were general engineering products and the remaining approximately 24% consisted of custom automotive and industrial products.

In order to capitalize on the significant growth in demand for high quality heat treat aluminum plate products in the market for Aero/ HS products, we have begun a major expansion at our Trentwood facility in Spokane, Washington. We anticipate that the Trentwood expansion will significantly increase our aluminum plate production capacity and enable us to produce thicker gauge aluminum plate. The \$105 million expansion is expected to be completed in phases, with one new heat treat furnace becoming operational in late 2006, a second such furnace becoming operational in mid-2007 and a third such furnace becoming operational in early 2008. A new heavy gauge stretcher, which will enable us to produce thicker gauge aluminum plate, will also become operational in early 2008.

We have long-standing relationships with our customers, which include leading aerospace companies, automotive suppliers and metal distributors. We strive to tightly integrate the management of our fabricated products operations across multiple production facilities, product lines and target markets in order to maximize the efficiency of product flow to our customers. In our served markets, we seek to be the supplier of choice by pursuing best-in-class customer satisfaction and offering a product portfolio that is unmatched in breadth and depth by our competitors.

The price we pay for primary aluminum, the principal raw material for our fabricated aluminum products business, consists of two components: the price quoted for primary aluminum ingot on the London Metals Exchange, or the LME, and the Midwest Transaction Premium, a premium to LME reflecting domestic market dynamics as well as the cost of shipping and warehousing. Because aluminum prices are volatile, we manage the risk of fluctuations in the price of primary aluminum

through a combination of pricing policies, internal hedging and financial derivatives. Our three principal pricing mechanisms are as follows:

*Spot price.* Some of our customers pay a product price that incorporates the spot price of primary aluminum in effect at the time of shipment to a customer. This pricing mechanism typically allows us to pass commodity price risk to the customer.

*Index-based price.* Some of our customers pay a product price that incorporates an index-based price for primary aluminum such as Platt's Midwest price for primary aluminum. This pricing mechanism also typically allows us to pass commodity price risk to the customer.

*Fixed price.* Some of our customers pay a fixed price. During 2003, 2004, 2005 and the six months ended June 30, 2006, approximately 97.6 million pounds (or approximately 26%), 119.0 million pounds (or approximately 26%), 155.0 million pounds (or approximately 32%) and 103.9 million pounds (or approximately 38%), respectively, of our fabricated products were sold at a fixed price. We bear commodity price risk on fixed-price contracts, which we normally hedge through a combination of financial derivatives and production from Anglesey Aluminium Limited, described below.

In addition to our core fabricated products operations, we have a 49% ownership interest in Anglesey Aluminium Limited, an aluminum smelter based in Holyhead, Wales. Anglesey has produced in excess of 140,000 metric tons for each of the last three fiscal years, of which 49% is available to us. We sell our portion of Anglesey's primary aluminum output to a single third party at market prices. During 2005, sales of our portion of Anglesey's output represented 14% of our total net sales. Because we also purchase primary aluminum for our fabricated products at market prices, Anglesey's production acts as a natural hedge for our fabricated products operations. Please see "Risk factors" The expiration of the power agreement for Anglesey may adversely impact our cash flows and impact our hedging programs for a discussion regarding the potential closure of Anglesey, which could occur as soon as 2009.

#### **OUR COMPETITIVE STRENGTHS**

We believe that the following competitive strengths will enable us to enhance our position as one of the leaders in the fabricated aluminum products industry:

*Leading market positions in value-added niche markets for fabricated products.* We have repositioned our business to concentrate on products in which we believe we have strong production capability, well-developed technical expertise and high product quality. We believe that we hold a leading market share position in niche markets that represented approximately 85% of our 2005 net sales from fabricated aluminum products. Our leading market position extends throughout our broad product offering, including plate, sheet, seamless extruded and drawn tube, rod, bar, extrusions and forgings for use in a variety of value-added aerospace, general engineering and custom automotive and industrial applications.

*Well-positioned growth platform.* We have substantial organic growth opportunities in the production of aluminum plate, extrusions and forgings. We are in the midst of a \$105 million expansion of our Trentwood facility that will allow us to significantly increase production capacity and enable us to produce thicker gauge aluminum plate. We also have the ability to add presses and other manufacturing equipment at several of our current facilities in order to increase extrusion and forging capacity. Additionally, we believe our platform provides us with flexibility to create additional stockholder value through selective acquisitions.

*Supplier of choice.* We pursue "best-in-class" customer satisfaction through the consistent, on-time delivery of high quality products on short lead times. We offer our customers a portfolio of both highly engineered and industry standard products that is unmatched in breadth and depth by most of our competitors. Our continuous improvement culture is grounded in our production system, the Kaiser Production System, which involves an integrated utilization of application and advanced

process engineering and business improvement methodologies such as lean enterprise, total productive maintenance and six sigma. We believe that our broad product portfolio of highly engineered products and the Kaiser Production System, together with our established record of product innovation, will allow us to remain the supplier of choice for our customers and further enhance our competitive position.

*Blue-chip customer base and diverse end markets.* Our fabricated products customers include leading aerospace companies, automotive suppliers and metal distributors, such as A.M. Castle-Raytheon, Airbus Industrie, Boeing, Bombardier, Eclipse Aviation, Reliance Steel & Aluminum and Transtar-Lockheed Martin. We have long-term relationships with our top customers, many of which we have served for decades. Our customer base spans a variety of end markets, including aerospace and defense, automotive, consumer durables, machinery and equipment, and electrical.

*Financial strength.* We have little debt and significant liquidity as a result of our recent reorganization. We also have net operating loss carry-forwards and other significant tax attributes that we believe could together offset in excess of \$600 million of otherwise taxable income and accordingly may reduce our future cash payments of U.S. income tax.

*Strong and experienced management.* The members of our senior management team have, on average, 20 years of industry work experience, particularly within the areas of operations, technology, marketing and finance. Our management team has repositioned our fabricated products business and led us through our recent reorganization, creating a focused business with financial and competitive strength.

## **OUR STRATEGY**

Our principal strategies to increase stockholder value are to:

*Pursue organic growth.* We will continue to utilize our manufacturing platform to increase growth in areas where we are well-positioned such as aluminum plate, forgings and extrusions. For instance, we anticipate that the expansion of our Trentwood facility will enable us to significantly increase our production capacity and enable us to produce thicker gauge aluminum plate, allowing us to capitalize on the significant growth in demand for high quality heat treat aluminum plate products in the market for Aero/ HS products. Further, our well-equipped extrusion and forging facilities provide a platform to expand production as we take advantage of opportunities and our strong customer relationships in the aerospace and industrial end markets.

*Continue to differentiate our products and provide superior customer support.* As part of our ongoing supplier of choice efforts, we will continue to strive to achieve best-in-class customer satisfaction. We will also continue to offer a broad portfolio of differentiated, superior-quality products with high engineering content, tailored to the needs of our customers. For instance, our unique T-Form<sup>®</sup> sheet provides aerospace customers with high formability as well as requisite strength characteristics, enabling these customers to substantially lower their production costs. Additionally, we believe our Kaiser Select<sup>®</sup> Rod established a new industry benchmark for quality and performance in automatic screw applications. By continually striving for best-in-class customer satisfaction and offering a broad portfolio of differentiated products, we believe we will be able to maintain our premium product pricing, increase our sales to current customers and gain new customers, thereby increasing our market share.

*Continue to enhance our operating efficiencies.* During the last five years, we have significantly reduced our costs by narrowing our product focus, strategically investing in our production facilities and implementing the Kaiser Production System. We will continue to implement additional measures to enhance our operating efficiency and productivity, which we believe will further decrease our production costs.



*Maintain financial strength.* We intend to employ debt judiciously in order to remain financially strong throughout the business cycle and to maintain our flexibility to capitalize on growth opportunities.

*Enhance our product portfolio and customer base through selective acquisitions.* We may seek to grow through acquisitions and strategic partnerships. We will selectively consider acquisition opportunities that we believe will complement our product portfolio and add long-term stockholder value.

## **REORGANIZATION**

Between the first quarter of 2002 and the first quarter of 2003, Kaiser and 25 of our then-existing subsidiaries filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code. Pursuant to our plan of reorganization, we emerged from chapter 11 bankruptcy on July 6, 2006. Our plan of reorganization allowed us to shed significant legacy liabilities, including long-term indebtedness, pension obligations, retiree medical obligations and liabilities relating to asbestos and other personal injury claims. In addition, prior to our emergence from chapter 11 bankruptcy, we sold all of our interests in bauxite mining operations, alumina refineries and aluminum smelters, other than our interest in Anglesey, in order to focus on our fabricated aluminum products business, which we believe maintains a stronger competitive position and presents greater opportunities for growth.

## **INDUSTRY OVERVIEW**

The aluminum fabricated products market is broadly defined as the markets for flat-rolled, extruded, drawn, forged and cast aluminum products, which are used in a variety of end-use applications. We participate in certain portions of the markets for flat-rolled, extruded/drawn and forged products focusing on highly engineered products for aerospace and high strength, general engineering and custom automotive and industrial applications. The portions of markets in which we participate accounted for an estimated 20% of total North American shipments of aluminum fabricated products in 2005.

We have chosen to focus on the manufacture of aluminum fabricated products primarily for aerospace and high strength, general engineering and custom automotive and industrial applications.

Products sold for aerospace and high strength applications represented 29% of our 2005 fabricated products shipments. We offer various aluminum fabricated products to service aerospace and high strength customers, including heat treat plate and sheet products, as well as cold finish bars and seamless drawn tubes. Heat treated products are distinguished from common alloy products by higher strength, fracture toughness and other desired product attributes.

Products sold for general engineering applications represented 44% of our 2005 fabricated products shipments. This market consists primarily of transportation and industrial end customers who purchase a variety of extruded, drawn and forged fabricated products through large North American distributors.

Products sold for custom automotive and industrial applications represented 27% of 2005 fabricated products shipments. These products include custom extruded, drawn and forged aluminum products for a variety of applications. While we are capable of producing forged products for most end use applications, we concentrate our efforts on meeting demand for forged products, other than wheels, in the automotive industry.

We have elected not to participate in certain end markets for fabricated aluminum products, including beverage and food cans, building and construction materials, and foil used for packaging, which represented approximately 95% of the North American flat-rolled products market and approximately 45% of the North American extrusion market in 2005. We believe our chosen end markets present better opportunities for sales growth and premium pricing of differentiated products.

### **Aerospace and defense applications**

We are a leading supplier of high quality sheet, plate, drawn tube and bar products to the global aerospace and defense industry. Our products for these end-use applications are heat treat plate and sheet, as well as cold finish bar and seamless drawn tube that are manufactured to demanding specifications. The aerospace and defense market's consumption of fabricated aluminum products is driven by overall levels of industrial production, cyclical airframe build rates and defense spending, as well as the potential availability of competing materials such as composites. According to Airline Monitor, the global build rate of commercial aircraft over 50 seats is expected to rise at a 4.6% compound annual growth rate through 2025. Additionally, demand growth is expected to increase for thick plate with growth in monolithic construction of commercial and other aircraft. In monolithic construction, aluminum plate is heavily machined to form the desired part from a single piece of metal (as opposed to creating parts using aluminum sheet, extrusions or forgings that are affixed to one another using rivets, bolts or welds). In addition to commercial aviation demand, military applications for heat treat plate and sheet include aircraft frames and skins and armor plating to protect ground vehicles from explosive devices.

### **General engineering applications**

General engineering products consist primarily of standard catalog items sold to large metal distributors. These products have a wide range of uses, many of which involve further fabrication for numerous transportation and industrial end-use applications where machining of plate, rod and bar is intensive. Demand growth and cyclicity for general engineering products tend to mirror broad economic patterns and industrial activity in North America. Demand is also impacted by the destocking and restocking of inventory in the full supply chain.

### **Custom automotive and industrial applications**

We manufacture custom extruded/drawn and forged aluminum products for many automotive and industrial end uses, including consumer durables, electrical, machinery and equipment, automobile, light truck, heavy truck and truck trailer applications. Examples of the wide variety of custom products that we supply to the automotive industry are extruded products for anti-lock braking systems, drawn tube for drive shafts and forgings for suspension control arms and drive train yokes. Demand growth and cyclicity tend to mirror broad economic patterns and industrial activity in North America, with specific individual market segments such as automotive, heavy truck and truck trailer applications tracking their respective build rates.

### **RISK FACTORS**

Investing in our common stock involves risk. Before you invest in our common stock, you should carefully consider the matters discussed under the headings "Risk factors" and "Special note regarding forward-looking statements" and all other information contained in this prospectus.

### **OUR CORPORATE INFORMATION**

We were incorporated in February 1987 under Delaware law. Our principal executive offices are located at 27422 Portola Parkway, Suite 350, Foothill Ranch, California 92610-2831, and our telephone number at this address is (949) 614-1740. Our website is [www.kaiseraluminum.com](http://www.kaiseraluminum.com). Information on, or accessible through, our website is not a part of, and is not incorporated into, this prospectus.

The offering	
Common stock offered by the selling stockholder	2,517,955 shares
Common stock outstanding before and after the offering	20,525,660 shares
Over-allotment option	The selling stockholder has granted the underwriters a 30-day option to purchase up to 377,693 additional shares of our common stock to cover over-allotments.
Nasdaq Global Market symbol	KALU
Use of proceeds	We will receive no proceeds from the sale of common stock by the selling stockholder.
Transfer restrictions	Our common stock is subject to certain transfer restrictions that potentially prohibit or void transfers by any person or group that is, or as a result of such transfer would become, a 5% stockholder. See Description of capital stock Restrictions on Transfer of Common Stock.
Risk factors	You should carefully read and consider the information set forth under Risk factors, together with all of the other information set forth in this prospectus, before deciding to invest in shares of our common stock.

Unless we indicate otherwise, the number of shares of common stock shown to be outstanding before and after the offering is based on shares outstanding on September 15, 2006 and excludes 1,696,562 shares of common stock reserved and available for issuance under our equity incentive plan.

Summary consolidated financial and operating data

The following tables set forth our summary consolidated financial and operating data as of the dates and for the periods indicated below. The summary consolidated statement of income data for the three years ended December 31, 2003, 2004 and 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus.

The summary consolidated financial data as of and for the six months ended June 30, 2005 and 2006 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared our unaudited consolidated financial statements on the same basis as our audited consolidated financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results from the unaudited period. The summary consolidated financial and operating data as of and for the six months ended June 30, 2006 are not necessarily indicative of the results that may be obtained for a full year.

As a result of the effectiveness of our plan of reorganization on July 6, 2006, we adopted fresh start accounting in accordance with American Institute of Certified Professional Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, or SOP 90-7, as of July 1, 2006. Because SOP 90-7 requires us to restate our stockholder's equity to our reorganization value and to allocate such value to our assets and liabilities based on their fair values, our financial condition and results of operations after June 30, 2006 will not be comparable in some material respects to the financial condition or results of operations reflected in our historical financial statements at dates or for periods prior to July 1, 2006. This makes it difficult to assess our future prospects based on historical performance.

The summary unaudited pro forma balance sheet data as of June 30, 2006 show the hypothetical effects of our plan of reorganization and certain related actions as if we had emerged from chapter 11 bankruptcy on June 30, 2006 and the effect of adoption of fresh start accounting. However, while indicative, the pro forma amounts shown are based, in part, on certain assumptions and estimates, are unaudited, and are subject to change. The summary unaudited pro forma balance sheet data do not purport to be indicative of our actual financial position upon our emergence from chapter 11 bankruptcy.

The information presented in the following tables should be read in conjunction with Capitalization, Pro forma consolidated balance sheet, Selected historical consolidated financial data, Management's discussion and analysis of financial condition and results of operations and the consolidated financial statements and the notes thereto included elsewhere in this prospectus.

Statement of income data:	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
<b>(dollars in millions)</b>					
				<b>(unaudited)</b>	
				<b>(restated)<sup>(1)</sup></b>	
Net sales	\$ 710.2	\$ 942.4	\$ 1,089.7	\$ 544.3	\$ 689.8
Costs and expenses:					
Cost of products sold	681.2	852.2	951.1	477.4	596.4
Depreciation and amortization	25.7	22.3	19.9	10.1	9.8
Selling, administrative, research and development, and general	92.5	92.3	50.9	24.8	30.3
Other operating charges, net <sup>(2)</sup>	141.6	793.2	8.0	6.2	0.9
Total costs and expenses	941.0	1,760.0	1,029.9	518.5	637.4
Operating income (loss)	(230.8)	(817.6)	59.8	25.8	52.4
Other income (expense):					
Interest expense <sup>(3)</sup>	(9.1)	(9.5)	(5.2)	(3.2)	(0.8)
Reorganization items <sup>(4)</sup>	(27.0)	(39.0)	(1,162.1)	(17.1)	(15.0)
Other, net	(5.2)	4.2	(2.4)	(1.0)	1.2
Income (loss) before income taxes and discontinued operations	(272.1)	(861.9)	(1,109.9)	4.5	37.8
Provision for income taxes	(1.5)	(6.2)	(2.8)	(4.6)	(6.2)
Income (loss) from continuing operations	(273.6)	(868.1)	(1,112.7)	(0.1)	31.6
Discontinued operations:					
Gain (loss) from discontinued operations, net of income taxes, including minority interests	(514.7)	(5.3)	(2.5)	13.3	4.3
Gain from sale of commodity interests		126.6	366.2	365.6	
Income (loss) from discontinued operations <sup>(5)</sup>	(514.7)	121.3	363.7	378.9	4.3
Cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations			(4.7)	(4.7)	
Net income (loss)	\$ (788.3)	\$ (746.8)	\$ (753.7)	\$ 374.1	\$ 35.9

Six months ended

Operating data:	Year ended December 31,			June 30,	
	2003	2004	2005	2005	2006
	(unaudited)				
Shipments (millions of pounds):					
Fabricated products	372.3	458.6	481.9	244.5	273.5
Primary aluminum	158.7	156.6	155.6	76.9	77.1
Total	531.0	615.2	637.5	321.4	350.6
Average realized third-party sales price (per pound):					
Fabricated products	\$ 1.61	\$ 1.76	\$ 1.95	\$ 1.93	\$ 2.16
Primary aluminum	\$ 0.71	\$ 0.85	\$ 0.95	\$ 0.94	\$ 1.28
Capital expenditures (in millions)	\$ 8.9	\$ 7.6	\$ 31.0	\$ 8.6	\$ 28.1

*(footnotes on following page)*

Balance sheet data:	As of June 30, 2006	
	Historical	Pro Forma
	(dollars in millions)	
		(unaudited)
Cash and cash equivalents	\$ 37.3	\$ 36.9
Working capital <sup>(6)</sup>	123.4	202.8
Total assets	1,597.9	767.4
Long-term debt	1.2	50.0
Stockholders' equity (deficit)	(3,105.3)	450.0

- (1) We restated our operating results for the six months ended June 30, 2005. See Note 6 to our interim consolidated financial statements for information regarding the restatement.
- (2) Other operating charges, net in 2003 and 2004 include certain significant charges associated with the termination of certain pension and post-retirement medical plans, a settlement in respect of a past labor matter and other items. These items are detailed in Note 6 to our audited consolidated financial statements.
- (3) Excludes unrecorded contractual interest expense of \$95.0 million in each of 2003, 2004 and 2005 and \$47.4 million in the six months ended June 30, 2005 and 2006.
- (4) Reorganization items for 2005 includes an approximate \$1.1 billion charge as a result of the value of an intercompany note treated as being for the benefit of certain creditors. See Note 1 to our audited consolidated financial statements.
- (5) Income (loss) from discontinued operations includes a substantial impairment charge in 2003 and gains in 2004 and 2005 in connection with the sale of certain of our commodity-related interests. See Note 3 to our audited consolidated financial statements.
- (6) Working capital represents total current assets minus total current liabilities.

Risk factors

*An investment in our common stock involves various risks. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including our consolidated financial statements and the notes thereto and Management's discussion and analysis of financial condition and results of operations. The risks described below are those which we believe are the material risks we face. The occurrence of any of the events discussed below could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows. As a result, the trading price of our common stock could decline and you may lose a part or all of your investment.*

**RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY**

**We recently emerged from chapter 11 bankruptcy, have sustained losses in the past and may not be able to maintain profitability.**

Because we recently emerged from chapter 11 bankruptcy and have in the past sustained losses, we cannot assure you that we will be able to maintain profitability in the future. We sought protection under chapter 11 of the Bankruptcy Code in February 2002. We emerged from bankruptcy as a reorganized entity on July 6, 2006. Prior to and during this reorganization, we incurred substantial net losses, including net losses of \$788.3 million, \$746.8 million and \$753.7 million in the fiscal years ended December 31, 2003, 2004 and 2005, respectively. If we cannot maintain profitability, the value of your investment in Kaiser may decline.

**You may not be able to compare our historical financial information to our future financial information, which will make it more difficult to evaluate an investment in our company.**

As a result of the effectiveness of our plan of reorganization on July 6, 2006, we are operating our business under a new capital structure. In addition, we adopted fresh start accounting in accordance with SOP 90-7 as of July 1, 2006. Because SOP 90-7 requires us to account for our assets and liabilities at their fair values as of the effectiveness of our plan of reorganization, our financial condition and results of operations from and after July 1, 2006 will not be comparable in some material respects to the financial condition or results of operations reflected in our historical financial statements at dates or for periods prior to July 1, 2006. This may make it difficult to assess our future prospects based on historical performance.

**We operate in a highly competitive industry which could adversely affect our profitability.**

The fabricated products segment of the aluminum industry is highly competitive. Competition in the sale of fabricated aluminum products is based upon quality, availability, price and service, including delivery performance. Many of our competitors are substantially larger than we are and have greater financial resources than we do, and may have other strategic advantages, including more efficient technologies or lower raw material and energy costs. Our facilities are primarily located in North America. To the extent that our competitors have production facilities located outside North America, they may be able to produce similar products at a lower cost. We may not be able to adequately reduce costs to compete with these products. Increased competition could cause a reduction in our shipment volumes and profitability or increase our expenditures, any one of which could have a material adverse effect on our financial position, results of operations and cash flows.



## Risk factors

### **We depend on a core group of significant customers.**

In 2005 and for the six months ended June 30, 2006, our largest fabricated products customer, Reliance Steel & Aluminum, accounted for approximately 11% and 19%, respectively, of our fabricated products net sales, and our five largest customers accounted for approximately 33% and 39%, respectively, of our fabricated products net sales. The increase in the percentage of our net sales to our largest fabricated products customer is the result of Reliance acquiring one of our other top five customers in the second quarter of 2006. Sales to Reliance and the other customer (on a combined basis) accounted for approximately 19% of our net sales in 2005 and for the six months ended June 30, 2006. If our existing relationships with significant customers materially deteriorate or are terminated and we are not successful in replacing lost business, our financial position, results of operations and cash flows could be materially and adversely affected. The loss of Reliance as a customer could have a material adverse effect on our financial position, results of operations and cash flows. In addition, a significant downturn in the business or financial condition of any of our significant customers could materially and adversely affect our financial position, results of operations and cash flows.

Some of our current and former international customers, particularly automobile manufacturers in Europe and Japan, were reluctant to do business with us while we underwent chapter 11 bankruptcy reorganization, presumably because of their unfamiliarity with U.S. bankruptcy laws and the uncertainty about the strength of our business. Although we believe our emergence from chapter 11 bankruptcy should mitigate such reluctance, we cannot assure you that this will be the case.

### **Our industry is very sensitive to foreign economic, regulatory and political factors that may adversely affect our business.**

We import primary aluminum from, and manufacture fabricated products used in, foreign countries. We also own 49% of Anglesey, which owns and operates an aluminum smelter in the United Kingdom. We purchase alumina to supply to Anglesey and we purchase aluminum from Anglesey for sale to a third party in the United Kingdom. Factors in the politically and economically diverse countries in which we operate or have customers or suppliers, including inflation, fluctuations in currency and interest rates, competitive factors, civil unrest and labor problems, could affect our financial position, results of operations and cash flows. Our financial position, results of operations and cash flows could also be adversely affected by:

- acts of war or terrorism or the threat of war or terrorism;
- government regulation in the countries in which we operate, service customers or purchase raw materials;
- the implementation of controls on imports, exports or prices;
- the adoption of new forms of taxation;
- the imposition of currency restrictions;
- the nationalization or appropriation of rights or other assets; and
- trade disputes involving countries in which we operate, service customers or purchase raw materials.

## Risk factors

### **The aerospace industry is cyclical and downturns in the aerospace industry, including downturns resulting from acts of terrorism, could adversely affect our revenues and profitability.**

We derive a significant portion of our revenue from products sold to the aerospace industry, which is highly cyclical and tends to decline in response to overall declines in industrial production. As a result, our business is affected by overall levels of industrial production and fluctuations in the aerospace industry. The commercial aerospace industry is historically driven by the demand from commercial airlines for new aircraft. Demand for commercial aircraft is influenced by airline industry profitability, trends in airline passenger traffic, by the state of U.S. and world economies and numerous other factors, including the effects of terrorism. The military aerospace cycle is highly dependent on U.S. and foreign government funding; however, it is also driven by the effects of terrorism, a changing global political environment, U.S. foreign policy, regulatory changes, the retirement of older aircraft and technological improvements to new aircraft engines that increase reliability. The timing, duration and severity of cyclical upturns and downturns cannot be predicted with certainty. A future downturn or reduction in demand could have a material adverse effect on our financial position, results of operations and cash flows.

In addition, because we and other suppliers are expanding production capacity to alleviate the current supply shortage for heat treat aluminum plate, heat treat plate prices may eventually begin to decrease as production capacity increases. Although we have implemented cost reduction and sales growth initiatives to minimize the impact on our results of operations as heat treat plate prices return to more typical historical levels, these initiatives may not be adequate and our financial position, results of operations and cash flows may be adversely affected.

A number of major airlines have also recently undergone or are undergoing chapter 11 bankruptcy and continue to experience financial strain from high fuel prices. Continued financial instability in the industry may lead to reduced demand for new aircraft that utilize our products, which could adversely affect our financial position, results of operations and cash flows.

The aerospace industry suffered significantly in the wake of the events of September 11, 2001, resulting in a sharp decrease globally in new commercial aircraft deliveries and order cancellations or deferrals by the major airlines. This decrease reduced the demand for our Aero/ HS products. While there has been a recovery since 2001, the threat of terrorism and fears of future terrorist acts could negatively affect the aerospace industry and our financial position, results of operations and cash flows.

### **Our customers may reduce their demand for aluminum products in favor of alternative materials.**

Our fabricated aluminum products compete with products made from other materials, such as steel and composites, for various applications. For instance, the commercial aerospace industry has used and continues to evaluate the further use of alternative materials to aluminum, such as composites, in order to reduce the weight and increase the fuel efficiency of aircraft. The willingness of customers to accept substitutions for aluminum or the ability of large customers to exert leverage in the marketplace to reduce the pricing for fabricated aluminum products could adversely affect the demand for our products, particularly our Aero/ HS products, and thus adversely affect our financial position, results of operations and cash flows.

### **Downturns in the automotive industry could adversely affect our net sales and profitability.**

The demand for many of our general engineering and custom products is dependent on the production of automobiles, light trucks and heavy duty vehicles in North America. The automotive industry is

## Risk factors

highly cyclical, as new vehicle demand is dependent on consumer spending and is tied closely to the overall strength of the North American economy. The North American automotive industry is facing costly inventory corrections which could adversely affect our net sales and profitability. Recent production cuts announced by General Motors Corporation, Ford Motor Company and DaimlerChrysler AG, as well as cutbacks in heavy duty truck production, may adversely affect the demand for our products. If the financial condition of these auto manufacturers continues to be unsteady or if any of the three seek restructuring or relief through bankruptcy proceedings, the demand for our products may decline, adversely affecting our net sales and profitability. Any decline in the demand for new automobiles, particularly in the United States, could have a material adverse effect on our financial position, results of operations and cash flows. Seasonality experienced by the automotive industry in the third and fourth quarters of the calendar year also affects our financial position, results of operations and cash flows.

### **Because our products are often components of our customers' products, reductions in demand for our products may be more severe than, and may occur prior to reductions in demand for, our customers' products.**

Our products are often components of the end-products of our customers. Customers purchasing our fabricated aluminum products, such as those in the cyclical automotive and aerospace industries, generally require significant lead time in the production of their own products. Therefore, demand for our products may increase prior to demand for our customers' products. Conversely, demand for our products may decrease as our customers anticipate a downturn in their respective businesses. As demand for our customers' products begins to soften, our customers typically reduce or eliminate their demand for our products and meet the reduced demand for their products using their own inventory without replenishing that inventory, which results in a reduction in demand for our products that is greater than the reduction in demand for their products. This amplified reduction in demand for our products in the event of a downswing in our customers' respective businesses may adversely affect our financial position, results of operations and cash flows.

### **Our business is subject to unplanned business interruptions which may adversely affect our performance.**

The production of fabricated aluminum products is subject to unplanned events such as explosions, fires, inclement weather, natural disasters, accidents, transportation interruptions and supply interruptions. Operational interruptions at one or more of our production facilities, particularly interruptions at our Trentwood facility in Spokane, Washington where our production of plate and sheet is concentrated, could cause substantial losses in our production capacity. Furthermore, because customers may be dependent on planned deliveries from us, customers that have to reschedule their own production due to our delivery delays may be able to pursue financial claims against us, and we may incur costs to correct such problems in addition to any liability resulting from such claims. Such interruptions may also harm our reputation among actual and potential customers, potentially resulting in a loss of business. To the extent these losses are not covered by insurance, our financial position, results of operations and cash flows may be adversely affected by such events.

### **Covenants and events of default in our debt instruments could limit our ability to undertake certain types of transactions and adversely affect our liquidity.**

Our revolving credit facility and term loan facility contain negative and financial covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict our activities, including restrictions on creating liens, engaging in mergers, consolidations and sales of assets, incurring additional

## **Risk factors**

indebtedness, providing guaranties, engaging in different businesses, making loans and investments, making certain dividends, debt and other restricted payments, making certain prepayments of indebtedness, engaging in certain transactions with affiliates and entering into certain restrictive agreements. If we fail to satisfy the covenants set forth in our revolving credit facility and term loan facility or another event of default occurs under these facilities, the maturity of the loans could be accelerated or, in the case of the revolving credit facility, we could be prohibited from borrowing for our working capital needs. If the loans are accelerated and we do not have sufficient cash on hand to pay all amounts due, we could be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all. If we cannot borrow under the revolving credit facility to meet our working capital needs, we would need to seek additional financing, if available, or curtail our operations.

### **We depend on our subsidiaries for cash to meet our obligations and pay any dividends.**

We are a holding company. Our subsidiaries conduct all of our operations and own substantially all of our assets. Consequently, our cash flow and our ability to meet our obligations or pay dividends to our stockholders depend upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of dividends, tax sharing payments or otherwise. Our subsidiaries' ability to make any payment will depend on their earnings, the terms of their indebtedness (including the revolving credit facility and term loan facility), tax considerations and legal restrictions.

### **We may not be able to successfully implement our productivity and cost reduction initiatives.**

We have undertaken and may continue to undertake productivity and cost reduction initiatives to improve performance, including deployment of company-wide business improvement methodologies, such as the Kaiser Production System, which involves the integrated utilization of application and advanced process engineering and business improvement methodologies such as lean enterprise, total productive maintenance and six sigma. We cannot assure you that these initiatives will be completed or beneficial to us or that any estimated cost saving from such activities will be realized. Even if we are able to generate new efficiencies successfully in the short to medium term, we may not be able to continue to reduce cost and increase productivity over the long term.

### **Our profitability could be adversely affected by increases in the cost of raw materials.**

The price of primary aluminum has historically been subject to significant cyclical price fluctuations, and the timing of changes in the market price of aluminum is largely unpredictable. Although our pricing of fabricated aluminum products is generally intended to pass the risk of price fluctuations on to our customers, we may not be able to pass on the entire cost of such increases to our customers or offset fully the effects of higher costs for other raw materials, which may cause our profitability to decline. There will also be a potential time lag between increases in prices for raw materials under our purchase contracts and the point when we can implement a corresponding increase in price under our sales contracts with our customers. As a result, we may be exposed to fluctuations in raw materials prices, including aluminum, since, during the time lag, we may have to bear the additional cost of the price increase under our purchase contracts. If these events were to occur, they could have a material adverse effect on our financial position, results of operations and cash flows. Furthermore, we are party to arrangements based on fixed prices that include the primary aluminum price component, so that we bear the entire risk of rising aluminum prices, which may cause our profitability to decline. In addition, an increase in raw materials prices may cause some of our customers to substitute other materials for our products, adversely affecting our results of operations due to both a decrease in

## **Risk factors**

the sales of fabricated aluminum products and a decrease in demand for the primary aluminum produced at Anglesey. We are responsible for selling alumina to Anglesey in proportion to our ownership percentage at a predetermined price. Such alumina currently is purchased under contracts that extend through 2007 at prices that are tied to primary aluminum prices. We will need to secure a new alumina contract for the period after 2007. We cannot assure you that we will be able to secure a source of alumina at comparable prices. If we are unable to do so, our financial position, results of operations and cash flows associated with our primary aluminum business segment may be adversely affected.

### **The price volatility of energy costs may adversely affect our profitability.**

Our income and cash flows depend on the margin above fixed and variable expenses (including energy costs) at which we are able to sell our fabricated aluminum products. The volatility in costs of fuel, principally natural gas, and other utility services, principally electricity, used by our production facilities affect operating costs. Fuel and utility prices have been, and will continue to be, affected by factors outside our control, such as supply and demand for fuel and utility services in both local and regional markets. The price of the front-month futures contract for natural gas per million British thermal units as reported on NYMEX ranged between \$4.43 and \$9.58 in 2003, between \$4.57 and \$8.75 in 2004 and between \$5.79 and \$15.38 in 2005. Typically, electricity prices fluctuate with natural gas prices which increases our exposure to energy costs. Future increases in fuel and utility prices may have an adverse effect on our financial position, results of operations and cash flows.

### **Our hedging programs may limit the income and cash flows we would otherwise expect to receive if our hedging program were not in place.**

From time to time in the ordinary course of business, we may enter into hedging transactions to limit our exposure to price risks relating to primary aluminum prices, energy prices and foreign currency. To the extent that these hedging transactions fix prices or exchange rates and the prices for primary aluminum exceed the fixed or ceiling prices established by these hedging transactions or energy costs or foreign exchange rates are below the fixed prices, our income and cash flows will be lower than they otherwise would have been.

### **The expiration of the power agreement for Anglesey may adversely affect our cash flows and affect our hedging programs.**

The agreement under which Anglesey receives power expires in September 2009, and the nuclear facility which supplies such power is scheduled to cease operations shortly thereafter. As of the date of this prospectus, Anglesey has not identified a source from which to obtain sufficient power to sustain its operations on reasonably acceptable terms thereafter, and we cannot assure you that Anglesey will be able to do so. If, as a result, Anglesey's aluminum production is curtailed or its costs are increased, our cash flows may be adversely affected. In addition, any decrease in Anglesey's production would reduce or eliminate the natural hedge against rising primary aluminum prices created by our participation in the primary aluminum market and, accordingly, we may deem it appropriate to increase our hedging activity to limit exposure to such price risks, potentially adversely affecting our financial position, results of operations and cash flows.

If Anglesey cannot obtain sufficient power, Anglesey's operations will likely be shut down. This process may involve significant costs to Anglesey which would decrease or eliminate its ability to pay dividends. The process of shutting down operations may involve transition complications which may prevent Anglesey from operating at full capacity until the expiration of the power contract which

## **Risk factors**

would begin to negatively affect our financial position, results of operations and cash flows before the expiration of the power contract.

### **Our ability to keep key management and other personnel in place and our ability to attract management and other personnel may affect our performance.**

We depend on our senior executive officers and other key personnel to run our business. The loss of any of these officers or other key personnel could materially and adversely affect our operations. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to improve manufacturing operations, conduct research activities successfully or develop marketable products.

### **Our production costs may increase and we may not sustain our sales and earnings if we fail to maintain satisfactory labor relations.**

A significant number of our employees are represented by labor unions under labor contracts with varying durations and expiration dates. We may not be able to renegotiate our labor contracts when they expire on satisfactory terms or at all. A failure to do so may increase our costs or cause us to limit or halt operations before a new agreement is reached. In addition, our existing labor agreements may not prevent a strike or work stoppage, and any work stoppage could have a material adverse effect on our financial position, results of operations and cash flows.

### **Our business is regulated by a wide variety of health and safety laws and regulations and compliance may be costly and may adversely affect our results of operations.**

Our operations are regulated by a wide variety of health and safety laws and regulations. Compliance with these laws and regulations may be costly and could have a material adverse effect on our results of operations. In addition, these laws and regulations are subject to change at any time, and we can give you no assurance as to the effect that any such changes would have on our operations or the amount that we would have to spend to comply with such laws and regulations as so changed.

### **Environmental compliance, clean up and damage claims may decrease our cash flow and adversely affect our results of operations.**

We are subject to numerous environmental laws and regulations with respect to, among other things: air and water emissions and discharges; the generation, storage, treatment, transportation and disposal of solid and hazardous waste; and the release of hazardous or toxic substances, pollutants and contaminants into the environment. Compliance with these environmental laws is and will continue to be costly.

Our operations, including our operations conducted prior to our emergence from chapter 11 bankruptcy, have subjected, and may in the future subject, us to fines or penalties for alleged breaches of environmental laws and to obligations to perform investigations or clean up of the environment. We may also be subject to claims from governmental authorities or third parties related to alleged injuries to the environment, human health or natural resources, including claims with respect to waste disposal sites, the clean up of sites currently or formerly used by us or exposure of individuals to hazardous materials. Any investigation, clean-up or other remediation costs, fines or penalties, or costs to resolve third-party claims may be costly and could have a material adverse effect on our financial position, results of operations and cash flows.

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We have accrued, and will accrue, for costs relating to the above matters that are reasonably expected to be incurred based on available information. However, it is possible that actual costs may differ, perhaps significantly, from the amounts expected or accrued, and such differences could have a material adverse effect on our financial position, results of operations and cash flows. In addition, new laws or regulations or changes to existing laws and regulations may occur, and we cannot assure you as to the amount that we would have to spend to comply with such new or amended laws and regulations or the effects that they would have on our financial position, results of operations and cash flows.

### **Other legal proceedings or investigations or changes in the laws and regulations to which we are subject may adversely affect our results of operations.**

In addition to the environmental matters described above, we may from time to time be involved in, or be the subject of, disputes, proceedings and investigations with respect to a variety of matters, including matters related to health and safety, personal injury, employees, taxes and contracts, as well as other disputes and proceedings that arise in the ordinary course of business. It could be costly to defend against these claims or any investigations involving them, whether meritorious or not, and legal proceedings and investigations could divert management's attention as well as operational resources, negatively affecting our financial position, results of operations and cash flows. It could also be costly to make payments on account of any such claims.

Additionally, as with the environmental laws and regulations to which we are subject, the other laws and regulations which govern our business are subject to change at any time, and we cannot assure you as to the amount that we would have to spend to comply with such laws and regulations as so changed or otherwise as to the effect that any such changes would have on our operations.

### **Product liability claims against us could result in significant costs or negatively affect our reputation and could adversely affect our results of operations.**

We are sometimes exposed to warranty and product liability claims. We cannot assure you that we will not experience material product liability losses arising from such claims in the future. We generally maintain insurance against many product liability risks but we cannot assure you that our coverage will be adequate for liabilities ultimately incurred. In addition, we cannot assure you that insurance will continue to be available to us on terms acceptable to us. A successful claim that exceeds our available insurance coverage could have a material adverse effect on our financial position, results of operations and cash flows.

### **Our Trentwood expansion project may not be completed as scheduled.**

We are currently in the process of a \$105 million expansion of production capacity and gauge capability at our Trentwood facility. While the project is currently on schedule to be completed in 2008, our ability to fully complete this project, and the timing and costs of doing so, are subject to various risks associated with all major construction projects, many of which are beyond our control, including technical or mechanical problems. If we are unable to fully complete this project or if the actual costs for this project exceed our current expectations, our financial position, results of operations and cash flows would be adversely affected. In addition, we have contracts currently in place expected to be fulfilled with production from the expanded facility. If completion of the expansion is significantly delayed or the expansion is not fully completed, we may not be able to meet shipping deadlines on time or at all, which would adversely affect our results of operations, may lead to litigation and may damage our relationships with these customers and our reputation generally.

## Risk factors

### **We may not be able to successfully execute our strategy of growth through acquisitions.**

A component of our growth strategy is to acquire fabricated products assets in order to complement our product portfolio. Our ability to do so will be dependent upon a number of factors, including our ability to identify acceptable acquisition candidates, consummate acquisitions on favorable terms, successfully integrate acquired assets, obtain financing to fund acquisitions and support our growth and many other factors beyond our control. Risks associated with acquisitions include those relating to:

diversion of management's time and attention from our existing business;

challenges in managing the increased scope, geographic diversity and complexity of operations;

difficulties in integrating the financial, technological and management standards, processes, procedures and controls of the acquired business with those of our existing operations;

liability for known or unknown environmental conditions or other contingent liabilities not covered by indemnification or insurance;

greater than anticipated expenditures required for compliance with environmental or other regulatory standards or for investments to improve operating results;

difficulties in achieving anticipated operational improvements;

incurrence of additional indebtedness to finance acquisitions or capital expenditures relating to acquired assets; and

issuance of additional equity, which could result in further dilution of the ownership interests of existing stockholders.

We may not be successful in acquiring additional assets, and any acquisitions that we do consummate may not produce the anticipated benefits or may have adverse effects on our financial position, results of operations and cash flows.

### **We have reported one material weakness in our internal control over financial reporting, which resulted in the restatement of our financial statements, and one significant deficiency. If the material weakness is not corrected, it could continue to adversely affect our internal controls and financial reporting.**

During the reporting and closing process relating to the preparation of our December 31, 2005 financial statements, we concluded that our controls and procedures were not effective as of December 31, 2005 due to a material weakness in internal control over financial reporting relating to our accounting for derivative financial instruments. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. We concluded that our procedures relating to hedging transactions were not designed effectively and that our documentation did not comply with certain accounting rules. While we are working to modify our documentation, requalify certain derivative transactions for treatment as hedges, and have engaged outside experts to perform periodic reviews, we cannot assure you that such improved controls will prevent any or all instances of non-compliance. As a result of the material weakness, we restated our financial statements for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005. See Management's discussion and analysis of financial condition and results of operations Controls and Procedures for more information.

We also concluded that the appropriate post-emergence accounting treatment for VEBA payments made in 2005 required presentation of VEBA payments as a reduction of pre-petition retiree medical





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obligations rather than as a period expense, as we had concluded in prior quarters. Our prior treatment of VEBA payments was identified as a significant deficiency in our internal control over financial reporting. We corrected this deficiency during the preparation of our December 31, 2005 financial statements.

Although we believe we have or will address these issues with the remedial measures that we have implemented or plan to implement, the measures we have taken to date and any future measures may not be effective, and we may not be able to implement and maintain effective internal control over financial reporting in the future. In addition, other deficiencies in our internal controls may be discovered in the future.

Any failure to correct the material weakness or to implement new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure also could affect the ability of our management to certify that our internal controls are effective when it provides an assessment of our internal control over financial reporting, and could affect the results of our independent registered public accounting firm's attestation report regarding our management's assessment. Inferior internal controls and further related restatements could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

### **We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.**

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 by no later than December 31, 2007. We are in the process of evaluating our internal controls systems to allow management to report on, and our independent auditors to audit, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404. However, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable Securities and Exchange Commission and Public Company Accounting Oversight Board rules and regulations that remain unremediated. We will be required to report, among other things, control deficiencies that constitute a material weakness or changes in internal controls that, or are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory authorities such as the Securities and Exchange Commission or by Nasdaq. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may not have access to the capital markets, and our stock price may be adversely affected.

### **We may not be able to adequately protect proprietary rights to our technology.**

Our success will depend in part upon our proprietary technology and processes. Although we attempt to protect our intellectual property through patents, trademarks, trade secrets, copyrights, confidentiality and nondisclosure agreements and other measures, these measures may not be adequate to protect such intellectual property, particularly in foreign countries where the laws may offer significantly less intellectual property protection than is offered by the laws of the United States. In addition, any attempts to enforce our intellectual property rights, even if successful, could result in costly and prolonged litigation, divert management's attention and adversely affect income and cash flows. Failure to

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adequately protect our intellectual property may adversely affect our results of operations as our competitors would be able to utilize such property without having had to incur the costs of developing it, thus potentially reducing our relative profitability. Furthermore, we may be subject to claims that our technology infringes the intellectual property rights of another. Even if without merit, those claims could result in costly and prolonged litigation, divert management's attention and adversely affect our income and cash flows. In addition, we may be required to enter into licensing agreements in order to continue using technology that is important to our business. However, we may be unable to obtain license agreements on acceptable terms, which could negatively affect our financial position, results of operations and cash flows.

### **We may not be able to utilize all of our net operating loss carry-forwards.**

At December 31, 2005, we had net operating loss carry-forwards of over \$500 million for federal income tax purposes. The amount of net operating loss carry-forwards available in any year to offset our net taxable income will be reduced or eliminated if we experience a change of ownership as defined in the Internal Revenue Code. We have entered into a stock transfer restriction agreement with the Union VEBA Trust, our largest stockholder, and our certificate of incorporation prohibits and voids certain transfers of our common stock in order to reduce the risk that a change of ownership will jeopardize our net operating loss carry-forwards. See Description of capital stock Restrictions on Transfer of Common Stock. Because U.S. tax law limits the time during which carry-forwards may be applied against future taxes, we may not be able to take full advantage of the carry-forwards for federal income tax purposes. In addition, the tax laws pertaining to net operating loss carry-forwards may be changed from time to time such that the net operating loss carry-forwards may be reduced or eliminated. If the net operating loss carry-forwards become unavailable to us or are fully utilized, our future income will not be shielded from federal income taxation, thereby reducing funds otherwise available for general corporate purposes.

### **RISKS RELATING TO THE SECURITIES MARKETS AND OWNERSHIP OF OUR COMMON STOCK**

#### **Our current common stock has a limited trading history and a small public float which may limit development of a market for our common stock and increase the likelihood of significant volatility in the market for our common stock.**

In order to reduce the risk that any change in our ownership would jeopardize the preservation of our federal income tax attributes, including net operating loss carry-forwards, for purposes of Sections 382 and 383 of the Internal Revenue Code, upon emergence from chapter 11 bankruptcy, we entered into a stock transfer restriction agreement with our largest stockholder, the Union VEBA Trust, and amended and restated our certificate of incorporation to include restrictions on transfers involving 5% ownership. These transfer restrictions could hinder development of an active market for our common stock. In addition, the market price of our common stock may be subject to significant fluctuations in response to numerous factors, including variations in our annual or quarterly financial results or those of our competitors, changes by financial analysts in their estimates of our future earnings, substantial amounts of our common stock being sold into the public markets upon the expiration of share transfer restrictions, which expire in July 2016, or upon the occurrence of certain events relating to tax benefits available under section 382 of the Internal Revenue Code, conditions in the economy in general or in the fabricated aluminum products industry in particular or unfavorable publicity.

#### **Our net sales, operating results and profitability may vary from period to period, which may lead to volatility in the trading price of our stock.**

Our financial and operating results may be significantly below the expectations of public market analysts and investors and the price of our common stock may decline due to the following factors:

volatility in the spot market for primary aluminum and energy costs;

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our annual accruals for variable payment obligations to the Union VEBA Trust and Salaried Retiree VEBA Trust;

non-cash charges including last-in, first-out, or LIFO, inventory charges and impairments;

global economic conditions;

unanticipated interruptions of our operations for any reason;

variations in the maintenance needs for our facilities;

unanticipated changes in our labor relations; and

cyclical aspects impacting demand for our products.

**Our annual variable payment obligation to the Union VEBA Trust and Salaried Retiree VEBA Trust are linked with our profitability, which means that not all of our earnings will be available to our stockholders.**

We are obligated to make annual payments to the Union VEBA Trust and Salaried Retirees VEBA Trust calculated based on our profitability and therefore not all of our earnings will be available to our stockholders. The aggregate amount of our annual payments to these VEBAs is capped, however, at \$20 million and is subject to other limitations. As a result of these payment obligations, our earnings and cash flows may be reduced.

**A significant percentage of our stock is held by the Union VEBA Trust which may exert significant influence over us.**

The Union VEBA Trust owns 42.9% of our common stock. After completion of this offering, the Union VEBA Trust will hold 30.7% of our common stock, or 28.8% if the underwriters exercise their over-allotment option in full. As a result, the Union VEBA Trust will continue to have significant influence over matters requiring stockholder approval, including the composition of our board of directors. Further, to the extent that the Union VEBA Trust and some or all of the other substantial stockholders were to act in concert, they could control any action taken by our stockholders. This concentration of ownership could also facilitate or hinder proxy contests, tender offers, open market purchase programs, mergers or other purchases of our common stock that might otherwise give stockholders the opportunity to realize a premium over the then prevailing market price of our common stock or cause the market price of our common stock to decline. We cannot assure you that the interests of our major stockholders will not conflict with our interests or the interests of our other investors.

**The USW has director nomination rights through which it may influence us, and USW interests may not align with our interests or the interests of our other investors.**

Pursuant to an agreement, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, or USW, has been granted rights to nominate 40% of the candidates to be submitted to our stockholders for election to our board of directors. As a result, the directors nominated by the USW may have a significant voice in the decisions of our board of directors.

**We do not currently anticipate paying any dividends, and our payment of dividends and stock repurchases are subject to restriction.**

We have not declared or paid any cash dividends on our common stock since we filed chapter 11 bankruptcy in 2002. We currently intend to retain all earnings for the operation and expansion of our business and do not currently anticipate paying any dividends on our common stock. The declaration and payment of dividends, if any, in the future will be at the discretion of the board of directors and will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors. Accordingly, from time to time, the board may declare dividends, though



## Risk factors

we can give you no assurance in this regard. Moreover, our revolving credit facility and our term loan facility restrict our ability to declare or pay dividends or repurchase any shares of our common stock. In addition, significant repurchases of our shares of common stock may jeopardize the preservation of our federal income tax attributes, including our net operating loss carry-forwards.

### **Our certificate of incorporation includes transfer restrictions that may void transactions in our common stock effected by 5% stockholders.**

Our certificate of incorporation places restrictions on transfer of our equity securities if either (1) the transferor holds 5% or more of the fair market value of all of our issued and outstanding equity securities or (2) as a result of the transfer, either any person would become such a 5% stockholder or the percentage stock ownership of any such 5% stockholder would be increased. These restrictions are subject to exceptions described in Description of capital stock. Any transfer that violates these restrictions will be unwound as provided in our certificate of incorporation. Moreover, as indicated below, these provisions may make our stock less attractive to large institutional holders, and may also discourage potential acquirers from attempting to take over our company. As a result, these transfer restrictions may have the effect of delaying or deterring a change of control of our company and may limit the price that investors might be willing to pay in the future for shares of our common stock.

### **Delaware law, our governing documents and the stock transfer restriction agreement we entered into as part of our plan of reorganization may impede or discourage a takeover, which could adversely affect the value of our common stock.**

Provisions of Delaware law, our certificate of incorporation and the stock transfer restriction agreement with the Union VEBA Trust may have the effect of discouraging a change of control of our company or deterring tender offers for our common stock. We are currently subject to anti-takeover provisions under Delaware law. These anti-takeover provisions impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. Additionally, provisions of our certificate of incorporation and bylaws impose various procedural and other requirements, which could make it more difficult for stockholders to effect some corporate actions. For example, our certificate of incorporation authorizes our board of directors to determine the rights, preferences and privileges and restrictions of unissued shares of preferred stock without any vote or action by our stockholders. Thus, our board of directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of common stock. Our certificate of incorporation also divides our board of directors into three classes of directors who serve for staggered terms. A significant effect of a classified board of directors may be to deter hostile takeover attempts because an acquirer could experience delays in replacing a majority of directors. Moreover, stockholders are not permitted to call a special meeting. As indicated above, our certificate of incorporation prohibits certain transactions in our common stock involving 5% stockholders or parties who would become 5% stockholders as a result of the transaction. In addition, we are party to a stock transfer restriction agreement with the Union VEBA Trust which limits its ability to transfer our common stock. The general effect of the transfer restrictions in the stock transfer restriction agreement and our certificate of incorporation is to ensure that a change in ownership of more than 45% of our outstanding common stock cannot occur in any three-year period. These rights and provisions may have the effect of delaying or deterring a change of control of our company and may limit the price that investors might be willing to pay in the future for shares of our common stock. See Description of capital stock.

Special note regarding forward-looking statements

This prospectus contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this prospectus, including in the sections entitled Prospectus summary, Risk factors, Pro forma consolidated balance sheet, Management's discussion and analysis of financial condition and results of operations, Recent reorganization, Industry overview and Business. These forward-looking statements can be identified by the use of forward-looking terminology such as believes, expects, may, estimates, will, should, plans or anticipates, or the negative of the foregoing or other variations or comparable terminology, or by discussions of strategy.

Potential investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary from those in the forward-looking statements as a result of various factors. These factors include:

the effectiveness of management's strategies and decisions;

general economic and business conditions, including cyclicity and other conditions in the aerospace and other end markets we serve;

developments in technology;

new or modified statutory or regulatory requirements;

changing prices and market conditions; and

the other factors discussed under Risk factors.

Potential investors are urged to consider these factors and the other factors described under Risk factors carefully in evaluating any forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included herein are made only as of the date of this prospectus, and we undertake no obligation to update any information contained in this prospectus or to publicly release the results of any revisions to any forward-looking statements that may be made to reflect events or circumstances that occur, or that we become aware of, after the date of this prospectus.

Use of proceeds

All of the shares of common stock offered in this prospectus are being sold by the selling stockholder. We will not receive any proceeds from the sale of shares by the selling stockholder.

Dividend policy

We have not declared or paid any cash dividends on our common stock since we filed chapter 11 bankruptcy in 2002. We currently intend to retain all earnings for the operation and expansion of our business and do not currently anticipate paying any dividends on our common stock. The declaration and payment of dividends, if any, in the future will be at the discretion of the board of directors and will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors. Accordingly, from time to time, the board may declare dividends, though we can give no assurance in this regard.

In addition, our revolving credit facility and our term loan facility restrict our ability to declare or pay, directly or indirectly, dividends. Under these credit arrangements we may pay cash dividends only if:

we are not in default or would not be in default as a result of the dividend; and

the amount of the dividends, together with the aggregate amount of all other dividend payments made by us after July 6, 2006, is less than the sum of (1) 50% of our net income for the period from July 6, 2006 to the end of our most recently ended fiscal quarter or if such net income is a deficit, less 100% of such deficit, (2) up to 100% of the proceeds to us from the sale or issuance of any of our equity securities remaining after making any mandatory prepayment under the revolving credit facility and term loan facility from the proceeds, provided that the proceeds are not used to make any investments or other dividend payments, and (3) \$2.0 million.

We cannot assure you that we will ever pay dividends or, if we do, as to the amount, frequency or form of any dividends.

Price range of common stock

Our common stock is traded on the Nasdaq Global Market under the symbol KALU. The following table sets forth the high and low sales prices of our common stock for each quarterly period since our common stock began trading on the Nasdaq Global Market on July 7, 2006:

	High	Low
2006:		
Third Quarter 2006 (from July 7, 2006 through September 26, 2006)	\$ 51.00	\$ 36.50

On September 26, 2006, the last reported sale price for our common stock on the Nasdaq Global Market was \$39.30 per share. As of September 15, 2006, there were approximately 225 common stockholders of record.



### Capitalization

The following table sets forth our cash and cash equivalents and our consolidated capitalization as of June 30, 2006 on an actual basis and on a pro forma basis as if our plan of reorganization and certain related actions had become effective and fresh start accounting had been adopted on such date. You should read this table in conjunction with Pro forma consolidated balance sheet, Selected historical consolidated financial data, Management's discussion and analysis of financial condition and results of operations and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of June 30, 2006	
	Historical	Pro forma
<b>(dollars in millions, except share and per share amounts)</b>		
Cash and cash equivalents	\$ 37.3	\$ 36.9
Long-term debt, including current portion <sup>(1)</sup>		
Revolving credit facility	\$	\$
Term loan facility		50.0
Other	1.2	
Total long-term debt	1.2	50.0
Stockholders' equity:		
Historical:		
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 79,671,531 shares issued and outstanding	0.8	
Preferred stock, \$0.05 par value, 20,000,000 shares authorized, no shares issued and outstanding		
Pro Forma:		
Common stock, \$0.01 par value, 45,000,000 shares authorized; 20,525,660 shares issued and outstanding <sup>(2)</sup>		0.2
Preferred stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued and outstanding		
Additional capital	538.0	449.8
Accumulated deficit	(3,635.3)	
Accumulated other comprehensive loss	(8.8)	
Total stockholders' equity (deficit)	(3,105.3)	450.0
Total capitalization	\$ (3,104.1)	\$ 500.0

(1) Excludes \$4,388.0 million of liabilities subject to compromise. See Pro forma consolidated balance sheet.

*(2) Excludes 1,696,562 shares of common stock reserved and available for issuance under our Equity Incentive Plan.*

## Pro forma consolidated balance sheet

The following unaudited pro forma consolidated balance sheet shows the hypothetical effects of our plan of reorganization and certain related actions as if we had emerged from chapter 11 bankruptcy on June 30, 2006. It also shows the effects of our adoption of fresh start accounting. However, while indicative, the adjustment amounts are based, in part, on certain assumptions and estimates, are unaudited, and are subject to change. The pro forma consolidated balance sheet does not purport to be indicative of our actual financial position upon our emergence from chapter 11 bankruptcy.

The following pro forma consolidated balance sheet should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this prospectus.

	As of June 30, 2006					
	Historical	Plan and adjustments <sup>(1)</sup>	Fresh start adjustments <sup>(2)</sup>	Pro forma opening balance sheet	Subsequent plan related adjustments	Adjusted pro forma
<b>(dollars in millions)</b>						
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 37.3	\$ (23.8)	\$	\$ 13.5	\$ 23.4 <sup>(3)(4)</sup>	\$ 36.9
Receivables:						
Trade, less allowance for doubtful receivables	114.1			114.1		114.1
Other	5.7			5.7		5.7
Inventories	123.1		49.1	172.2		172.2
Prepaid expenses and other current assets	34.0	(0.3)		33.7		33.7
Total current assets	314.2	(24.1)	49.1	339.2	23.4	362.6
Investments in and advances to unconsolidated affiliate	22.7			22.7		22.7
Property, plant, and equipment, net	242.7	(0.9)	55.1	296.9		296.9
Personal injury-related insurance recoveries receivable	963.3	(963.3)				
Goodwill and other intangibles	11.4	(11.4)	39.5	39.5		39.5
Other assets	43.6			43.6	2.1 <sup>(4)</sup>	45.7
Total	\$ 1,597.9	\$ (999.7)	\$ 143.7	\$ 741.9	\$ 25.5	\$ 767.4



## Pro forma consolidated balance sheet

As of June 30, 2006

	Historical	Plan and related adjustments <sup>(1)</sup>	Fresh start adjustments <sup>(2)</sup>	Pro forma opening balance sheet	Subsequent plan related adjustments	Adjusted pro forma
<b>(dollars in millions)</b>						
<b>Liabilities and Stockholders Equity</b>						
Liabilities not subject to compromise						
Current liabilities:						
Accounts payable	\$ 56.1	\$ (6.0)	\$	\$ 50.1	\$	\$ 50.1
Accrued interest	1.1	(1.1)				
Accrued salaries, wages, and related expenses	37.0	(3.9)	(0.2)	32.9	(4.5) <sup>(3)</sup>	28.4
Other accrued liabilities	61.0	5.8		66.8	(20.0) <sup>(3)</sup>	46.8
Payable to affiliate	33.0			33.0		33.0
Long-term debt current portion	1.1	(1.1)				
Discontinued operations current liabilities	1.5			1.5		1.5
Total current liabilities	190.8	(6.3)	(0.2)	184.3	(24.5)	159.8
Long-term liabilities	49.0	20.1	38.5 <sup>(5)</sup>	107.6		107.6
Long-term debt	1.2	(1.2)			50.0 <sup>(4)</sup>	50.0
Discontinued operations liabilities (liabilities subject to compromise)	73.5	(73.5)				
	314.5	(60.9)	38.3	291.9	25.5	317.4
Liabilities subject to compromise	4,388.0	(4,388.0)				
Minority Interests	0.7	(0.7)				
Commitments and contingencies						
Stockholders equity:						
Common stock	0.8	(0.6)		0.2		0.2

Additional paid-in capital	538.0		(88.2)	449.8	449.8	
Accumulated deficit	(3,635.3)	3,450.5	184.8			
Accumulated other comprehensive income (loss)	(8.8)		8.8			
Total stockholders equity (deficit)	(3,105.3)	3,449.9	105.4	450.0	450.0	
Total	\$ 1,597.9	\$ (999.7)	\$ 143.7	\$ 741.9	\$ 25.5	\$ 767.4

- (1) *Reflects effect on July 6, 2006 of implementing our plan of reorganization, including the settlement of liabilities subject to compromise, the distribution of cash and new shares of common stock, and the cancellation of all of our common stock outstanding immediately prior to the effective date of our plan of reorganization. Includes the reclassification of approximately \$21.0 million from liabilities subject to compromise to long-term liabilities in respect of certain pension and benefit plans retained by us pending the outcome of the litigation with the PBGC as discussed more fully in Note 12 to our interim consolidated financial statements.*
- (2) *Reflects the estimated adjustments to be made to adopt fresh start accounting. These adjustments include the write up of inventories and property, plant and equipment to their appraised values and the elimination of accumulated deficit and additional paid-in capital. The fresh start adjustments for intangible assets and stockholders equity are based on a yet to be finalized third party appraisal report and are, therefore, subject to change. Additionally, the pro forma*

*(footnotes continued on following page)*

**Pro forma consolidated balance sheet**

*adjustments assume that we do not meet the more likely than not criteria for recognition of net operating loss carry-forwards.*

- (3) Reflects the payment for accrued but unpaid professional fees (\$15.0 million), our share of certain success fees (\$5.0 million) as well as the initial payment of accrued long-term incentive awards pursuant to our Key Employee Retention Program. See Management Executive Compensation Key Employee Retention Program.*
- (4) Reflects our revolving credit facility, including payment of certain related fees totaling \$2.1 million, and borrowings of \$50.0 million under our term loan facility.*
- (5) Includes an estimated \$45.0 million in respect of our annual variable VEBA payment obligation based on an estimate of the discounted cash payments projected in calculating our reorganization value. An actuarial analysis computing the amount of the obligation assuming treatment of the VEBA obligation as a defined benefit plan with a cap has not been computed. Consequently, this estimate is subject to change.*

## Selected historical consolidated financial data

The following table sets forth selected historical consolidated financial data for our company. The selected consolidated statement of income data for the years ended December 31, 2001 and 2002, and the selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003, are derived from our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003, which are not included in this prospectus. The selected consolidated statement of income data for the years ended December 31, 2003, 2004 and 2005, and the selected consolidated balance sheet data as of December 31, 2004 and 2005, are derived from our audited consolidated financial statements included elsewhere in this prospectus.

The selected consolidated financial data as of and for the six months ended June 30, 2005 and 2006 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared our unaudited consolidated financial statements on the same basis as our audited consolidated financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. The selected consolidated financial and operating data as of and for the six months ended June 30, 2005 and 2006 are not necessarily indicative of the results that may be obtained for a full year.

The following selected consolidated financial data should be read in conjunction with Management's discussion and analysis of financial condition and results of operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus.

As a result of the effectiveness of our plan of reorganization on July 6, 2006, we adopted fresh start accounting in accordance with SOP 90-7 as of July 1, 2006. Because SOP 90-7 requires us to restate our stockholders' equity to our reorganization value and to allocate such value to our assets and liabilities based on their fair values, our financial condition and results of operations after June 30, 2006 will not be comparable in some material respects to the financial condition or results of operations reflected in our historical financial statements at dates or for periods prior to July 1, 2006. This makes it difficult to assess our future prospects based on historical performance.

Statements of income data:	Year ended December 31,					Six months ended June 30,	
	2001 <sup>(1)</sup>	2002	2003	2004	2005	2005	2006
<b>(dollars in millions, except share and per share data)</b>							
						<b>(unaudited)</b>	
						<b>(restated)<sup>(2)</sup></b>	
Net sales	\$ 889.5	\$ 709.0	\$ 710.2	\$ 942.4	\$ 1,089.7	\$ 544.3	\$ 689.8
Costs and expenses:							
Cost of products sold	823.4	671.4	681.2	852.2	951.1	477.4	596.4
Depreciation and amortization	32.1	32.3	25.7	22.3	19.9	10.1	9.8
Selling, administrative, research and development, and general	93.7	118.6	92.5	92.3	50.9	24.8	30.3
Other operating charges, net <sup>(3)</sup>	30.1	31.8	141.6	793.2	8.0	6.2	0.9
Total costs and expenses	979.3	854.1	941.0	1,760.0	1,029.9	518.5	637.4
Operating income (loss)	(89.8)	(145.1)	(230.8)	(817.6)	59.8	25.8	52.4
Other income (expense):							
Interest expense <sup>(4)</sup>	(106.2)	(19.0)	(9.1)	(9.5)	(5.2)	(3.2)	(0.8)



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Reorganization items <sup>(5)</sup>	(33.3)	(27.0)	(39.0)	(1,162.1)	(17.1)	(15.0)
Other, net	(68.7)	(0.9)	(5.2)	4.2	(2.4)	1.2
Gain (loss) before income taxes and discontinued operations	(264.7)	(198.3)	(272.1)	(861.9)	(1,109.9)	37.8
Provision for income taxes	(523.4)	(4.4)	(1.5)	(6.2)	(2.8)	(6.2)
Minority interests	(0.2)					
Income (loss) from continuing operations	(788.3)	(202.7)	(273.6)	(868.1)	(1,112.7)	31.6

*(footnotes on following page)*

**Selected historical consolidated financial data**

Statements of income data:	Year ended December 31,					Six months ended June 30,	
	2001 <sup>(1)</sup>	2002	2003	2004	2005	2005	2006
<b>(dollars in millions, except share and per share data)</b>							
						<b>(unaudited) (restated)<sup>(2)</sup></b>	
<b>Discontinued operations:</b>							
Gain (loss) from discontinued operations, net of income taxes, including minority interests	165.3	(266.0)	(514.7)	(5.3)	(2.5)	13.3	4.3
Gain from sale of commodity interests	163.6			126.6	366.2	365.6	
Income (loss) from discontinued operations <sup>(6)</sup>	328.9	(266.0)	(514.7)	121.3	363.7	378.9	4.3
Cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations					(4.7)	(4.7)	
Net income (loss)	\$ (459.4)	\$ (468.7)	\$ (788.3)	\$ (746.8)	\$ (753.7)	\$ 374.1	\$ 35.9
<b>Earnings (loss) per share basic/diluted<sup>(7)</sup>:</b>							
Income (loss) from continuing operations	\$ (9.82)	\$ (2.52)	\$ (3.41)	\$ (10.88)	\$ (13.97)	\$	\$ 0.40
Income (loss) from discontinued operations	\$ 4.09	\$ (3.30)	\$ (6.42)	\$ 1.52	\$ 4.57	\$ 4.75	\$ 0.05
Loss from cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations	\$	\$	\$	\$	\$ (0.06)	\$ (0.06)	\$
Net income (loss)	\$ (5.73)	\$ (5.82)	\$ (9.83)	\$ (9.36)	\$ (9.46)	\$ 4.69	\$ 0.45
Dividends per common share	\$	\$	\$	\$	\$	\$	\$
<b>Weighted average shares outstanding (000):</b>							
Basic	80,235	80,578	80,175	79,815	79,675	79,678	79,672

Diluted	80,235	80,578	80,175	79,815	79,675	79,678	79,672
	As of December 31,				As of June 30,		
Balance sheet data:	2001	2002	2003	2004	2005	2005	2006
(dollars in millions)						(unaudited) (restated) <sup>(2)</sup>	
Cash and cash equivalents	\$ 154.1	\$ 77.4	\$ 35.5	\$ 55.4	\$ 49.5	\$ 54.3	\$ 37.3
Working capital <sup>(8)</sup>	(44.2)	183.0	104.9	73.0	119.7	82.0	123.4
Total assets	2,743.7	2,225.4	1,623.5	1,882.4	1,538.9	2,204.0	1,597.9
Long-term debt	678.7	20.7	2.2	2.8	1.2	1.2	1.2
Stockholders' equity (deficit)	(441.1)	(1,085.6)	(1,738.7)	(2,384.2)	(3,141.2)	(2,010.1)	(3,105.3)

- (1) *Statement of income data and balance sheet data for 2001 reflect our financial results and position prior to our filing for chapter 11 bankruptcy in February 2002. Such data includes the impact of our concluding a valuation allowance was required in respect of recorded tax attributes and from the partial sale of one of our commodity-related interests.*
- (2) *We restated our operating results for the six months ended June 30, 2005. See Note 6 to our interim consolidated financial statements for information regarding the restatement.*
- (3) *Other operating charges, net in 2003 and 2004 include certain significant charges associated with the termination of certain pension and post-retirement medical plans, a settlement in respect of a past labor matter and other items. These items are detailed in Note 6 to our audited consolidated financial statements.*
- (4) *Excludes unrecorded contractual interest expense of \$84.0 million in 2002, \$95.0 million in each of 2003, 2004 and 2005 and \$47.4 million in the six months ended June 30, 2005 and 2006.*
- (5) *Reorganization items for 2005 includes an approximate \$1.1 billion charge as a result of the value of an intercompany note treated as being for the benefit of certain creditors. See Note 1 to our audited consolidated financial statements.*
- (6) *Income (loss) from discontinued operations includes the operating results associated with commodity interests sold as well as certain significant gains and losses associated with the dispositions. See Note 3 to our audited consolidated financial statements for information in respect of 2003, 2004 and 2005.*
- (7) *Earnings (loss) per share and share information may not be meaningful because, pursuant to our plan of reorganization, on July 6, 2006, all outstanding equity interests were cancelled without consideration.*
- (8) *Working capital represents total current assets minus total current liabilities.*

**Management's discussion and analysis of financial condition and results of operations**

*You should read the following discussion together with the consolidated financial statements and the notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The cautionary statements made in this prospectus should be read as applying to all related forward-looking statements wherever they appear in this prospectus. Forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results may vary from those in forward-looking statements as a result of a number of factors, including those we discuss under Risk factors and elsewhere in this prospectus. You should read Risk factors and Special note regarding forward-looking statements.*

**OVERVIEW**

Our primary line of business is the production and sale of fabricated aluminum products. In addition, we own a 49% interest in Anglesey, an aluminum smelter. Historically, we operated in all principal sectors of the aluminum industry including the production and sale of bauxite, alumina and primary aluminum in domestic and international markets. However, as a part of our reorganization, we sold substantially all of our commodities operations other than Anglesey. The balances and results of operations in respect of the commodities interests sold (including our interests in and related to Queensland Alumina Limited, or QAL, sold in April 2005) are now considered discontinued operations. Changes in global, regional, or country-specific economic conditions can have a significant impact on overall demand for aluminum-intensive fabricated products in the markets for our Aero / HS, general engineering and custom automotive and industrial products. These changes in demand can directly affect our earnings by impacting the overall volume and mix of our fabricated products sold.

Changes in primary aluminum prices also affect our primary aluminum business unit and expected earnings under fixed price fabricated products contracts. We manage the risk of fluctuations in the price of primary aluminum through a combination of pricing policies, internal hedging and financial derivatives. Our operating results are also, albeit to a lesser degree, sensitive to changes in prices for power and natural gas and changes in certain foreign exchange rates. All of the foregoing have been subject to significant price fluctuations over recent years. For a discussion of the possible impacts of the reorganization on our sensitivity to changes in market conditions, see

Quantitative and qualitative disclosures about market risks – Sensitivity.

During the six months ended June 30, 2005, the average London Metal Exchange transaction price, or LME price, per pound of primary aluminum was \$0.84. During the six months ended June 30, 2006, the average LME price per pound for primary aluminum was approximately \$1.15. At July 31, 2006, the LME price per pound was approximately \$1.13.

**Emergence from chapter 11 bankruptcy**

During the past four years, we operated under chapter 11 of the United States Bankruptcy Code under the supervision of the United States Bankruptcy Court for the District of Delaware. We emerged from chapter 11 bankruptcy on July 6, 2006. Pursuant to our plan of reorganization:

all of our material pre-petition debt, pension and post-retirement medical obligations and asbestos and other tort liabilities, along with other pre-petition claims (which in total aggregate in our June 30, 2006 balance sheet approximately \$4.4 billion) were addressed and resolved; and

## **Management's discussion and analysis of financial condition and results of operations**

all of the equity interests of our pre-emergence stockholders were cancelled without consideration and our post-emergence equity was issued and delivered to a third party disbursing agent for distribution to certain claimholders.

Please see "Recent reorganization - Corporate Structure" for a diagram of our simplified post-emergence corporate structure.

### **Impacts of emergence from chapter 11 bankruptcy on future financial statements**

All financial statement information as of June 30, 2006 and for all prior periods relates to our company before emergence from chapter 11 bankruptcy. The first set of financial statements that will reflect financial information after our emergence will be our financial statements for the quarter ending September 30, 2006. As more fully discussed below, there will be a number of differences between our financial statements before and after emergence that will make comparisons of our future and past financial information difficult to make.

As a result of our emergence from chapter 11 bankruptcy, we will apply fresh start accounting to our opening July 1, 2006 consolidated balance sheet as required by generally accepted accounting principles. As such, we will take the following steps:

We will adjust our balance sheet to equal the reorganization value of our company;

We will reset items such as accumulated depreciation, accumulated deficit and accumulated other comprehensive income (loss) to zero; and

We will allocate the reorganization value to our individual assets and liabilities based on their estimated fair value. Such items as current liabilities, accounts receivable, and cash will reflect values similar to those reported prior to emergence. Items such as inventory, property, plant and equipment, long-term assets and long-term liabilities will be significantly adjusted from amounts previously reported. As more fully discussed in the notes to our financial statements, these adjustments may adversely affect our future results.

A pro forma balance sheet showing the effects of the implementation of our plan of reorganization, adoption of fresh start accounting, and certain related activities is set forth in "Pro forma consolidated balance sheet."

We are also evaluating possible post-emergence changes to our accounting policies and procedures. In general, we expect our accounting policies to be the same as or similar to those we have historically used to prepare our financial statements. In certain cases, however, we are likely to adopt different accounting policies or apply methodologies differently to our future financial statement information than that used in preparing and presenting past financial statement information. For instance, we may change our accounting methodologies with respect to inventory accounting. We plan to account for inventories on a LIFO basis after emergence. However, we expect to apply LIFO differently than we did in the past. Specifically, we will view each quarter on a standalone basis for computing LIFO; whereas in the past we recorded LIFO amounts with a view to the entire fiscal year which, with certain exceptions, tended to result in LIFO charges being recorded in the fourth quarter or second half of the year.

Additionally, certain items such as earnings per share and Statement of Financial Accounting Standards No. 123-R, Share-Based Payment (see discussion in Predecessor section below), which had few, if any, implications while we were in chapter 11 bankruptcy will have increased importance in our future financial statement information.

## **Management's discussion and analysis of financial condition and results of operations**

### **New financing facilities**

On July 6, 2006 we entered into a new senior secured revolving credit agreement with a group of lenders providing for a \$200.0 million revolving credit facility, our revolving credit facility. Concurrently with the execution of our revolving credit facility, we also entered into a term loan and guaranty agreement with a group of lenders, our term loan facility, that provides for a \$50.0 million term loan.

### **Restated 2005 quarterly data**

During March 2006, we determined that our previously issued financial statements for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005 should be restated for two items: (1) payments related to the Union VEBA Trust and another voluntary employee beneficiary association, or the VEBAs, made during the nine months ended September 30, 2005 should have been recorded as a reduction of pre-petition retiree medical obligations rather than as a current operating expense, and (2) our derivative financial instrument transactions did not qualify for hedge (deferral) treatment and should have been marked to market in our operating results. The effect of the restatement related to the payments to the VEBAs was to decrease our operating expenses by \$12.4 million for the six months ended June 30, 2005. The net effect of the restatement related to our derivative transactions was to increase our operating expenses by \$3.5 million for the six months ended June 30, 2005. There was no net impact on our cash flows as a result of either restatement. For additional information regarding the restatement for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, see Note 16 to our audited consolidated financial statements.

### **Environmental matters**

We are working with regulatory authorities and performing studies and remediation pursuant to several consent orders with the State of Washington relating to the historical use of oils containing polychlorinated biphenyls (PCBs) at our Trentwood facility in Spokane, Washington prior to 1978. During April 2004, we were served with a subpoena for documents and notified by Federal authorities that they are investigating the alleged non-compliant release of waste water containing PCBs at our Trentwood facility. This investigation is ongoing. We believe we are currently in compliance in all material respects with all applicable environmental laws and requirements at the Trentwood facility. While we intend to vigorously defend any claim or charges, if any should result, we cannot assess what, if any, impact this matter may have on our financial statements.

### **Non-run-rate items affecting our operating results**

In our discussion of operating results, we describe certain items as non-run-rate items. To us, non-run-rate items are items that, while they may recur from period to period, are (1) particularly material to results, (2) affect costs as a result of external market factors, and (3) may not recur in future periods if the same level of underlying performance were to occur. Non-run-rate items are part of our business and operating environment but are worthy of being highlighted for benefit of the users of our financial statements. Our intent is to allow investors to consider our results both in light of and separately from fluctuations in underlying metal prices.

### **Capital structure**

#### **After emergence from chapter 11 bankruptcy**

On the July 6, 2006 effective date of our plan of reorganization, pursuant to the plan, all equity interests held by our stockholders immediately prior to the effective date were cancelled without consideration. On the effective date of our plan of reorganization, we issued 20,000,000 new shares of common stock to a third-party disbursing agent for distribution in accordance with our plan of

**Management's discussion and analysis of financial condition and results of operations**

reorganization. Of such 20,000,000 new shares, a total of 8,809,900 shares were distributed to, and are currently held by, the Union VEBA Trust, and a total of 1,113,915 shares were distributed to, and are currently held by, the Kaiser Aluminum & Chemical Corporation Asbestos Personal Injury Trust, or Asbestos PI Trust, which was established under our plan of reorganization to assume responsibility for all asbestos personal injury claims. As of September 15, 2006, there were also outstanding 525,660 shares that were issued to our employees and directors under our equity incentive plan on and after the effective date of our plan of reorganization. As a result, the Union VEBA Trust and the Asbestos PI Trust hold approximately 42.9% and 5.4%, respectively, of our currently outstanding common stock. The Asbestos PI Trust may receive additional distributions of common stock from time to time in the future pursuant to the terms of our plan of reorganization. See [Recent reorganization](#). Based on information currently available to us, except as set forth above, no person or entity owns shares constituting more than 5% of our currently outstanding common stock. There are restrictions on the transfer of our common stock. In addition, under our revolving credit facility and term loan facility, there are restrictions on our purchase of common stock and limitations on dividends. See

[Description of capital stock](#) and [Liquidity and Capital Resources](#) [Financing facilities](#) After emergence from chapter 11 bankruptcy for more detailed discussions of these restrictions.

**Prior to emergence from chapter 11 bankruptcy**

Prior to the effective date of our plan of reorganization, MAXXAM Inc. and one of its wholly-owned subsidiaries collectively owned approximately 63% of our common stock, with the remaining approximately 37% of our common stock being publicly held. However, as discussed in Note 2 to our interim consolidated financial statements, pursuant to our plan of reorganization, all equity interests held by our stockholders immediately prior to the effective date of our plan of reorganization were cancelled without consideration upon our emergence from chapter 11 bankruptcy.

**RESULTS OF OPERATIONS**

The table below provides selected operational and financial information on a consolidated basis with respect to the fiscal years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2005 and 2006 (unaudited in millions of dollars, except shipments and prices). The presentation in the table below reflects reclassification of our commodities operations (other than Anglesey) to discontinued operations. The amounts remaining in our primary aluminum segment relate primarily to our interests in and related to Anglesey and our primary aluminum hedging-related activities. The following data should be read in conjunction with our consolidated financial statements and the notes thereto contained elsewhere in this prospectus. Interim results are not necessarily indicative of those for a full year.

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
					(unaudited)
Shipments (millions of pounds):					
Fabricated products	372.3	458.6	481.9	244.5	273.5
Primary aluminum	158.7	156.6	155.6	76.9	77.1
Total	531.0	615.2	637.5	321.4	350.6
Average realized third party sales price (per pound):					
Fabricated products <sup>(2)</sup>	\$ 1.61	\$ 1.76	\$ 1.95	\$ 1.93	\$ 2.16
Primary aluminum <sup>(3)</sup>	\$ 0.71	\$ 0.85	\$ 0.95	\$ 0.94	\$ 1.28

(footnotes on following page)





**Management's discussion and analysis of financial condition and results of operations**

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
(dollars in millions)					
				(unaudited Restated)	
Net sales:					
Fabricated products	\$ 597.8	\$ 809.3	\$ 939.0	\$ 471.8	\$ 590.9
Primary aluminum	112.4	133.1	150.7	72.5	98.9
Total net sales	\$ 710.2	\$ 942.4	\$ 1,089.7	\$ 544.3	\$ 689.8
Segment operating income (loss) <sup>(1)</sup> :					
Fabricated products <sup>(4)(5)</sup>	\$ (21.2)	\$ 33.0	\$ 87.2	\$ 40.6	\$ 61.2
Primary aluminum <sup>(6)</sup>	6.7	13.9	16.4	8.2	12.4
Corporate and other	(74.7)	(71.3)	(35.8)	(16.8)	(20.3)
Other operating charges <sup>(7)</sup>	(141.6)	(793.2)	(8.0)	(6.2)	(0.9)
Total operating income	\$ (230.8)	\$ (817.6)	\$ 59.8	\$ 25.8	\$ 52.4
Reorganization items	\$ (27.0)	\$ (39.0)	\$ (1,162.1)	\$ (17.1)	\$ (15.0)
Discontinued operations	\$ (514.7)	\$ 121.3	\$ 363.7	\$ 378.9	\$ 4.3
Loss from cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligation <sup>(8)</sup>	\$	\$	\$ (4.7)	\$ (4.7)	\$
Net income (loss) <sup>(1)</sup>	\$ 788.3	\$ (746.8)	\$ (753.7)	\$ 374.1	\$ 35.9
Capital expenditures (excluding discontinued operations)	\$ 8.9	\$ 7.6	\$ 31.0	\$ 8.6	\$ 28.1

(1) We restated our operating results for the six months ended June 30, 2005. See Note 6 to our interim consolidated financial statements for information regarding the restatement.

(2) Average realized prices for our fabricated products business unit are subject to fluctuations due to changes in product mix as well as underlying primary aluminum prices and are not necessarily indicative of changes in underlying profitability.

- (3) *Average realized prices for our primary aluminum business unit exclude hedging revenues.*
- (4) *Operating results for the six months ended June 30, 2006 include a non-cash LIFO inventory charge of \$21.7 million.*
- (5) *Includes non-cash mark-to-market losses of \$1.0 million in the six months ended June 30, 2006. For further discussion regarding mark-to-market matters see Note 13 to our interim consolidated financial statements.*
- (6) *Includes non-cash mark-to-market gains (losses) totaling \$(2.5) million and \$7.1 million in the six months ended June 30, 2005 and 2006, respectively. For further discussion regarding mark-to-market matters see Note 13 to our interim consolidated financial statements.*
- (7) *See Note 14 to our interim consolidated financial statements for a discussion of the components of other operating charges and the business segment to which the items relate.*
- (8) *See Note 5 to our interim consolidated financial statements for a discussion of the change in accounting for conditional asset retirement obligations.*

**Management's discussion and analysis of financial condition and results of operations**

**SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005**

**Summary**

For the six months ended June 30, 2006, we reported net income of \$35.9 million compared to net income of \$374.1 million for the same period in 2005. Net income for the six months ended June 30, 2005 included an approximate \$366.2 million gain related to discontinued operations. The six months ended June 30, 2005 and 2006 include a number of non run-rate-items that are more fully explained below.

Net sales for the six months ended June 30, 2006 totaled \$689.8 million compared to \$544.3 for the six months ended June 30, 2005. As more fully discussed below, the increase in net sales is primarily the result of the increase in the market price for primary aluminum. Increases in the market price for primary aluminum do not necessarily directly translate to increased profitability because (1) a substantial portion of primary aluminum price increases and decreases experienced by our fabricated products business is passed on directly to customers, and (2) our hedging activities, while limiting our risk of losses, also limit our ability to participate in price increases.

**Fabricated aluminum products**

For the six months ended June 30, 2006, net sales of fabricated products increased by 25% as compared to the same period in 2005, primarily due to a 12% increase in average realized prices and a 12% increase in shipments. The increase in the average realized prices primarily reflected higher underlying primary aluminum prices. The increase in shipments in 2006 was broadly based, impacting most all of the markets we serve but was led by continuing strength in demand for our Aero/ HS products.

Operating income for the six months ended June 30, 2006 was approximately \$21 million better than the prior year period and included the following major non-run-rate items (which had a combined approximate \$3 million adverse impact on the six months ended June 30, 2006 versus the six months ended June 30, 2005):

metal profits in the six months ended June 30, 2006 of approximately \$16.6 million (before considering LIFO implications), which is approximately \$19.2 million better than the prior year period; and

a non-cash LIFO inventory charge of \$21.7 million in the six months ended June 30, 2006. There were no LIFO charges in the comparable 2005 period.

Operating income for the six months ended June 30, 2006 also included an approximate \$23 million of favorable impact compared to the prior year due to higher shipments, stronger conversion margins (representing the value added from the fabrication process) and favorable aluminum scrap raw material costs. Higher energy prices had an approximate \$4 million adverse impact on operating income for the six months ended June 30, 2006 versus the same period in 2005, but was offset by favorable cost performance. Major maintenance costs during the six months ended June 30, 2006 were modestly favorable to the comparable period in 2005, but we consider this to be a timing issue and such costs are expected to return to more normal levels over time.

Operating results for our fabricated products segment include gains (losses) on intercompany hedging activities with our primary aluminum business totaling \$24.8 million for six months ended June 30, 2006 and \$2.5 million for the six months ended June 30, 2005. These amounts eliminate in consolidation. Operating results for our fabricated products segment for the six months ended June 30, 2005 exclude defined contribution savings plan charges of approximately \$5.2 million.

**Management's discussion and analysis of financial condition and results of operations****Primary aluminum**

During the six months ended June 30, 2006, third party net sales of primary aluminum increased 36%, compared to the same periods in 2005. The increase was almost entirely attributable to the increase in average realized primary aluminum prices.

The following table sets forth (in millions of dollars) the differences in the major components of operating results for our primary aluminum segment between the six months ended June 30, 2006 and the corresponding prior year period, as well as the primary factors leading to such differences. Many of the factors indicated are items that are subject to significant fluctuation from period to period and are largely outside management's control.

Component	Six months ended June 30, 2006 vs. 2005		Factor
	Operating income	Better (worse)	
Sales of production from Anglesey	\$ 27	\$ 12	Market price for primary aluminum
Internal hedging with fabricated products segment	(25)	(22)	Eliminates in consolidation
Derivative settlements	2	3	Impacted by positions and market prices
Mark-to-market on derivative instruments	8	11	Impacted by positions and market prices
	\$ 12	\$ 4	

The improvement in Anglesey-related results, as well as the offsetting adverse internal hedging results, in the 2006 period over the 2005 period was driven primarily by increases in primary aluminum market prices. The primary aluminum market-driven improvement in Anglesey-related operating results was offset by an approximate 17% contractual increase in Anglesey's power costs affecting the 2006 period, an increase of approximately \$1 million per quarter. Beginning in the second quarter of 2006, the Anglesey-related results were impacted by a 20% increase in contractual alumina costs related to a new alumina purchase contract that runs through 2007. Power and alumina costs, in general, represent approximately two-thirds of Anglesey's costs, and as such, future results will be adversely affected by these changes. The nuclear plant that supplies power to Anglesey is currently slated for decommissioning in late 2010. For Anglesey to be able to operate past September 2009 when its current power contract expires, Anglesey will have to secure a new or alternative power contract at prices that make its operation viable. We cannot assure you that Anglesey will be successful in this regard.

**Corporate and other**

Corporate operating expenses represent corporate general and administrative expenses that are not allocated to our business segments. The increase in expenses related to ongoing operations in the six months ended June 30, 2006 compared to the same period in 2005 was primarily due to (1) an increase in professional fees associated with our initiatives to comply with the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, by December 31, 2007, and (2) emergence-related activity and transition costs. Once the activity with our emergence, which will continue through the third and fourth quarters of 2006, and incremental Sarbanes-Oxley adoption-related activities are complete, we expect there will be a substantial decline in corporate and other operating expenses costs. However, these and other activities are expected to continue for the next several quarters. Further, our results for future periods will be adversely affected by non-cash charges that will be reflected in selling, administrative, research



## **Management's discussion and analysis of financial condition and results of operations**

and development, and general expense for grants of shares of common stock to management in July 2006, and any future grants.

Corporate operating results for the six months ended June 30, 2005, discussed above, exclude defined contribution savings plan charges of approximately \$0.4 million.

### **Discontinued operations**

Operating results from discontinued operations for the six months ended June 30, 2006 consisted of a \$7.5 million payment from an insurer for residual claims related to a 2000 incident at our former Gramercy, Louisiana alumina facility, which was sold in 2004, and a \$1.1 million refund related to certain energy surcharges, which has been pending for a number of years offset, in part, by a \$5.0 million charge resulting from our rejection of an electric power agreement with the Bonneville Power Administration. Operating results from discontinued operations for the six months ended June 30, 2005 included a gain of \$365.6 from the sale of our QAL interests in April 1, 2005 and the favorable operating results of our interests in and related to QAL prior to the sale of our interest in QAL.

### **YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004**

We reported a net loss of \$753.7 million in 2005 compared to a net loss of \$746.8 million in 2004. Net sales in 2005 totaled \$1,089.7 million compared to \$942.4 million in 2004.

### **Fabricated aluminum products**

Net sales of fabricated products increased by 16% during 2005 as compared to 2004 primarily due to a 10% increase in average realized prices and a 6% increase in shipments. The increase in the average realized prices reflected (in relatively equal proportions) higher conversion prices and higher underlying primary aluminum prices. The higher conversion prices were primarily attributable to continued strength in fabricated aluminum product markets, particularly for Aero/ HS products, as well as a favorable mix in the type of Aero/ HS products in the early part of 2005. Current period shipments were higher than 2004 shipments due primarily to the increased Aero/ HS product demand.

Segment operating results (before other operating charges, net) for 2005 improved over 2004 by approximately \$54 million. The improvement consisted of improved sales performance (primarily due to factors cited above) of \$64 million offset by higher operating costs, particularly for natural gas. Higher natural gas prices had a particularly significant impact on the fourth quarter of 2005. Natural gas prices have decreased somewhat during early 2006 but have not yet decreased to the price level experienced during the first nine months of 2005. Lower 2005 charges for legacy pension and retiree medical-related costs of \$5 million were largely offset by other cost increases versus 2004, including \$6 million of higher non-cash LIFO inventory charges, \$9 million in 2005 versus \$3.2 million in 2004. Segment operating results for 2005 and 2004 included gains on intercompany hedging activities with our primary aluminum business which totaled \$11.1 million and \$8.6 million, respectively. These amounts eliminate in consolidation.

Segment operating results for 2005, discussed above, excluded deferred contribution savings plan charges of approximately \$6.3 million.

### **Primary aluminum**

Third party net sales of primary aluminum in 2005 increased by approximately 13% as compared to 2004. The increase was almost entirely attributable to the increase in average realized primary aluminum prices.

## **Management's discussion and analysis of financial condition and results of operations**

Segment operating results for 2005 included approximately \$32 million related to the sale of primary aluminum resulting from our ownership interests in Anglesey offset by (1) losses on intercompany hedging activities with our fabricated products business (which eliminate in consolidation) which totaled approximately \$11.1 million, and (2) approximately \$4.1 million of non-cash charges associated with the discontinuance of hedge accounting treatment of derivative instruments as more fully discussed in Notes 2, 12 and 16 to our audited consolidated financial statements. Primary aluminum hedging transactions with third parties were essentially neutral in 2005. In 2004, segment operating results consisted of approximately \$21 million related to sales of primary aluminum resulting from our ownership interests in Anglesey and approximately \$2 million of gains from third-party hedging activities, offset by approximately \$8.6 million of losses on intercompany hedging activities with our fabricated products business (which eliminate in consolidation). The improvement in Anglesey-related results in 2005 versus 2004 resulted primarily from the improvement in primary aluminum market prices discussed above. The primary aluminum market price increases were offset by an approximate 15% contractual increase in Anglesey's power costs during the fourth quarter of 2005 as well as an increase in major maintenance costs incurred in 2005.

### **Corporate and other**

In 2005, corporate operating expenses consisted of \$30 million of expenses related to ongoing operations and \$5 million related to retiree medical expenses. In 2004, corporate operating expenses consisted of \$21 million of expenses related to ongoing operations and \$50 million of retiree medical expenses.

The increase in expenses related to ongoing operations in 2005 compared to 2004 was due to an increase in professional expenses associated primarily with our initiatives to comply with Sarbanes-Oxley by December 31, 2006, and bankruptcy emergence-related activity, relocation of our corporate headquarters and transition costs. These increased expenses were offset by the fact that key personnel ceased receiving retention payments as of the end of the first quarter of 2004 pursuant to our Key Employee Retention Program. The decline in retiree-related expenses was primarily attributable to the termination of the Inactive Pension Plan in 2004 and the change in retiree medical payments.

Corporate operating results for 2005, discussed above, exclude defined contribution savings plan charges of approximately \$0.5 million.

### **Reorganization items**

Reorganization items consist primarily of income, expenses (including professional fees) and losses that were realized or incurred by us due to our reorganization. Reorganization items increased substantially in 2005 over 2004 as a result of a non-cash charge of approximately \$1,131.5 million in the fourth quarter of 2005. The non-cash charge was recognized in connection with the consummation of the plans of liquidation filed by certain of our subsidiaries pursuant to which the value associated with an intercompany note was assigned for the benefit of certain third-party creditors. See Note 1 to our audited consolidated financial statements for a more complete discussion.

### **Discontinued operations**

Discontinued operations in 2005 included the operating results of our interests in and related to QAL for the first quarter of 2005 and the gain that resulted from the sale of such interests on April 1, 2005. Discontinued operations in 2004 included a full year of operating results attributable to our interests in and related to QAL, as well as the operating results of the commodity interests that were sold at various times during 2004.

## **Management's discussion and analysis of financial condition and results of operations**

Income from discontinued operations for 2005 increased approximately \$242 million over 2004. The primary factor for the improved results was the larger gain on the sale of our QAL interests (approximately \$366 million) in 2005 compared to the gains from the sale of our interests in and related to Alumina Partners of Jamaica, or Alpart, and the sale of our Mead facility (approximately \$127 million) in 2004. The adverse impacts in 2005 of a \$42 million non-cash contract rejection charge were largely offset by improved operating results in 2005 associated with QAL of \$12 million and the avoidance of \$33 million of net losses by other commodity-related interests in 2004.

### **YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003**

We reported a net loss of \$746.8 million in 2004 compared to a net loss of \$788.3 million for 2003. Net sales in 2004 totaled \$942.4 million compared to \$710.2 million in 2003.

#### **Fabricated aluminum products**

Net sales of fabricated products increased by 35% during 2004 as compared to 2003 primarily due to a 23% increase in shipments and a 9% increase in average realized prices. Shipments in 2004 were higher than 2003 shipments as a result of improved demand for most of our fabricated aluminum products, especially aluminum plate for the general engineering market as well as extrusions and forgings for the automotive market. Demand for our products in the Aero/ HS market was also markedly higher in 2004 than in 2003. The increase in the average realized price reflected changes in the mix of products sold, stronger demand and higher underlying metal prices. Extrusion prices were thought to have recovered from the recessionary lows experienced in 2002 and 2003 but were still below prices experienced during peaks in the business cycle. Plate prices increased to near peak-level pricing in response to strong near-term demand.

Segment operating results (before other operating charges, net) for 2004 improved over 2003 primarily due to the increased shipment and price levels noted above, improved market conditions and improved cost performance offset, in part, by modestly increased natural gas prices and a \$12.1 million non-cash LIFO inventory charge. Operating results for 2003 included increased energy costs, a \$3.2 million non-cash LIFO inventory charge, and higher pension related expenses offset, in part, by reductions in overhead and other operating costs as a result of cost cutting initiatives. Segment operating results for 2004 and 2003 included gains (losses) on intercompany hedging activities with the primary aluminum business unit totaling \$8.6 million and \$(2.3) million. These amounts eliminate in consolidation.

Segment operating results for 2003, discussed above, exclude a net gain of approximately \$3.9 million from the sale of equipment.

#### **Primary aluminum**

Third party net sales of primary aluminum increased 18% for 2004 as compared to the same period in 2003, primarily as a result of a 20% increase in third-party average realized prices offset by a 1% decrease in third party shipments. The increases in the average realized prices were primarily due to the increases in primary aluminum market prices. Shipments in 2004 were better than the prior year primarily due to the timing of shipments.

Segment operating results (before other operating charges, net) for 2004 improved over 2003 primarily due to the increases in prices and shipments discussed above. Segment operating results for 2004 and 2003 include gains (losses) on intercompany hedging activities with the fabricated products business unit totaling \$(8.6) million and \$2.3 million. These amounts eliminate in consolidation.



## **Management's discussion and analysis of financial condition and results of operations**

Segment operating results for 2003, discussed above, exclude a pre-filing date claim of approximately \$3.2 million related to a restructured transmission agreement and a net gain of approximately \$9.5 million from the sale of our Tacoma, Washington smelter.

### **Corporate and other**

In 2004, corporate operating costs consisted of \$21.2 million of expenses related to ongoing operations and \$50 million of retiree-related expenses. In 2003, corporate operating costs consisted of expenses related to ongoing operations of \$39 million and \$35 million of retiree-related expenses. The decline in expenses related to ongoing operations from 2003 to 2004 was primarily attributable to lower salary (\$1 million), retention (\$4 million) and incentive compensation (\$2.5 million) costs as well as lower accruals for pension-related costs primarily as a result of the December 2003 termination by the PBGC of our salaried employees pension plan (\$2.5 million). The increase in retiree-related expenses in 2004 from 2003 reflects management's decision to allocate to the corporate segment the excess of post-retirement medical costs related to the fabricated products business unit and discontinued operations for the period May 1, 2004 through December 31, 2004 over the amount of such segment's allocated share of VEBA contributions offset, in part, by lower pension-related accruals as a result of the December 2003 termination by the PBGC of our salaried employees pension plan.

Corporate operating results for 2004, discussed above, exclude: (1) pension charges of \$310.0 million related to terminated pension plans whose responsibility was assumed by the PBGC, (2) a settlement charge of \$175.0 million related to the USW settlement, and (3) settlement charges of \$312.5 million related to the termination of the post-retirement medical benefit plans (all of which are included in other operating charges, net). Corporate operating results for 2003 exclude a pension charge of \$121.2 million related to the terminated salaried employees pension plan assumed by the PBGC, an environmental multi-site settlement charge of \$15.7 million and hearing loss claims of \$15.8 million (all of which are included in other operating charges, net).

### **Discontinued operations**

Discontinued operations include the operating results for Alpart, our alumina smelter located in Gramercy, Louisiana and associated interest in Kaiser Jamaica Bauxite Company, or Gramercy/ KJBC, Volta Aluminum Company Limited, or Valco, QAL and our Mead facility and gains from the sale of our interests in and related to these interests (except for the gain on the sale of our interests in and related to QAL which was sold in April 2005). Results for discontinued operations for 2004 improved \$636.0 million over 2003. Approximately \$460 million of such improvement resulted from three nonrecurring items: (1) the approximate \$126.6 million gain on the sale of our interests in and related to Alpart and the sale of our Mead facility; (2) the \$368.0 million of impairment charges in respect of our interests in and related to commodities interests in 2003; and (3) \$33.0 million of Valco-related impairment charges in 2004. The balance of the improvement primarily resulted from approximately \$132 million of improved operating results at Alpart, Gramercy/ KJBC and QAL, a substantial majority of which was related to the improvement in average realized alumina prices.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are cash generated from operating activities and borrowings under our revolving credit facility. We believe that the cash and cash equivalents, cash flows from operations and cash available under the revolving credit facility will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next 12 months. Our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. In addition, our future capital expenditures and other cash requirements could be higher than we

## **Management's discussion and analysis of financial condition and results of operations**

currently expect as a result of various factors, including any expansion of our business that we complete.

As a result of the filing of the chapter 11 bankruptcy proceedings, claims against us for principal and accrued interest on secured and unsecured indebtedness existing on the respective filing dates of our company and each of our subsidiaries were stayed while we continued business operations as debtors-in-possession, subject to the control and supervision of the bankruptcy court. These obligations were extinguished upon our emergence from chapter 11 bankruptcy.

### **Operating activities**

During the six months ended June 30, 2006, fabricated products operating activities provided \$13 million of cash compared to \$30 million of cash for the six months ended June 30, 2005. Cash provided by fabricated products in the six months ended June 30, 2006 was primarily due to improved operating results offset, in part, by increased working capital. Cash provided by fabricated products in the six months ended June 30, 2005 was primarily due to improved operating results associated with improved demand for fabricated aluminum products. Working capital change in the six months ended June 30, 2005 was immaterial. Fabricated products cash flow excluded consideration of pension and retiree cash payments made in respect of current and former employees of the fabricated products facilities. Such amounts are part of the legacy costs that we classify as a corporate cash outflow.

Cash flows attributable to Anglesey provided \$36 million and \$13 million in the six months ended June 30, 2006 and 2005, respectively. The increase in cash flows between the six months ended June 30, 2006 and the six months ended June 30, 2005 was primarily attributable to timing of payments and receipts.

Corporate and other operating activities used \$44 million and \$52 million of cash in the six months ended June 30, 2006 and 2005, respectively. Cash outflows for corporate and other operating activities in the six months ended June 30, 2006 and 2005 included:

\$12 million for medical obligations and VEBA funding for all former and current operating units;

\$16 million and \$20 million, respectively, for reorganization costs; and

\$18 million and \$13 million, respectively, for general and administrative costs.

In the six months ended June 30, 2006, discontinued operation activities provided \$9 million of cash compared to \$20 million in the six months ended June 30, 2005. Cash provided by discontinued operations in the six months ended June 30, 2006 consisted of, as discussed above, the proceeds from an \$8 million payment from an insurer and a \$1 million refund from commodity interests energy vendors. Cash provided in the six months ended June 30, 2005 resulted from favorable operating results of QAL offset, in part, by foreign tax payments of \$10 million.

In 2005, fabricated products operating activities provided \$88 million of cash, substantially all of which was generated from operating results. Working capital changes were modest. In 2004, fabricated products operating activities provided approximately \$35 million of cash, \$70 million of which was generated from operating results offset by increases in working capital of approximately \$35 million. In 2003, fabricated products operating activities provided approximately \$30 million of cash, substantially all of which was generated from operating results. Working capital changes were modest. The increases in cash provided by fabricated products operating results in 2005 and 2004 were primarily due to improving demand for fabricated aluminum products. The increase in working capital in 2004 reflected the increase in demand as well as the significant increase in primary aluminum prices. In 2003, cost-cutting initiatives offset reduced product prices and shipments so that cash provided by operations approximated that in 2002. The foregoing analysis of fabricated products cash flow

## **Management's discussion and analysis of financial condition and results of operations**

excludes consideration of pension and retiree cash payments made in respect of current and former employees of our fabricated products segment. Such amounts are part of the legacy costs that we internally categorize as a corporate cash outflow.

Cash flows attributable to our interests in and related to our primary aluminum business provided \$20 million, \$14 million and \$12 million in 2005, 2004 and 2003, respectively. The increase in cash flows between 2005 and 2004 was primarily attributable to increases in primary aluminum market prices. Higher primary aluminum prices in 2004 caused the cash flows attributable to sales of primary aluminum production from Anglesey to be approximately \$2 million higher in 2004 than in 2003. The balance of the differences in cash flows between 2004 and 2003 was primarily attributable to timing of shipments, payments and receipts.

Corporate and other operating activities utilized \$108 million, \$150 million and \$100 million of cash in 2005, 2004 and 2003, respectively. Cash outflows from corporate and other operating activities in 2005, 2004 and 2003 included: (1) \$37 million, \$57 million and \$60 million, respectively, in respect of retiree medical obligations and VEBA funding for former and current operating units; (2) payments for reorganization costs of \$39 million, \$35 million and \$27 million, respectively; and (3) payments in respect of general and administrative costs totaling approximately \$29 million, \$26 million and \$27 million, respectively. Corporate operating cash flow in 2003 included asbestos related insurance receipts of approximately \$18 million. Cash outflows in 2004 also included \$27 million to settle certain multi-site environmental claims.

In 2005, discontinued operation activities provided \$17 million of cash. This compares with 2004 and 2003 when discontinued operation activities provided \$64 million and used \$29 million of cash, respectively. The decrease in cash provided by discontinued operations in 2005 over 2004 resulted primarily from a decrease in favorable operating results due to the sale of substantially all of our commodity interests between the second half of 2004 and early 2005. The remaining commodity interests were sold as of April 1, 2005. The increase in cash provided by discontinued operations in 2004 over 2003 resulted from improved operating results due primarily to the improvement in average realized alumina prices.

### **Investing activities**

Total capital expenditures for our fabricated products business were \$27.1 million and \$8.6 million for the six months ended June 30, 2006 and 2005, respectively. Total capital expenditures for our fabricated products business are currently expected to be in the \$70 million to \$80 million range for 2006 and in the \$55 million to \$65 million range for 2007. The higher level of capital spending primarily reflects incremental investments, particularly at our Trentwood facility. We initially announced a \$75 million expansion project of our Trentwood facility and, in August 2006, announced a follow-on investment of an additional \$30 million. These investments are being made primarily for new equipment and furnaces that will enable us to supply heavy gauge, heat treat stretched plate to the aerospace and general engineering markets and will provide incremental capacity. Since the inception of the project during 2005, approximately \$38 million has been incurred as of June 30, 2006. Besides the Trentwood facility expansion, our remaining capital spending in 2006 and 2007 will be spread among all manufacturing locations. A majority of the remaining capital spending is expected to reduce operating costs, improve product quality or increase capacity. However, we have not committed to any individual projects of significant size, other than the Trentwood expansion, at this time.

Total capital expenditures for fabricated products were \$30.6 million, \$7.6 million, and \$8.9 million in 2005, 2004 and 2003, respectively. The capital expenditures were made primarily to improve production efficiency, reduce operating costs and expand capacity at existing facilities.

## **Management's discussion and analysis of financial condition and results of operations**

Total capital expenditures for discontinued operations were \$3.5 million and \$28.3 million in 2004 and 2003, respectively (of which \$1.0 million and \$8.9 million were funded by the minority partners in certain foreign joint ventures).

Our level of capital expenditures may be adjusted from time to time depending on our business plans, price outlook for metal and other products, our ability to maintain adequate liquidity and other factors. If our sales growth continues and the relevant market factors remain positive we may increase our capital spending over the 2006 and 2007 period from the amounts described above and if our sales decline or the market factors do not remain positive, our capital spending may be decreased from the amounts described above.

Depending upon conditions in the capital markets and other factors, we will from time to time consider the issuance of debt or equity securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes. Pursuant to our growth strategy, we will also consider from time to time acquisitions of, and investments in, assets or businesses that complement our existing assets and businesses. Acquisition transactions, if any, are expected to be financed through cash on hand and from operations, bank borrowings, the issuance of debt or equity securities or a combination of two or more of those sources.

### **Financing facilities**

#### **After emergence from chapter 11 bankruptcy**

On July 6, 2006, we entered into a \$200.0 million revolving credit facility with a group of lenders, of which up to a maximum of \$60.0 million may be utilized for letters of credit. Under the revolving credit facility, we may borrow (or obtain letters of credit) from time to time in an aggregate amount equal to the lesser of \$200.0 million and a borrowing base comprised of eligible accounts receivable, eligible inventory and certain eligible machinery, equipment and real estate, reduced by certain reserves, all as specified in the revolving credit facility. The revolving credit facility has a five-year term and matures in July 2011, at which time all principal amounts outstanding thereunder will be due and payable. Borrowings under the revolving credit facility bear interest at a rate equal to either a base prime rate or LIBOR, at our option, plus a specified variable percentage determined by reference to the then remaining borrowing availability under the revolving credit facility. The revolving credit facility may, subject to certain conditions and the agreement of lenders thereunder, be increased up to \$275.0 million.

Concurrently with the execution of the revolving credit facility, we also entered into a term loan facility that provides for a \$50.0 million term loan and is guaranteed by certain of our domestic operating subsidiaries. The term loan facility was fully drawn on August 4, 2006. The term loan facility has a five-year term and matures in July 2011, at which time all principal amounts outstanding thereunder will be due and payable. Borrowings under the term loan facility bear interest at a rate equal to either a premium over a base prime rate or LIBOR, at our option.

Amounts owed under each of the revolving credit facility and the term loan facility may be accelerated upon the occurrence of various events of default set forth in each agreement, including the failure to make principal or interest payments when due, and breaches of covenants, representations and warranties set forth in each agreement.

The revolving credit facility is secured by a first priority lien on substantially all of our assets and the assets of our domestic operating subsidiaries that are also borrowers thereunder. The term loan facility is secured by a second lien on substantially all of our assets and the assets of our domestic operating subsidiaries that are the borrowers or guarantors thereunder.

**Management's discussion and analysis of financial condition and results of operations**

Both credit facilities place restrictions on our ability to, among other things, incur debt, create liens, make investments, pay dividends, repurchase our common stock, sell assets, undertake transactions with affiliates and enter into unrelated lines of business.

During July 2006, we borrowed and repaid \$8.6 million under the revolving credit facility. At July 31, 2006, there were no borrowings outstanding under the revolving credit facility and there was approximately \$17.7 million of outstanding letters of credit.

**Prior to emergence from chapter 11 bankruptcy**

On February 11, 2005, we entered into a new financing agreement with a group of lenders under which we were provided with a replacement for the existing post-petition credit facility and a commitment for a multi-year exit financing arrangement upon our emergence from our chapter 11 bankruptcy proceedings. The financing agreement was replaced by our revolving credit facility and term loan on July 6, 2006, the effective date of our plan of reorganization.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

The following summarizes our significant contractual obligations at June 30, 2006 (dollars in millions):

Contractual obligations	Total	Payments due in			
		Less than 1 year	2-3 years	4-5 years	More than 5 years
Long-term debt, including capital lease of \$0.8 <sup>(1)</sup>	\$ 2.3	\$ 1.1	\$ 1.2	\$	\$
Operating leases	7.4	2.6	3.1	1.6	0.1
Total cash contractual obligations <sup>(2)</sup>	\$ 9.7	\$ 3.7	\$ 4.3	\$ 1.6	\$ 0.1

(1) See Note 9 to our interim consolidated financial statements for information in respect of long-term debt. Long-term debt obligations exclude debt subject to compromise of approximately \$847.6 million, which amounts were dealt with in connection with our plan of reorganization. See Notes 2 and 9 to our interim consolidated financial statements for additional information about debt subject to compromise.

(2) Total contractual obligations excludes future annual variable cash contributions to the VEBA's, which cannot be determined at this time. See Off Balance Sheet and Other Arrangements below for a summary of possible annual variable cash contribution amounts at various levels of earnings and cash expenditures.

**OFF BALANCE SHEET AND OTHER ARRANGEMENTS**

As of June 30, 2006, outstanding letters of credit under our debtor-in-possession revolving credit facility (which on July 6, 2006 were converted to outstanding letters of credit under our revolving credit facility) were approximately \$17.7 million, substantially all of which expire within approximately twelve months. The letters of credit relate primarily to insurance, environmental and other activities.

We have agreements to supply alumina to and purchase aluminum from Anglesey. Both the alumina sales agreement and primary aluminum purchase agreement are tied to primary aluminum prices.

After the effective date of our plan of reorganization, the following employee benefit plans remain in effect:

A commitment to provide one or more defined contribution plans as a replacement for the five defined benefit pension plans for hourly bargaining unit employees at four of our production



**Management's discussion and analysis of financial condition and results of operations**

facilities and one inactive operation that will be terminated pursuant to a court ruling received in July 2006. We anticipate that the replacement defined contribution plans for the production facilities will provide for an annual contribution of one dollar per hour worked by bargaining unit employee and, in certain instances, will include for certain matching of contributions.

A defined contribution savings plan for hourly bargaining unit employees at all of our other production facilities. Pursuant to the terms of the defined contribution plan for hourly bargaining unit employees, we will be required to make annual contributions to the Steelworkers Pension Trust on the basis of one dollar per USW employee hour worked at two facilities. We will also be required to make contributions to a defined contribution savings plan for active USW employees that will range from \$800 to \$2,400 per employee per year, depending on the employee's age. Similar defined contribution savings plans have been established for non-USW hourly employees subject to collective bargaining agreements. We currently estimate that contributions to all such plans will range from \$3 million to \$6 million per year.

A defined contribution savings plan for salaried and non-bargaining unit hourly employees providing for a match of certain contributions made by employees plus a contribution of between 2% and 10% of their salary depending on their age and years of service.

An annual variable cash contribution to the VEBAs. The amount to be contributed to the VEBAs will be 10% of the first \$20.0 million of annual cash flow (defined generally as earnings before interest expense, provision for income taxes and depreciation and amortization ( EBITDA )) less cash payments for, among other things, interest, income taxes and capital expenditures ( Cash Payments )) plus 20% of annual cash flow, as defined, in excess of \$20.0 million. Such annual payments will not exceed \$20.0 million and will also be limited (with no carryover to future years) to the extent that the payments would cause our liquidity to be less than \$50.0 million. Such amounts will be determined on an annual basis and payable no later than March 31 of the following year. However, we have the ability to offset amounts that would otherwise be due to the VEBAs with approximately \$12.7 million of excess contributions made to the VEBAs prior to the effective date of our plan of reorganization.

The following table shows (in millions of dollars) the estimated amount of variable VEBA payments that would occur at differing levels of EBITDA and Cash Payments in respect of, among other items, interest, income taxes and capital expenditures. The table below does not consider the liquidity limitation, the \$12.7 million of advances available to us to offset VEBA obligations as they become due and certain other factors that could effect the amount of variable VEBA payments due and, therefore, should be considered only for illustrative purposes.

EBITDA	Cash Payments			
	\$25.0	\$50.0	\$75.0	\$100.0
\$ 20.0	\$	\$	\$	\$
40.0	1.5			
60.0	5.0	1.0		
80.0	9.0	4.0	0.5	
100.0	13.0	8.0	3.0	
120.0	17.0	12.0	7.0	2.0
140.0	20.0	16.0	11.0	6.0
160.0	20.0	20.0	15.0	10.0
180.0	20.0	20.0	19.0	14.0

200.0

20.0

20.0

20.0

18.0

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## **Management's discussion and analysis of financial condition and results of operations**

A short-term incentive compensation plan for management, payable in cash, which is based primarily on earnings, adjusted for certain safety and performance factors. Most of our locations have similar programs for both hourly and salaried employees.

A stock based long-term incentive plan for key managers. As more fully discussed in Note 15 to our interim consolidated financial statements an initial, emergence-related award was made under this program. Additional awards are expected to be made in future years.

In connection with the sale of our interests in and related to Gramercy/ KJBC, we agreed to indemnify the buyers up to \$5.0 million against losses suffered by the buyers that resulted from any failure of our representations and warranties to be true. A claim for the full amount of the indemnity has been made. Upon the closing of the transaction, we recorded such amount as a long-term liability.

During August 2005, we placed orders for equipment and services intended to augment our heat treat and aerospace capabilities at our Trentwood facility. We expect to become obligated for costs related to these orders of approximately \$75 million, approximately \$38 million of which were incurred through the second quarter of 2006. The balance will likely be incurred over the remainder of 2006 and 2007, with the majority of such costs being incurred in 2006. In August 2006, orders were placed for additional equipment to augment the facility's heat treat and aerospace capabilities. We expect the additional cost obligations to be approximately \$30 million and to be incurred primarily over the remainder of 2006 and 2007.

At July 31, 2006, there was approximately \$15 million of accrued, but unpaid professional fees that we will pay upon approval from the bankruptcy court. Additionally, certain professionals had success fees due upon our emergence from chapter 11 bankruptcy. We estimate that \$5.0 million of such amounts will be borne by us and will be recorded in connection with emergence and fresh start accounting.

### **NEW ACCOUNTING PRONOUNCEMENTS**

Please see Note 3 to our interim consolidated financial statements for a discussion of new accounting pronouncements.

Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, FIN 48, was issued in June 2006 and is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. SOP 90-7 requires that companies adopt all pending accounting standards in fresh start accounting. We adopted FIN 48 upon emergence from bankruptcy. However, the adoption of FIN 48 is not currently expected to have any material impact on our financial statements.

### **CRITICAL ACCOUNTING POLICIES**

Critical accounting policies are those that are both very important to the portrayal of our financial condition and results, and require management's most difficult, subjective, and/or complex judgments. Typically, the circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies after emergence from chapter 11 bankruptcy will, in some cases, be different from those before emergence. Many of the significant judgments affecting our financial statements relate to

## **Management's discussion and analysis of financial condition and results of operations**

matters related to our chapter 11 bankruptcy proceedings or liabilities that were resolved pursuant to our plan of reorganization.

While we believe all aspects of our financial statements should be studied and understood in assessing our current and future financial condition and results, we believe that the accounting policies that warrant additional attention include: **Financial statements for the quarter and six months ended June 30, 2006 have been prepared on a going concern basis**

The interim consolidated financial statements for the quarter and six months ended June 30, 2006, have been prepared on a going concern basis in accordance with SOP 90-7, and do not include the impacts of our plan of reorganization including adjustments relating to recorded asset amounts, the resolution of liabilities subject to compromise, or the cancellation of the equity interests of our pre-emergence stockholders. Adjustments related to our plan of reorganization will materially affect our consolidated financial statements included in this prospectus as more fully depicted in Pro forma consolidated balance sheet data.

In addition, during the course of the chapter 11 bankruptcy proceedings, there were material impacts including:

Additional pre-filing date claims were identified through the proof of claim reconciliation process and arose in connection with our actions in the chapter 11 bankruptcy proceedings. For example, while we considered rejection of the Bonneville Power Administration contract to be in our best long-term interests, the rejection resulted in an approximate \$75.0 million claim by the Bonneville Power Administration. In the quarter ended June 30, 2006 an agreement with the Bonneville Power Administration was approved by the bankruptcy court under which the claim was settled for a pre-petition claim of \$6.1 million.

As more fully discussed below, the amount of pre-filing date claims ultimately allowed by the bankruptcy court related to contingent claims and benefit obligations may be materially different from the amounts reflected in our consolidated financial statements.

As more fully discussed below, changes in our business plan precipitated by the chapter 11 bankruptcy proceedings resulted in significant charges associated with the disposition of assets.

Additionally, upon emergence from chapter 11 bankruptcy, we will be required to apply fresh start accounting to our consolidated financial statements as required by SOP 90-7. As such, in July 2006, we will adjust our balance sheet to equal the reorganization value of our company at emergence. Items such as accumulated depreciation, accumulated deficit and accumulated other comprehensive income (loss) were reset to zero. We allocated the reorganization value to its individual assets and liabilities based on their estimated fair value at the emergence date. Items such as current liabilities, accounts receivable and cash reflected values similar to those reported prior to emergence. Items such as inventory, property, plant and equipment, long-term assets and long-term liabilities were significantly adjusted from amounts previously reported. Because fresh start accounting was adopted at emergence, and because of the significance of liabilities subject to compromise that were relieved upon emergence, meaningful comparisons between our historical financial statements and our financial statements as of and after our emergence from chapter 11 bankruptcy will be difficult to make.

### **Our judgments and estimates with respect to commitments and contingencies**

Valuation of legal and other contingent claims is subject to judgment and substantial uncertainty. Under generally accepted accounting standards, or GAAP, companies are required to accrue for contingent matters in their financial statements only if the amount of any potential loss is both

## Management's discussion and analysis of financial condition and results of operations

probable and the amount or range of possible loss is estimatable. In reaching a determination of the probability of an adverse ruling, we typically consult outside experts. However, any judgments reached regarding probability are subject to significant uncertainty. We may, in fact, obtain an adverse ruling in a matter that we did not consider a probable loss and which was not accrued for in our financial statements. Additionally, facts and circumstances causing key assumptions that were used in previous assessments are subject to change. It is possible that amounts at risk in one matter may be traded off against amounts under negotiation in a separate matter. Further, in many instances a single estimation of a loss may not be possible. Rather, we may only be able to estimate a range for possible losses. In such event, GAAP requires that a liability be established for at least the minimum end of the range assuming that there is no other amount which is more likely to occur.

Prior to our emergence from chapter 11 bankruptcy, we had two potentially material contingent obligations that were subject to significant uncertainty and variability in their outcome: (1) the USW unfair labor practice claim, and (2) the net obligation in respect of personal injury-related matters. See Business Legal Proceedings.

As more fully discussed in Note 12 of our interim consolidated financial statements, we accrued an amount in the fourth quarter of 2004 for the USW unfair labor practice matter. We did not accrue any amount prior to the fourth quarter of 2004 because we did not consider the loss to be probable. Our assessment had been that the possible range of loss in this matter ranged from zero to \$250.0 million based on the proof of claims filed (and other information provided) by the National Labor Relations Board, or NLRB, and the USW in connection with our reorganization proceedings. While we continued to believe that the unfair labor practice charges were without merit, during January 2004, we agreed to allow a claim in favor of the USW in the amount of the \$175.0 million as a compromise and in return for the USW agreeing to substantially reduce or eliminate certain benefit payments as more fully discussed in Note 12 to our interim consolidated financial statements. However, this settlement was not recorded at that time because it was still subject to bankruptcy court approval. The settlement was ultimately approved by the bankruptcy court in February 2005 and, as a result of the contingency being removed with respect to this item (which arose prior to the December 31, 2004 balance sheet date), a non-cash charge of \$175.0 million was reflected in our consolidated financial statements at December 31, 2004.

Also, as more fully discussed in Note 12 to our interim consolidated financial statements, we were one of many defendants in personal injury claims by a large number of persons who assert that their injuries were caused by, among other things, exposure to asbestos during, or as a result of, their employment or association with us or by exposure to products containing asbestos last produced or sold by us more than 20 years ago. We have also previously disclosed that certain other personal injury claims had been filed in respect of alleged pre-filing date exposure to silica and coal tar pitch volatiles. Due to the chapter 11 bankruptcy proceedings, existing lawsuits in respect of all such personal injury claims were stayed and new lawsuits could not be commenced against us. Our June 30, 2006 balance sheet includes a liability for estimated asbestos-related costs of \$1,115 million, which represents our estimate of the minimum end of a range of costs. The upper end of our estimate of costs was approximately \$2,400 million and we are aware that certain constituents have asserted that they believed that actual costs could exceed the top end of our estimated range, by a potentially material amount. No estimation of our liabilities in respect of such matters occurred as a part of our plan of reorganization. However, given that our plan of reorganization was implemented in July 2006, all such obligations in respect of personal injury claims have been resolved and will not have a continuing effect on our financial condition after emergence.

Our June 30, 2006 balance sheet includes a long-term receivable of \$963.3 million for estimated insurance recoveries in respect of personal injury claims. We believed that, prior to the implementation of our plan of reorganization, recovery of this amount was probable (if our plan of reorganization was

## **Management's discussion and analysis of financial condition and results of operations**

not approved) and additional amounts may be recoverable in the future if additional liability is ultimately determined to exist. However, we could not provide assurance that all such amounts would be collected. However, as our plan of reorganization was implemented in July 2006, the rights to the proceeds from these policies has been transferred (along with the applicable liabilities) to certain personal injury trusts set up as a part of our plan of reorganization and we have no continuing interests in such policies.

### **Our judgments and estimates related to employee benefit plans**

Pension and post-retirement medical obligations included in the consolidated balance sheet at June 30, 2006 and at prior dates were based on assumptions that were subject to variation from year to year. Such variations can cause our estimate of such obligations to vary significantly. Restructuring actions relating to our exit from most of our commodities businesses also had a significant impact on the amount of these obligations.

For pension obligations, the most significant assumptions used in determining the estimated year-end obligation are the assumed discount rate and long-term rate of return on pension assets. Since recorded pension obligations represent the present value of expected pension payments over the life of the plans, decreases in the discount rate used to compute the present value of the payments would cause the estimated obligations to increase. Conversely, an increase in the discount rate would cause the estimated present value of the obligations to decline. The long-term rate of return on pension assets reflects our assumption regarding what the amount of earnings would be on existing plan assets before considering any future contributions to the plans. Increases in the assumed long-term rate of return would cause the projected value of plan assets available to satisfy pension obligations to increase, yielding a reduced net pension obligation. A reduction in the long-term rate of return would reduce the amount of projected net assets available to satisfy pension obligations and, thus, caused the net pension obligation to increase.

For post-retirement obligations, the key assumptions used to estimate the year-end obligations were the discount rate and the assumptions regarding future medical costs increases. The discount rate affected the post-retirement obligations in a similar fashion to that described above for pension obligations. As the assumed rate of increase in medical costs went up, so did the net projected obligation. Conversely, as the rate of increase was assumed to be smaller, the projected obligation declined.

Since our largest pension plans and the post retirement medical plans were terminated in 2003 and 2004, the amount of variability in respect of such plans was substantially reduced. However, there were five remaining defined benefit pension plans that were still ongoing pending the resolution of certain litigation with the PBGC. We prevailed in the litigation against the PBGC in August 2006, and it is anticipated that these plans will be terminated in October 2006. Given that all of our significant benefit plans after the emergence date are defined contribution plans or have limits on the amounts to be paid, our future financial statements will not be subject to the same volatility as our financial statements prior to emergence and the termination of the plans.

### **Our judgments and estimates related to environmental commitments and contingencies**

We are subject to a number of environmental laws and regulations, to fines or penalties that may be assessed for alleged breaches of such laws and regulations, and to clean-up obligations and other claims and litigation based upon such laws and regulations. We have in the past been and may in the future be subject to a number of claims under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments Reauthorization Act of 1986, or CERCLA.

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Based on our evaluation of these and other environmental matters, we have established environmental accruals, primarily related to investigations and potential remediation of the soil, groundwater and equipment at our current operating facilities that may have been adversely impacted by hazardous materials, including PCBs. These environmental accruals represent our estimate of costs reasonably expected to be incurred on a going concern basis in the ordinary course of business based on presently enacted laws and regulations, currently available facts, existing technology and our assessment of the likely remedial action to be taken. However, making estimates of possible environmental costs is subject to inherent uncertainties. As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, actual costs may exceed the current environmental accruals.

### **Our judgments and estimates related to conditional asset retirement obligations**

Companies are required to estimate incremental costs for special handling, removal and disposal costs of materials that may or will give rise to conditional asset retirement obligations and then discount the expected costs back to the current year using a credit adjusted risk free rate. Under current accounting guidelines, liabilities and costs for conditional asset retirement obligations must be recognized in a company's financial statements even if it is unclear when or if the conditional asset retirement obligations will be triggered. If it is unclear when or if a conditional asset retirement obligation will be triggered, companies are required to use probability weighting for possible timing scenarios to determine the probability weighted amounts that should be recognized in our financial statements. We have evaluated our exposures to conditional asset retirement obligations and determined that we have conditional asset retirement obligations at several of our facilities. The vast majority of such conditional asset retirement obligations consist of incremental costs that would be associated with the removal and disposal of asbestos (all of which is believed to be fully contained and encapsulated within walls, floors, ceilings or piping) of certain of the older facilities if such facilities were to undergo major renovation or be demolished. No plans currently exist for any such renovation or demolition of such facilities and our current assessment is that the most probable scenarios are that no such conditional asset retirement obligation would be triggered for 20 or more years, if at all. Nonetheless, we have recorded an estimated conditional asset retirement obligation liability of approximately \$2.7 million at December 31, 2005 and we expect that this amount will increase substantially over time.

The estimation of conditional asset retirement obligations is subject to a number of inherent uncertainties including:

- the timing of when any such conditional asset retirement obligation may be incurred;
- the ability to accurately identify all materials that may require special handling or treatment;
- the ability to reasonably estimate the total incremental special handling and other costs;
- the ability to assess the relative probability of different scenarios which could give rise to a conditional asset retirement obligation; and
- other factors outside our control including changes in regulations, costs, and interest rates.

Actual costs and the timing of such costs may vary significantly from the estimates, judgments, and probable scenarios we considered, which could, in turn, have a material impact on our future financial statements.

## **Management's discussion and analysis of financial condition and results of operations**

### **Recoverability of recorded asset values**

Under GAAP, assets to be held and used are evaluated for recoverability differently than assets to be sold or disposed of. Assets to be held and used are evaluated based on their expected undiscounted future net cash flows. So long as we reasonably expect that such undiscounted future net cash flows for each asset will exceed the recorded value of the asset being evaluated, no impairment is required. However, if plans to sell or dispose of an asset or group of assets meet a number of specific criteria, then, under GAAP, such assets should be considered held for sale or disposition and their recoverability should be evaluated, based on expected consideration to be received upon disposition. Sales or dispositions at a particular time will be affected by, among other things, the existing industry and general economic circumstances as well as our own circumstances, including whether or not assets will be sold on an accelerated or extended timetable. Such circumstances may cause the expected value in a sale or disposition scenario to differ materially from the realizable value over the normal operating life of an asset, which would likely be evaluated on long-term industry trends.

### **Income tax provisions in interim periods**

In accordance with GAAP, financial statements for interim periods are to include an income tax provision based on the effective tax rate expected to be incurred in the current year. Accordingly, estimates and judgments must be made for each applicable taxable jurisdiction as to the amount of taxable income that may be generated, the availability of deductions and credits expected and the availability of net operating loss carryforwards or other tax attributes to offset taxable income. Making such estimates and judgments is subject to inherent uncertainties given the difficulty predicting such factors as future market conditions, customer requirements, the cost for key inputs such as energy and primary aluminum, its overall operating efficiency and many other items. For purposes of preparing our June 30, 2006 interim consolidated financial statements, we have considered our actual operating results in the six months ended June 30, 2006 as well as our forecasts for the balance of the year. Based on this and other available information, we do not expect to generate U.S. taxable income for the full year. However, among other things, should:

actual results for the balance of 2006 vary from that in the six months ended June 30, 2006 and our forecasts due to one or more of the factors cited above or elsewhere in this prospectus for the year ended December 31, 2005;

income be distributed differently than expected among tax jurisdictions;

one or more material events or transactions occur which were not contemplated; or

certain expected deductions, credits or carryforwards not be available;

then, it is possible that the effective tax rate for 2006 could vary materially from the assessments used to prepare the June 30, 2006 interim consolidated financial statements included elsewhere in this prospectus. Additionally, post emergence, our tax provision will be affected by the impacts of our plan of reorganization and by the application of fresh start accounting.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our operating results are sensitive to changes in the prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold. As discussed more fully in Notes 2 and 12 to our consolidated financial statements, we have utilized hedging transactions to lock in a specified price or range of prices for certain products which we sell or consume in our production process and to mitigate our exposure to changes in foreign currency exchange rates.

## **Management's discussion and analysis of financial condition and results of operations**

### **Sensitivity**

#### **Primary Aluminum**

Our share of primary aluminum production from Anglesey is approximately 150 million pounds annually. Because we purchase alumina for Anglesey at prices linked to primary aluminum prices, only a portion of our net revenues associated with Anglesey are exposed to price risk. We estimate the net portion of our share of Anglesey production exposed to primary aluminum price risk to be approximately 100 million pounds annually (before considering income tax effects).

Our pricing of fabricated aluminum products is generally intended to lock in a conversion margin (representing the value added from the fabrication process) and to pass metal price risk on to our customers. However, in certain instances we enter into firm price arrangements. In such instances, we have price risk on our anticipated primary aluminum purchase for the customer's order. Total fabricated products shipments during 2003, 2004 and 2005 for which we had price risk were (in millions of pounds) 97.6, 119.0 and 155.0, respectively, representing 26%, 26% and 32% of the total pounds of fabricated products shipped in each year. Total fabricated products shipments during the six month periods ended June 30, 2005 and 2006 for which we had price risk were (in millions of pounds) 69.8 and 103.9, respectively, representing 29% and 38% of total fabricated products shipments in each period.

During the last three years, our net exposure to primary aluminum price risk at Anglesey substantially offset or roughly equaled the volume of fabricated products shipments with underlying primary aluminum price risk. As such, we consider our access to Anglesey production overall to be a natural hedge against any fabricated products firm metal-price risk. However, since the volume of fabricated products shipped under firm prices may not match up on a month-to-month basis with expected Anglesey-related primary aluminum shipments, we may use third-party hedging instruments to eliminate any net remaining primary aluminum price exposure existing at any time.

At June 30, 2006, our fabricated products business held contracts for the delivery of fabricated aluminum products that have the effect of creating price risk on anticipated primary aluminum purchases for the last two quarters of 2006 and the period 2007-2010 totaling approximately (in millions of pounds): 2006: 120, 2007: 110, 2008: 89, and 2009: 71 and 2010: 68.

#### **Foreign currency**

From time to time we will enter into forward exchange contracts to hedge material cash commitments for foreign currencies. After considering the completed sales of our commodities interests, our primary foreign exchange exposure is the Anglesey-related commitment that we fund in Great Britain Pound Sterling. We estimate that, before consideration of any hedging activities, a US \$0.01 increase (decrease) in the value of the Great Britain Pound Sterling results in an approximate \$0.5 million (decrease) increase in our annual pre-tax operating income.

#### **Energy**

We are exposed to energy price risk from fluctuating prices for natural gas. We estimate that each \$1.00 change in natural gas prices (per thousand cubic feet) impacts our annual pre-tax operating results by approximately \$4 million. From time to time, in the ordinary course of business, we enter into hedging transactions with major suppliers of energy and energy-related financial investments. As of June 30, 2006, we had fixed price contracts that would cap the average price we would pay for natural gas so that, when combined with price limits in the physical gas supply agreement, our exposure to increases in natural gas prices has been substantially limited for approximately 65% of the natural gas purchases for July 2006 through September 2006, approximately 34% of our natural gas purchases from October 2006 through

## **Management's discussion and analysis of financial condition and results of operations**

December 2006 and approximately 15% of our natural gas purchases from January 2007 through March 2007.

### **CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, or Exchange Act, is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

#### **Evaluation of disclosure controls and procedures**

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed as of December 31, 2005 under the supervision of and with the participation of our management, including the principal executive officer and principal financial officer. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective for the reasons described below.

During the final reporting and closing process relating to our first quarter of 2005, we evaluated the accounting treatment for the VEBA payments and concluded that such payments should be presented as a period expense. As more fully discussed in Note 16 of the notes to consolidated financial statements included elsewhere in this prospectus, during our reporting and closing process relating to the preparation of our December 31, 2005 financial statements and analyzing the appropriate post-emergence accounting treatment for the VEBA payments, we concluded that the VEBA payments made in 2005 should be presented as a reduction of pre-petition retiree medical obligations rather than as a period expense. While the incorrect accounting treatment employed relating to the VEBA payments does indicate a deficiency in our internal controls over financial reporting such deficiency was remediated during the final reporting and closing process in connection with the preparation of our December 31, 2005 financial statements. During the final reporting and closing process relating to the preparation of our December 31, 2005 financial statements, we concluded that our controls and procedures were not effective as of December 31, 2005 because a material weakness in internal control over financial reporting exists relating to our accounting for derivative financial instruments under Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ). Specifically, we lacked sufficient technical expertise as to the application of SFAS 133, and our procedures relating to hedging transactions were not designed effectively such that each of the complex documentation requirements for hedge accounting treatment set forth in SFAS No. 133 were evaluated appropriately. More specifically, our documentation did not comply with SFAS No. 133 with respect to our methods for testing and supporting that changes in the market value of the hedging transactions would correlate with fluctuations in the value of the forecasted transaction to which they relate. We believed that the derivatives we were using would qualify for the short-cut method whereby regular assessments of correlation would not be required. However, we ultimately concluded that, while the terms of the derivatives were essentially the same as the forecasted transaction, they were not identical and, therefore, we should have done certain mathematical computations to prove the ongoing correlation of changes in value of the hedge and the forecasted transaction.



## **Management's discussion and analysis of financial condition and results of operations**

We have concluded that, had we completed our documentation in strict compliance with SFAS No. 133, the derivative transactions would have qualified for hedge (e.g. deferral) treatment. The rules provide that, once de-designation has occurred, we can modify our documentation and re-designate the derivative transactions as hedges and, if appropriately documented, re-qualify the transactions for prospectively deferring changes in market fluctuations after such corrections are made.

We are working to modify our documentation and to re-qualify open and post 2005 derivative transactions for treatment as hedges during the third quarter of 2006. Specifically, we will, as a part of the re-designation process, modify the documentation in respect of all our derivative transactions to require the long form method of testing and supporting correlation. We also intend to have outside experts review our revised documentation once completed and to use such experts to perform reviews of documentation in respect of any new forms of documentation on future transactions and to do periodic reviews to help reduce the risk that other instances of non-compliance with SFAS No. 133 will occur. However, as SFAS No. 133 is a complex document and different interpretations are possible, absolute assurances cannot be provided that such improved controls will prevent any/all instances of non-compliance.

As a result of the material weakness, we restated our financial statements for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005. In light of these restatements, our management, including our principal executive officer and principal financial officer, determined that this deficiency constituted a material weakness in our internal control over financial reporting at December 31, 2005 and during the first quarter of 2006. Although our accounting for derivative instruments on a mark-to-market basis during the first quarter of 2006 means there were no 2006 accounting ramifications in respect of this matter, we will not consider this matter to be fully remediated until we complete all the steps outlined above and requalify our derivatives for hedge accounting treatment.

### **Changes in internal controls over financial reporting**

We did not have any change in our internal controls over financial reporting during the second quarter of 2006 that has materially affected, or is reasonably likely to affect, our internal controls over financial reporting. However, as more fully described below, we do not believe our internal control environment is as strong as it has been in the past. We relocated our corporate headquarters from Houston, Texas to Foothill Ranch, California. Staff transition occurred starting in late 2004 and was ongoing primarily during the first half of 2005. A small core group of Houston corporate personnel were retained throughout 2005 to supplement the Foothill Ranch staff and handle certain of the remaining chapter 11 bankruptcy-related matters. During the second half of 2005, the monthly and quarterly accounting, financial reporting and consolidation processes were thought at that time to have functioned adequately.

As previously announced, in January 2006, our Vice President and Chief Financial Officer resigned. His decision to resign was based on a personal relationship with another employee, which we determined to be inappropriate. The resignation was in no way related to our internal controls, financial statements, financial performance or financial condition. We formed the Office of the CFO and split the CFO's duties between our Chief Executive Officer and two long tenured financial officers, the VP-Treasurer and VP-Controller. In February 2006, a person with a significant corporate accounting role resigned. This person's duties were split between the VP-Controller and other key managers in the corporate accounting group. We also used certain former personnel to augment the corporate accounting team and are working on more permanent arrangements. In May 2006, we hired a new CFO.

**Management's discussion and analysis of financial condition and results of operations**

The relocation and changes in personnel described above made the year-end and 2006 accounting and reporting processes more difficult due to the combined loss of the two individuals and reduced amounts of institutional knowledge in the new corporate accounting group. We believe that we have addressed all material matters necessary with respect to our internal accounting and financial controls, but we note that the level of assurance we have over internal accounting and financial accounting control is not as strong as we desire or as in past periods.

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#### Recent reorganization

Between the first quarter of 2002 and the first quarter of 2003, Kaiser and 25 of our then existing subsidiaries filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code. While in chapter 11 bankruptcy, we continued to manage our business in the ordinary course as debtors-in-possession subject to the control and administration of the bankruptcy court.

We and 16 of our subsidiaries filed the chapter 11 bankruptcy in the first quarter of 2002 primarily because of our liquidity and cash flow problems that arose in late 2001 and early 2002. We were facing significant near-term debt maturities at a time of unusually weak aluminum industry business conditions, depressed aluminum prices and a broad economic slowdown that was further exacerbated by the events of September 11, 2001. In addition, we had become increasingly burdened by asbestos litigation and growing legacy obligations for retiree medical and pension costs. The confluence of these factors created the prospect of continuing operating losses and negative cash flows, resulting in lower credit ratings and an inability to access the capital markets.

In the first quarter of 2003, nine of our other subsidiaries filed chapter 11 bankruptcy in order to protect the assets held by those subsidiaries against possible statutory liens that might have otherwise arisen and been enforced by the PBGC. On December 20, 2005, the bankruptcy court entered an order confirming two separate joint plans of liquidation for four of our subsidiaries. On December 22, 2005, these plans of liquidation became effective and all restricted cash and other assets held on behalf of or by the subsidiaries, consisting primarily of approximately \$686.8 of net cash proceeds from the sale of interests in and related to certain alumina refineries in Australia and Jamaica, were transferred to a trustee for subsequent distribution to holders of claims against the subsidiaries in accordance with the terms of the plans of liquidation. In connection with the plans of liquidation, these four subsidiaries were dissolved and their corporate existence was terminated.

On February 6, 2006, the bankruptcy court entered an order confirming a plan of reorganization for us and our other remaining subsidiaries that had filed chapter 11 bankruptcy. On May 11, 2006, the District Court for the District of Delaware entered an order affirming the confirmation order and adopting the bankruptcy court's findings of fact and conclusions of law regarding confirmation of our plan of reorganization. On July 6, 2006, our plan of reorganization became effective and was substantially consummated, whereupon we emerged from chapter 11 bankruptcy.

Pursuant to our plan of reorganization, on July 6, 2006, the pre-petition ownership interests in Kaiser were cancelled without consideration and approximately \$4.4 billion of pre-petition claims against us, including claims in respect of debt, pension and post-retirement medical obligations and asbestos and other tort liabilities, were resolved as follows:

*Claims in Respect of Retiree Medical Obligations.* Pursuant to settlements reached with representatives of hourly and salaried retirees in early 2004:

- an aggregate of 11,439,900 shares of our common stock were delivered to the Union VEBA Trust and entities that prior to July 6, 2006 acquired from the Union VEBA Trust rights to receive a portion of such shares; and
- an aggregate of 1,940,100 shares of our common stock were delivered to the Salaried Retiree VEBA Trust and entities that prior to July 6, 2006 acquired from the Salaried Retiree VEBA Trust rights to receive a portion of such shares.

*Priority Claims and Secured Claims.* All pre-petition priority claims, pre-petition priority tax claims and pre-petition secured claims were paid in full in cash.

## Recent reorganization

*Unsecured Claims.* With respect to pre-petition unsecured claims (other than the personal injury claims specified below):

- all pre-petition unsecured claims of the PBGC against our Canadian subsidiaries were satisfied by the delivery of 2,160,000 shares of common stock and \$2.5 million in cash; and
- all pre-petition general unsecured claims against us, other than our Canadian subsidiaries, including claims of the PBGC and holders of our public debt, were satisfied by the issuance of 4,460,000 shares of our common stock to a third-party disbursing agent, with such shares to be delivered to the holders of such claims in accordance with the terms of our plan of reorganization (to the extent that such claims do not constitute convenience claims that have been or will be satisfied with cash payments). Of such 4,460,000 shares of common stock, approximately 331,000 shares are being held by the third-party disbursing agent as a reserve pending resolution of disputed claims. To the extent a holder of a disputed claim is not entitled to shares reserved in respect of such claim, such shares will be distributed to holders of allowed claims.

*Personal Injury Claims.* Certain trusts, the PI Trusts, were formed to receive distributions from us, assume responsibility from us for present and future asbestos personal injury claims, present and future silica personal injury claims, present and future coal tar pitch personal injury claims and present but not future noise-induced hearing personal injury claims, and to make payments in respect of such personal injury claims. We contributed to the PI Trusts:

- the rights with respect to proceeds associated with personal injury-related insurance recoveries reflected on our consolidated financial statements at June 30, 2006 as a receivable having a value of \$963.3 million;
  - \$13.0 million in cash (less approximately \$0.3 million advanced prior to July 6, 2006);
  - the stock of a subsidiary whose primary asset was approximately 145 acres of real estate located in Louisiana and the rights as lessor under a lease agreement for such real property that produces modest rental income; and
  - 75% of a pre-petition general unsecured claim against one of our subsidiaries in the amount of \$1,106.0 million, entitling the PI Trusts to a share of the 4,460,000 shares of common stock distributed to unsecured claimholders.
- The PI Trusts assumed all liability and responsibility for present and future asbestos personal injury claims, present and future silica personal injury claims, present and future coal tar pitch personal injury claims and present but not future noise-induced hearing personal injury claims. As of July 6, 2006, injunctions were entered prohibiting any person from pursuing any claims against us or any of our affiliates in respect of such matters.

In general, the rights afforded under our plan of reorganization and the treatment of claims under our plan of reorganization are in complete satisfaction of and discharge all claims arising on or before July 6, 2006. However, our plan of reorganization does not limit any rights that the United States of America or the individual states may have under environmental laws to seek to enforce equitable remedies against us, though we may raise any and all available defenses in any action to enforce such equitable remedies. Further, with regard to certain non-owned sites specified in the environmental settlement agreement entered into in connection with our plan of reorganization as to which we and the United States of America had not reached settlement by the confirmation date, all our rights and defenses and those of the United States of America are preserved and not affected by our plan of reorganization. With respect to sites owned by us after the confirmation date, specified categories of claims of the United States of America and the individual states party to the environmental settlement agreement are not discharged, impaired or affected in any way by our plan of reorganization, and we

**Recent reorganization**

maintain any and all defenses to any such claims except for any defense alleging such claims were discharged under our plan of reorganization.

**CORPORATE STRUCTURE**

Pursuant to our plan of reorganization, in connection with our emergence from chapter 11 bankruptcy, we engaged in a number of transactions in order to simplify our corporate structure. The following diagram illustrates our corporate structure as of September 15, 2006:

#### Industry overview

The aluminum fabricated products market is broadly defined as the markets for flat-rolled, extruded, drawn, forged and cast aluminum products, which are used in a variety of end-use applications. We participate in certain portions of the markets for flat-rolled, extruded/drawn and forged products focusing on highly engineered products for aerospace and high strength, general engineering and custom automotive and industrial applications. The portions of markets in which we participate accounted for approximately 20% of total North American shipments of aluminum fabricated products in 2005.

#### **END MARKETS**

We have chosen to focus on the manufacture of aluminum fabricated products primarily for aerospace and high strength, general engineering and custom automotive and industrial applications.

Products sold for aerospace and high strength applications represented 29% of our 2005 fabricated products shipments. We offer various aluminum fabricated products to service aerospace and high strength customers, including heat treat plate and sheet products, as well as cold finish bars and seamless drawn tubes. Heat treated products are distinguished from common alloy products by higher strength, fracture toughness and other desired product attributes.

Products sold for general engineering applications represented 44% of our 2005 fabricated products shipments. This market consists primarily of transportation and industrial end customers who purchase a variety of extruded, drawn and forged fabricated products through large North American distributors.

Products sold for custom automotive and industrial applications represented 27% of 2005 fabricated products shipments. These products include custom extruded, drawn and forged aluminum products for a variety of applications. While we are capable of producing forged products for most end use applications, we concentrate our efforts on meeting demand for forged products, other than wheels, in the automotive industry.

We have elected not to participate in certain end markets for fabricated aluminum products, including beverage and food cans, building and construction materials, and foil used for packaging, which represented approximately 95% of the North American flat rolled products market and approximately 45% of the North American extrusion market in 2005. We believe our chosen end markets present better opportunities for sales growth and premium pricing of differentiated products.

#### **North American Flat-Rolled & Extrusion Market Size Kaiser Served & Unserved Segments**

Source: 2005 Aluminum Association, Kaiser estimates

## Industry overview

### Aerospace and defense applications

We are a leading supplier of high quality sheet, plate, drawn tube and bar products to the global aerospace and defense industry. Our products for these end-use applications are heat treat plate and sheet, as well as cold finish bar and seamless drawn tube that are manufactured to demanding specifications. The aerospace and defense market's consumption of fabricated aluminum products is driven by overall levels of industrial production, cyclical airframe build rates and defense spending, as well as the potential availability of competing materials such as composites. According to Airline Monitor's July 2006 Forecast, the global build rate of commercial aircraft over 50 seats is expected to rise at a 4.6% compound annual growth rate through 2025. Additionally, demand growth is expected to increase for thick plate with growth in monolithic construction of commercial and other aircraft. In monolithic construction, aluminum plate is heavily machined to form the desired part from a single piece of metal (as opposed to creating parts using aluminum sheet, extrusions or forgings that are affixed to one another using rivets, bolts or welds). In addition to commercial aviation demand, military applications for heat treat plate and sheet include aircraft frames and skins and armor plating to protect ground vehicles from explosive devices.

#### Global Commercial Aircraft Build > 50 Seats

#### U.S. Index of Industrial Production Seasonally Adjusted

Source: Airline Monitor's July 2006 Forecast

Source: Federal Reserve

### General engineering applications

General engineering products consist primarily of standard catalog items sold to large metal distributors. These products have a wide range of uses, many of which involve further fabrication of these products for numerous transportation and industrial end-use applications where machining of plate, rod and bar is intensive. Demand growth and cyclicity for general engineering products tend to mirror broad economic patterns and industrial activity in North America. Demand is also impacted by the destocking and restocking of inventory in the full supply chain.

### Custom automotive and industrial applications

We manufacture custom extruded/drawn and forged aluminum products for many automotive and industrial end uses, including consumer durables, electrical, machinery and equipment, automobile, light truck, heavy truck and truck trailer applications. Examples of the wide variety of custom

## Industry overview

products that we supply to the automotive industry are extruded products for anti-lock braking systems, drawn tube for drive shafts and forgings for suspension control arms and drive train yokes. For some custom products, we perform limited fabrication, including sawing and cutting to length. Demand growth and cyclicity tend to mirror broad economic patterns and industrial activity in North America, with specific individual market segments such as automotive, heavy truck and truck trailer applications tracking their respective build rates.

## PRODUCTS AND MANUFACTURING PROCESSES

### Flat-Rolled Products

Aluminum rolled products are semi-fabricated plate, sheet and foil that are further processed into finished goods, including aluminum cans, automotive body panels, household foil, aircraft body structures and skins and many other industrial products. There are two main processes used in the fabrication of flat-rolled products: (1) a continuous casting process in which molten aluminum is cast directly into sheets; and (2) a hot mill process in which heated ingots (large rectangular slabs of aluminum) are repeatedly squeezed between large rolls to elongate the ingot to reduce thickness. The continuous casting process can produce sheet and foil, and the hot mill process can produce plate, sheet and foil.

**Plate (0.025 inch or more)** Plate is used in heavy duty aerospace, machinery and transportation applications. Plate applications include structural sections for rail cars and large ships, structural components and skins of jumbo jets and spacecraft fuel tanks as well as armor protection for military vehicles.

**Sheet (0.006 to 0.0249 inch)** Sheet is the most widely used form of aluminum. Sheet applications include packaging (beverage cans and closures), home appliances and cookware, automobile panels, aircraft skins and building products such as siding, roofing and awnings.

**Foil (less than 0.006 inch)** Foil is the thinnest of the flat-rolled aluminum products. Foil applications include flexible packaging, household foil and fin stock for air conditioning, industrial and automotive applications. We use the hot mill process to produce plate and sheet, but do not produce foil products. Aluminum rolled products are manufactured using a variety of alloy mixtures, a range of tempers (hardness), gauges (thickness) and widths, and various coatings and finishes. Additional steps can be taken to achieve desired metallurgical, dimensional and/or performance properties, including annealing, heat treating, stretching and leveling.

### Extruded and Drawn Products

The extrusion process converts cast billet (a cylindrical log of aluminum) into semi-finished rods and bars, pipes and tubes, or profiles for direct end use or further fabrication.

**Rods and Bars** Rods and bars are used in aerospace, and general machinery applications. Examples include rivets, screws, bolts, and machinery parts.

**Pipes and Tubes** Pipes and tubes are used in aerospace, automotive, building and construction and consumer durable applications. Examples include automotive drive shafts, fluid circulation and control systems for air conditioning, hydraulics and irrigation, and light poles.

**Profiles (or shapes)** Profiles are used in automotive, consumer durable and building and construction applications. Examples include truck trailers, automobile bumpers, heat distribution systems (heat sinks), doors, windows, commercial building facades, ladders and scaffolds.



## **Industry overview**

In the extrusion process, the billet is heated to an elevated temperature to make the metal malleable and then pressed, or extruded, through a die that gives the material a desired two dimensional cross section. After the extrusions are straightened and cut to specified lengths, there can be various processing and finishing options. Finishing options include polishing, painting, anodizing and powder coating. Some of our presses can produce seamless tube, a product with higher structural integrity than extruded tube with welded seams. Additionally, extruded tubes and rods can be pulled through a die, or drawn, to create tubes or rods of more precise dimensions.

### **Forged Products**

Forging is a manufacturing process in which metal is pressed, pounded or squeezed under great pressure into high strength parts known as forgings. Forged parts are heat treated before final shipment to the customer. The end-use applications are primarily in transportation, where high strength-to-weight ratios in products are valued. We focus our production of forged products on certain types of automotive applications.

### **RAW MATERIALS**

The rolling ingots used as the starting material for flat-rolled products and the billets used for extrusions and forgings are cast from primary aluminum (produced in aluminum smelters), secondary aluminum (recycled from aluminum scrap such as used beverage cans and other post-consumer aluminum, as well as internally generated scrap from internal manufacturing operations) or a combination thereof. Primary aluminum is readily available and can generally be purchased at prices set on the London Metal Exchange plus a premium that varies by geographic region of delivery, form and alloy. Secondary aluminum, or scrap, is also readily available and trades at a discount to primary metal, depending mainly on its alloy and form.

Business

**COMPANY OVERVIEW**

We are a leading independent fabricated aluminum products manufacturing company with 2005 net sales of approximately \$1.1 billion. We were founded in 1946 and operate 11 production facilities in the United States and Canada. We manufacture rolled, extruded, drawn and forged aluminum products within three product categories consisting of aerospace and high strength products (which we refer to as Aero/ HS products), general engineering products and custom automotive and industrial products.

We produced and shipped approximately 482 million pounds of fabricated aluminum products in 2005, which comprised 86% of our total net sales. Of our total fabricated product shipments in 2005, approximately 29% were Aero/ HS products, approximately 44% were general engineering products and the remaining approximately 27% consisted of custom automotive and industrial products. Of our total fabricated products net sales in 2005, approximately 38% were Aero/ HS products, approximately 38% were general engineering products and the remaining approximately 24% consisted of custom automotive and industrial products.

In order to capitalize on the significant growth in demand for high quality heat treat aluminum plate products in the market for Aero/ HS products, we have begun a major expansion at our Trentwood facility in Spokane, Washington. We anticipate that the Trentwood expansion will significantly increase our aluminum plate production capacity and enable us to produce thicker gauge aluminum plate. The \$105 million expansion is expected to be completed in phases, with one new heat treat furnace becoming operational in late 2006, a second such furnace becoming operational in mid-2007 and a third such furnace becoming operational in early 2008. A new heavy gauge stretcher, which will enable us to produce thicker gauge aluminum plate, will also become operational in early 2008.

We have long-standing relationships with our customers, which include leading aerospace companies, automotive suppliers and metal distributors. We strive to tightly integrate the management of our fabricated products operations across multiple production facilities, product lines and target markets in order to maximize the efficiency of product flow to our customers. In our served markets, we seek to be the supplier of choice by pursuing best-in-class customer satisfaction and offering a product portfolio that is unmatched in breadth and depth by our competitors.

In addition to our core fabricated products operations, we have a 49% ownership interest in Anglesey Aluminium Limited, an aluminum smelter based in Holyhead, Wales. Anglesey has produced in excess of 140,000 metric tons for each of the last three fiscal years, of which 49% is available to us. We sell our portion of Anglesey's primary aluminum output to a single third party at market prices. During 2005, sales of our portion of Anglesey's output represented 14% of our total net sales. Because we also purchase primary aluminum for our fabricated products at market prices, Anglesey's production acts as a natural hedge for our fabricated products operations. Please see Risk factors The expiration of the power agreement for Anglesey may adversely affect our cash flows and affect our hedging programs for a discussion regarding the potential closure of Anglesey, which could occur as soon as 2009.

**COMPETITIVE STRENGTHS**

We believe that the following competitive strengths will enable us to enhance our position as one of the leaders in the fabricated aluminum products industry:

*Leading market positions in value-added niche markets for fabricated products.* We have repositioned our business to concentrate on products in which we believe we have strong production capability, well- developed technical expertise and high product quality. We believe that

## Business

we hold a leading market share position in niche markets that represented approximately 85% of our 2005 net sales from fabricated aluminum products. Our leading market position extends throughout our broad product offering, including plate, sheet, seamless extruded and drawn tube, rod, bar, extrusions and forgings for use in a variety of value-added aerospace, general engineering and custom automotive and industrial applications.

*Well-positioned growth platform.* We have substantial organic growth opportunities in the production of aluminum plate, extrusions and forgings. We are in the midst of a \$105 million expansion of our Trentwood facility that will allow us to significantly increase production capacity and enable us to produce thicker gauge aluminum plate. We also have the ability to add presses and other manufacturing equipment at several of our current facilities in order to increase extrusion and forging capacity. Additionally, we believe our platform provides us with flexibility to create additional stockholder value through selective acquisitions.

*Supplier of choice.* We pursue best-in-class customer satisfaction through the consistent, on-time delivery of high quality products on short lead times. We offer our customers a portfolio of both highly engineered and industry standard products that is unmatched in breadth and depth by most of our competitors. Our continuous improvement culture is grounded in our production system, the Kaiser Production System, which involves an integrated utilization of application and advanced process engineering and business improvement methodologies such as lean enterprise, total productive maintenance and six sigma. We believe that our broad product portfolio of highly engineered products and the Kaiser Production System, together with our established record of product innovation, will allow us to remain the supplier of choice for our customers and further enhance our competitive position.

*Blue-chip customer base and diverse end markets.* Our fabricated products customers include leading aerospace companies, automotive suppliers and metal distributors, such as A.M. Castle-Raytheon, Airbus Industrie, Boeing, Bombardier, Eclipse Aviation, Reliance Steel & Aluminum and Transtar-Lockheed Martin. We have long-term relationships with our top customers, many of which we have served for decades. Our customer base spans a variety of end markets, including aerospace and defense, automotive, consumer durables, machinery and equipment, and electrical.

*Financial strength.* We have little debt and significant liquidity as a result of our recent reorganization. We also have net operating loss carry-forwards and other significant tax attributes that we believe could together offset in excess of \$600 million of otherwise taxable income and may accordingly reduce our future cash payments of U.S. income tax.

*Strong and experienced management.* The members of our senior management team have, on average, 20 years of industry work experience, particularly within the areas of operations, technology, marketing and finance. Our management team has repositioned our fabricated products business and led us through our recent reorganization, creating a focused business with financial and competitive strength.

## STRATEGY

Our principal strategies to increase stockholder value are to:

*Pursue organic growth.* We will continue to utilize our manufacturing platform to increase growth in areas where we are well-positioned such as aluminum plate, forgings and extrusions. For instance, we anticipate that the expansion of our Trentwood facility will enable us to significantly increase our production capacity and enable us to produce thicker gauge aluminum plate, allowing us to capitalize on the significant growth in demand for high quality heat treat aluminum plate products in the market for Aero/ HS products. Further, our well-equipped extrusion and forging

## Business

facilities provide a platform to expand production as we take advantage of opportunities and our strong customer relationships in the aerospace and industrial end markets.

*Continue to differentiate our products and provide superior customer support.* As part of our ongoing supplier of choice efforts, we will continue to strive to achieve best-in-class customer satisfaction. We will also continue to offer a broad portfolio of differentiated, superior-quality products with high engineering content, tailored to the needs of our customers. For instance, our unique T-Form<sup>®</sup> sheet provides aerospace customers with high formability as well as requisite strength characteristics, enabling these customers to substantially lower their production costs. Additionally, we believe our Kaiser Select<sup>®</sup> Rod established a new industry benchmark for quality and performance in automatic screw applications. By continually striving for best-in-class customer satisfaction and offering a broad portfolio of differentiated products, we believe we will be able to maintain our premium product pricing, increase our sales to current customers and gain new customers, thereby increasing our market share.

*Continue to enhance our operating efficiencies.* During the last five years, we have significantly reduced our costs by narrowing our product focus, strategically investing in our production facilities and implementing the Kaiser Production System. We will continue to implement additional measures to enhance our operating efficiency and productivity, which we believe will further decrease our production costs.

*Maintain financial strength.* We intend to employ debt judiciously in order to remain financially strong throughout the business cycle and to maintain our flexibility to capitalize on growth opportunities.

*Enhance our product portfolio and customer base through selective acquisitions.* We may seek to grow through acquisitions and strategic partnerships. We will selectively consider acquisition opportunities that we believe will complement our product portfolio and add long-term stockholder value.

## FABRICATED PRODUCTS OPERATIONS

### Products

We produced and shipped approximately 482 million pounds of fabricated aluminum products in 2005, which comprised 86% of our total net sales. Of our total fabricated product shipments in 2005, approximately 29% were Aero/ HS products, approximately 44% were general engineering products and the remaining approximately 27% consisted of custom automotive and industrial products. Of our total fabricated products net sales in 2005, approximately 38% were Aero/ HS products, approximately 38% were general engineering products and the remaining approximately 24% consisted of custom automotive and industrial products.

*Aerospace and High Strength Products.* Our Aero/ HS products consist of products that are used in applications that demand high tensile strength, superior fatigue resistance properties and exceptional durability even in harsh environments. For instance, aerospace manufacturers use high-strength alloys for a variety of structures that must perform consistently under extreme variations in temperature and altitude. Our Aero/ HS products are used for a wide variety of end uses. We make aluminum plate and tube for aerospace applications, and we manufacture a variety of specialized rod and bar products that are incorporated in goods as diverse as baseball bats and racecars.

*General Engineering Products.* Our general engineering products consist of 6000-series alloy rod, bar, tube, sheet, plate and standard extrusions. 6000-series alloy is an extrudable medium-strength alloy that is heat treatable and extremely versatile. Our general engineering products have a wide range of uses and applications, many of which involve further fabrication of these products for numerous

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transportation and other industrial end uses. For example, our products are used in the specialized manufacturing process for liquid crystal display screens, and we produce aluminum sheet and plate that is used in the vacuum chamber in which semiconductors are made. We also produce aluminum plate that is used to further enhance military vehicle protection. Our rod and bar products are manufactured into rivets, nails, screws, bolts and parts of machinery and equipment.

*Custom Automotive and Industrial Products.* Our custom products consist of extruded, drawn and forged aluminum products for applications in many North American automotive and industrial end uses, including consumer durables, electrical, machinery and equipment, automobile, light truck, heavy truck and truck trailer applications. We supply a wide variety of automotive products, including extruded products for anti-lock braking systems, drawn tube for drive shafts, and forgings for suspension control arms and drive train yokes. A significant portion of our other custom product sales in recent years has been for water heater anodes, truck trailers and electrical/electronic heat exchangers.

### **Fabricated products pricing**

The price we pay for primary aluminum, the principal raw material for our fabricated aluminum products business, consists of two components: the price quoted for primary aluminum ingot on the London Metals Exchange, or the LME, and the Midwest Transaction Premium, a premium to LME reflecting domestic market dynamics as well as the cost of shipping and warehousing. Because aluminum prices are volatile, we manage the risk of fluctuations in the price of primary aluminum through a combination of pricing policies, internal hedging and financial derivatives. Our three principal pricing mechanisms are as follows:

*Spot price.* Some of our customers pay a product price that incorporates the spot price of primary aluminum in effect at the time of shipment to a customer. This pricing mechanism typically allows us to pass commodity price risk to the customer.

*Index-based price.* Some of our customers pay a product price that incorporates an index-based price for primary aluminum such as Platt's Midwest price for primary aluminum. This pricing mechanism also typically allows us to pass commodity price risk to the customer.

*Fixed price.* Some of our customers pay a fixed price. During 2003, 2004, 2005 and the six months ended June 30, 2006, approximately 97.6 million pounds (or approximately 26%), 119.0 million pounds (or approximately 26%), 155.0 million pounds (or approximately 32%) and 103.9 million pounds (or approximately 38%), respectively, of our fabricated products were sold at a fixed price. We bear commodity price risk on fixed-price contracts, which we normally hedge through a combination of financial derivatives and production from Anglesey.

### **Sales, marketing and distribution**

Sales are made directly to customers by our sales personnel located in the United States, Canada and Europe, and by independent sales agents in Asia, Mexico and the Middle East. Our sales and marketing efforts are focused on the Aero/ HS, general engineering and custom automotive and industrial product markets.

*Aerospace and High Strength Products.* A majority of our Aero/ HS products are sold to distributors with the remainder sold directly to customers. Sales are made either under contracts (with terms spanning from one year to several years) or on an order-by-order basis. We serve this market with a North American sales force focused on Aero/ HS and general engineering products and direct sales representatives in Western Europe. Key competitive dynamics for Aero/ HS products include the level of commercial aircraft construction spending (which in turn is often subject to broader economic cycles) and defense spending.

## **Business**

*General Engineering Products.* A substantial majority of our general engineering products are sold to large distributors in North America, with orders primarily consisting of standard catalog items shipped with a relatively short lead-time. We service this market with a North American sales force focused on general engineering and Aero/HS products. Key competitive dynamics for general engineering products include product price, product-line breadth, product quality, delivery performance and customer service.

*Custom Automotive and Industrial Products.* Our custom products are sold primarily to first tier automotive suppliers and industrial end users. Sales contracts are typically medium to long term in length. Almost all sales of custom products occur through direct channels using a North American direct sales force that works closely with our technical sales organization. Key demand drivers for our automotive products include the level of North American light vehicle manufacturing and increased use of aluminum in vehicles in response to increasingly strict governmental standards for fuel efficiency. Demand for industrial products is directly linked to the strength of the U.S. industrial economy.

### **Kaiser Select™**

In 2002, we launched our Kaiser Select™ brand of products to further differentiate the quality of our general engineering products from those of our competitors. We are able to produce high-quality Kaiser Select™ products due to our process and application engineering expertise, research and development resources, equipment design and the Kaiser Production System, which involves an integrated utilization of application and advanced process engineering and business improvement methodologies such as lean enterprise, total productive maintenance and six sigma. We believe Kaiser Select™ products are the highest quality products in the industry.

### **Customers**

In 2005 and for the six months ended June 30, 2006, we had more than 550 and 450 fabricated products customers, respectively. The largest and top five customers for fabricated products accounted for approximately 11% and 33%, respectively, of our net sales in 2005 and 19% and 39%, respectively, of our net sales for the six months ended June 30, 2006. The increase in the percentage of our net sales to our largest fabricated products customer is the result of our largest fabricated products customer, Reliance Steel & Aluminum, acquiring one of our other top five customers in the second quarter of 2006. Sales to Reliance and the other customer (on a combined basis) accounted for approximately 19% of our net sales in 2005 and for the six months ended June 30, 2006. The loss of Reliance as a customer would have a material adverse effect on our results of operations and cash flows. However, we believe our relationship with Reliance is good and the risk of loss of Reliance as a customer is remote.

### **Manufacturing processes**

We utilize the following manufacturing processes to produce our fabricated products:

*Flat rolling.* The traditional manufacturing process for aluminum flat-rolled products uses ingot as the starter material. The ingot is processed through a series of rolling operations, both hot and cold. Finishing steps may include heat treatment, annealing, coating, stretching, leveling or slitting to achieve the desired metallurgical, dimensional and performance characteristics. Aluminum flat-rolled products are manufactured using a variety of alloy mixtures, a range of tempers (hardness), gauges (thickness) and widths, and various coatings and finishes. Flat-rolled aluminum semi-finished products are generally either sheet (under 0.25 inches in thickness) or plate (up to 15 inches in thickness). The vast majority of the North American market for aluminum flat-rolled products uses common alloy material for construction and other applications and beverage/food can sheet. However, these are

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products and markets in which we have chosen not to participate. Rather, we have focused our efforts on heat treat products. Heat treat products are distinguished from common alloy products by higher strength and other desired product attributes. The primary end use of heat treat flat-rolled sheet and plate is for aerospace and general engineering products.

*Extrusion.* The extrusion process typically starts with a cast billet, which is an aluminum cylinder of varying length and diameter. The first step in the process is to heat the billet to an elevated temperature whereby the metal is malleable. The billet is put into an extrusion press and pushed, or extruded, through a die that gives the material the desired two-dimensional cross section. The material is either quenched as it leaves the press, or subjected to a post-extrusion heat treatment cycle, to control the material's physical properties. The extrusion is then straightened by stretching and cut to length before being hardened in aging ovens. The largest end uses of extruded products are in the construction, general engineering and custom markets. Building and construction products represents the single largest end-use market for extrusions by a significant amount. However, we have chosen to focus our efforts on general engineering and custom products because we believe we have strong production capability, well-developed technical expertise and high product quality with respect to these products.

*Drawing.* Drawing is a fabrication operation pursuant to which extruded tubes and rods are pulled through a die, or drawn. The purpose of drawing is to reduce the diameter and wall thickness while improving physical properties and dimensions. Material may go through multiple drawing steps to achieve the final dimensional specifications. The primary end use of drawn products is for Aero/ HS products.

*Forging.* Forging is a manufacturing process in which metal is pressed, pounded or squeezed under great pressure into high-strength parts known as forgings. Forged parts are heat treated before final shipment to the customer. The end-use applications are primarily in transportation, where high strength-to-weight ratios in products are valued. We focus our production on certain types of automotive applications.

### Production facilities

A description of the manufacturing processes utilized and products made at each of our 11 production facilities is shown below:

Location	Manufacturing process	Products
Chandler, Arizona	Drawing	Aero/HS
Greenwood, South Carolina	Forging	Custom
Jackson, Tennessee	Extrusion and drawing	Aero/HS and general engineering
London, Ontario	Extrusion	Custom
Los Angeles, California	Extrusion	General engineering and custom
Newark, Ohio	Extrusion and rolling	Aero/HS and general engineering
Richland, Washington	Extrusion	Aero/HS and general engineering
Richmond, Virginia	Extrusion and drawing	General engineering and custom
Sherman, Texas	Extrusion	Custom
Spokane, Washington	Rolling	Aero/HS and general engineering
Tulsa, Oklahoma	Extrusion	General engineering

Many of our facilities employ the same basic manufacturing processes and produce the same type of products. Over the past several years, given the similar economic and other characteristics at each location, we have made a significant effort to more tightly integrate the management of our fabricated products operations across multiple production facilities, product lines, and target markets in order to

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maximize the efficiency of product flow to our customers. A substantial portion of purchasing of primary aluminum for fabrication is centralized in an effort to maximize price, payment terms and other benefits. Because many customers purchase a variety of our products that are produced at different plants, we have also substantially integrated our sales force. We believe that integration of our operations allows us to capture efficiencies while allowing plant personnel to remain highly focused on particular product lines.

### **Research and development**

We operate three research and development centers. Our Rolling and Heat Treat Center and our Metallurgical Analysis Center are both located at our Trentwood facility in Spokane, Washington. The Rolling and Heat Treat Center has complete hot rolling, cold rolling and heat treat capabilities to simulate, in small lots, processing of flat-rolled products for process and product development on an experimental scale. The Metallurgical Analysis Center consists of a full metallographic laboratory and a scanning electron microscope to support research development programs as well as respond to plant technical service requests. The third center, our Solidification and Casting Center, is located in Newark, Ohio and has a short stroke experimental caster with ingot cast rolling capabilities for the experimental rolling mill and for extrusion billet used in plant extrusion trials. Due to our research and development efforts, we have been able to introduce products such as our unique T-Form<sup>®</sup> sheet which provides aerospace customers with high formability as well as requisite strength characteristics, enabling these customers to substantially lower their production costs.

### **Raw materials**

We purchase substantially all of the primary aluminum and recycled and scrap aluminum used to make our fabricated products from third party suppliers. In a majority of the cases, we purchase primary aluminum ingot and recycled and scrap aluminum in varying percentages depending on market factors such as price and availability. Primary aluminum is typically based on the Average Midwest Transaction Price, or Midwest Price, which has typically ranged between \$0.03 to \$0.075 per pound above the price traded on the LME depending on primary aluminum supply and demand dynamics in North America. Recycled and scrap aluminum are typically purchased at a modest discount to ingot prices but can require additional processing. In addition to producing fabricated aluminum products for sale to third parties, certain of our production facilities provide one another with billet, log or other intermediate materials in lieu of purchasing such items from third party suppliers. For example, a substantial majority of the product from our Richland, Washington facility is used as base input at our Chandler, Arizona facility; our Sherman, Texas plant is currently supplying billet and logs to our Tulsa, Oklahoma facility; our Richmond, Virginia facility typically receives some portion of its metal supply from our London, Ontario or Newark, Ohio facilities, or both; and our Newark, Ohio facility also supplies billet and log to our Jackson, Tennessee facility and extruded forge stock to our Greenwood, South Carolina facility.

### **PRIMARY ALUMINUM OPERATIONS**

We own a 49% interest in Anglesey, which owns an aluminum smelter at Holyhead, Wales. Rio Tinto Plc owns the remaining 51% ownership interest in Anglesey and has day-to-day operating responsibility for Anglesey, although certain decisions require the unanimous approval of both shareholders.

Anglesey has produced in excess of 140,000 metric tons for each of the last three fiscal years. We supply 49% of Anglesey's alumina requirements and purchase 49% of Anglesey's aluminum output, in each case based on a market related pricing formula. Anglesey produces billet, rolling ingot and sow for the U.K. and European marketplace. We sell our share of Anglesey's output to a single third party



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at market prices. The price received for sales of production from Anglesey typically approximates the LME price. We also realize a premium (historically between \$0.05 and \$0.12 per pound above the LME price depending on the product) for sales of value added products such as billet and rolling ingot.

To meet our obligation to sell alumina to Anglesey in proportion to our ownership percentage, we purchase alumina under contracts that extend through 2007 at prices that are tied to market prices for primary alumina. We will need to secure a new alumina contract for the period after 2007. We can give no assurance regarding our ability to secure a source of alumina on comparable terms. If we are unable to do so, the results of our primary aluminum operations may be affected.

Anglesey operates under a power agreement that provides sufficient power to sustain its operations at full capacity through September 2009. The nuclear facility which supplies power to Anglesey is scheduled to cease operations shortly thereafter. Anglesey's ability to operate past September 2009 is dependent upon finding adequate power at an acceptable purchase price. We can give no assurance that Anglesey will be able to do so. The process of shutting down Anglesey due to power unavailability or otherwise would involve significant costs to Anglesey which would decrease or eliminate its ability to pay dividends to us. The process of shutting down Anglesey may also involve transition issues which may prevent Anglesey from operating at full capacity until the expiration of the current power agreement.

### COMPETITION

The fabricated aluminum industry is highly competitive. We concentrate our fabricating operations on selected products for which we believe we have production capability, technical expertise, high-product quality, and geographic and other competitive advantages. Competition in the sale of fabricated aluminum products is driven by quality, availability, price and service, including delivery performance. Our primary competition in flat-rolled products is Alcoa, Inc. and Alcan Inc. In the extrusion market, we compete with many regional participants as well as larger firms with national reach such as Alcoa, Norsk Hydro ASA and Indalex. Many of our competitors are substantially larger, have greater financial resources, and may have other strategic advantages, including more efficient technologies or lower raw material and energy costs.

Our fabricated aluminum products facilities are located in North America. To the extent our competitors have production facilities located outside North America, they may be able to produce similar products at a lower cost. We may not be able to adequately reduce cost to compete with these products. Increased competition could cause a reduction in our shipment volume and profitability or increase our expenditures, any one of which could have a material adverse effect on our results of operations.

In addition, our fabricated aluminum products compete with products made from other materials, such as steel and composites, for various applications, including aircraft manufacturing. The willingness of customers to accept substitutions for aluminum and the ability of large customers to exert leverage in the marketplace to reduce the pricing for fabricated aluminum products could adversely affect our results of operations.

For the heat treat plate and sheet products, new competition is limited by technological expertise that only a few companies have developed through significant investment in research and development. Further, use of plate and sheet in safety critical applications make quality and product consistency critical factors. Suppliers must pass rigorous qualification process to sell to airframe manufacturers. Additionally, significant investment in infrastructure and specialized equipment is required to supply heat treat plate and sheet.

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Barriers to entry are lower for extruded and forged products, mostly due to the lower required investment in equipment. However, the products that we produce are somewhat differentiated from the majority of products sold by competitors. We maintain a competitive advantage by using application engineering and advanced process engineering to distinguish our company and our products. Our metallurgical expertise and controlled manufacturing processes enable superior product consistency and are difficult for competitors to offer, limiting their ability to effectively compete in many of our product niches.

### SEGMENT AND GEOGRAPHICAL AREA FINANCIAL INFORMATION

The information set forth in note 15 to our consolidated financial statements for the year ended December 31, 2005 regarding our operating segments and our geographical operating areas is incorporated herein by reference.

### EMPLOYEES

At December 31, 2005, we had approximately 2,400 employees, of which approximately 2,350 were employed in the fabricated products operations and approximately 50 were employed in our corporate offices in Foothill Ranch, California. We consider our present relations with our employees to be good.

The table below shows each manufacturing location, the primary union affiliation, if any, and the expiration date for the current union contract.

Location	Union	Contract expiration date
Chandler, Arizona	Non-union	NA
Greenwood, South Carolina	Non-union	NA
Jackson, Tennessee	Non-union	NA
London, Ontario	USW Canada	February 2009
Los Angeles, California	Teamsters	May 2009
Newark, Ohio	USW	September 2010
Richland, Washington	Non-union	NA
Richmond, Virginia	USW/ IAM	November 2010
Sherman, Texas	IAM	December 2007
Spokane, Washington	USW	September 2010
Tulsa, Oklahoma	USW	November 2010

As part of our chapter 11 reorganization, we entered into a settlement with the USW regarding, among other things, pension and retiree medical obligations. Under the terms of the settlement, we agreed to adopt a position of neutrality regarding the unionization of any of our employees.

### ENVIRONMENTAL MATTERS

We are subject to numerous environmental laws and regulations with respect to, among other things: air and water emissions and discharges; the generation, storage, treatment, transportation and disposal of solid and hazardous waste; and the release of hazardous or toxic substances, pollutants and contaminants into the environment. Compliance with these environmental laws is and will continue to be costly.

Our operations, including our operations conducted prior to our emergence from chapter 11 bankruptcy, have subjected, and may in the future subject, us to fines or penalties for alleged breaches of environmental laws and to obligations to perform investigations or clean up of the environment. We may also be subject to claims from governmental authorities or third parties related to alleged injuries to the environment, human health or natural resources, including claims with respect to waste disposal

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sites, the clean up of sites currently or formerly used by us or exposure of individuals to hazardous materials. Any investigation, clean-up or other remediation costs, fines or penalties, or costs to resolve third-party claims may be costly and could have a material adverse effect on our financial position, results of operations and cash flows. We have accrued, and will accrue, for costs relating to the above matters that are reasonably expected to be incurred based on available information. However, it is possible that actual costs may differ, perhaps significantly, from the amounts expected or accrued, and such differences could have a material adverse effect on our financial position, results of operations and cash flows. In addition, new laws or regulations or changes to existing laws and regulations may occur, and we cannot assure you as to the amount that we would have to spend to comply with such new or amended laws and regulations or the effects that they would have on our financial position, results of operations and cash flows.

### **LEGAL PROCEEDINGS**

Between the first quarter of 2002 and the first quarter of 2003, Kaiser and 25 of our then-existing subsidiaries filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code. Pursuant to our plan of reorganization, we emerged from chapter 11 bankruptcy on July 6, 2006. Notwithstanding the effectiveness of our plan of reorganization, the bankruptcy court continues to have jurisdiction to, among other things, resolve disputed prepetition claims against us, resolve matters related to the assumption, assumption and assignment, or rejection of executory contracts pursuant to our plan of reorganization, and to resolve other matters that may arise in connection with or related to our plan of reorganization. Our plan of reorganization resolved all of our material prepetition liabilities.

We are working with regulatory authorities and performing studies and remediation pursuant to several consent orders with the State of Washington relating to the historical use of oils containing PCBs at our Trentwood facility in Spokane, Washington prior to 1978. During April 2004, we were served with a subpoena for documents and notified by Federal authorities that they are investigating the alleged non-compliant release of waste water containing PCBs at our Trentwood facility. This investigation is ongoing. We believe we are currently in compliance in all material respects with all applicable environmental laws and requirements at the Trentwood facility. While we intend to vigorously defend any claim or charges, if any should result, we cannot assess what, if any, impact this matter may have on our financial statements.

Various other lawsuits and claims are pending against us. Because uncertainties are inherent in the final outcome of such matters and it is presently impossible to determine the actual costs that ultimately may be incurred, we do not know whether that the resolution of such uncertainties and the incurrence of such costs could have a negative impact on our consolidated financial position, results of operations or liquidity.

## Management

**EXECUTIVE OFFICERS AND DIRECTORS**

The following table sets forth the names and ages of each of the current executive officers and directors of our company and the positions they held as of July 31, 2006.

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Jack A. Hockema	59	President, Chief Executive Officer and Chairman of the Board; Director
Joseph P. Bellino	56	Executive Vice President and Chief Financial Officer
John Barneson	55	Senior Vice President and Chief Administrative Officer
John M. Donnan	45	Vice President, Secretary and General Counsel
Daniel D. Maddox	46	Vice President and Controller
Daniel J. Rinkenberger	47	Vice President and Treasurer
George Becker	77	Director
Carl B. Frankel	71	Director
Teresa A. Hopp	47	Director
William F. Murdy	64	Director
Alfred E. Osborne, Jr., Ph.D.	61	Director
Georganne C. Proctor	49	Director
Jack Quinn	55	Director
Thomas M. Van Leeuwen	49	Director
Brett E. Wilcox	53	Director

**Experience of executive officers**

Set forth below are brief descriptions of the business experience of each of our executive officers.

*Jack A. Hockema* has served as our President and Chief Executive Officer and a director since October 2001, and as Chairman of the Board since July 2006. He previously served as Executive Vice President and President of the Kaiser Fabricated Products division from January 2000 to October 2001, and Executive Vice President of Kaiser from May 2000 to October 2001. He served as Vice President of Kaiser from May 1997 to May 2000. Mr. Hockema was President of Kaiser Engineered Products from March 1997 to January 2000. He served as President of Kaiser Extruded Products and Engineered Components from September 1996 to March 1997. Mr. Hockema served as a consultant to Kaiser and acting President of Kaiser Engineered Components from September 1995 to September 1996. Mr. Hockema was an employee of Kaiser from 1977 to 1982, working at our Trentwood facility, and serving as plant manager of our former Union City, California can plant and as operations manager for Kaiser Extruded Products. In 1982, Mr. Hockema left Kaiser to become Vice President and General Manager of Bohn Extruded Products, a division of Gulf+Western, and later served as Group Vice President of American Brass Specialty Products until June 1992. From June 1992 to September 1996, Mr. Hockema provided consulting and investment advisory services to individuals and companies in the metals industry. He holds a Master of Science degree in Industrial Management and a Bachelor of Science degree in Civil Engineering, both from Purdue University.

*Joseph P. Bellino* has served as our Executive Vice President and Chief Financial Officer since May 2006. Prior to joining Kaiser, Mr. Bellino was employed by Steel Technologies Inc., a flat-rolled steel processor, where he served as chief financial officer and treasurer for nine years and was a member of the board of directors from 2002 to 2004. From 1996 to 1997, Mr. Bellino was president of Beacon Capital Advisors Company, a consulting firm specializing in mergers and acquisitions, valuations and executive advisory services. Prior to 1996, Mr. Bellino held senior executive positions with a privately



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held holding company with investments in the manufacturing and distribution industries for 15 years. Mr. Bellino holds a Bachelor of Science degree in finance and a Master of Business Administration degree, both from Ohio State University.

*John Barneson* has served as our Senior Vice President and Chief Administrative Officer since August 2001. He previously served as our Vice President and Chief Administrative Officer from December 1999 through August 2001. He served as Engineered Products Vice President of Business Development and Planning from September 1997 to December 1999. Mr. Barneson served as Flat-Rolled Products Vice President of Business Development and Planning from April 1996 to September 1997. Mr. Barneson has been an employee of Kaiser since September 1975 and has held a number of staff and operation management positions within the Flat-Rolled and Engineered Products business units. He holds a Master of Science degree and a Bachelor of Science degree in Industrial Engineering from Oregon State University.

*John M. Donnan* has served as our Vice President, Secretary and General Counsel since January 2005. Mr. Donnan joined the legal staff of Kaiser in 1993 and was named Deputy General Counsel of Kaiser in 2000. Prior to joining Kaiser, Mr. Donnan was an associate in the Houston, Texas office of the law firm of Chamberlain, Hrdlicka, White, Williams & Martin. He holds a Juris Doctorate degree from the University of Arkansas School of Law and Bachelor of Business Administration degrees in finance and accounting from Texas Tech University. He is a member of the Texas and California bars.

*Daniel D. Maddox* has served as our Vice President and Controller since September 1998. He served as our Controller, Corporate Consolidation and Reporting from October 1997 through September 1998. Mr. Maddox previously served as our Assistant Corporate Controller from May 1997 to September 1997. Mr. Maddox was with Arthur Andersen LLP from 1982 until joining Kaiser in June 1996. He holds a Bachelor of Business Administration degree from the University of Texas.

*Daniel J. Rinkenberger* has served as our Vice President and Treasurer since January 2005. He previously served as our Vice President of Economic Analysis and Planning from February 2002 through January 2005. He served as Vice President, Planning and Business Development of Kaiser Fabricated Products division from June 2000 through February 2002. Prior to that, he served as Vice President, Finance and Business Planning of Kaiser Flat-Rolled Products division from February 1998 to February 2000, and as our Assistant Treasurer from January 1995 through February 1998. Before joining Kaiser, he held a series of progressively responsible positions in the Treasury Department at Pennzoil Corporation. He holds a Master of Business Administration degree in Finance from the University of Chicago and a Bachelor of Education degree from Illinois State University. He is a Chartered Financial Analyst.

### Experience of directors

Set forth below are brief descriptions of the business experience of each of our independent directors.

*George Becker* has served as a director of Kaiser since July 2006. Mr. Becker was with the United Steel Workers of America for more than 40 years until his retirement in 2001, where he served two terms as President, two terms as International Vice President and two terms as International Vice President of Administration. Mr. Becker is currently chairman of the labor advisory committee to the United States Trade Representative and the Department of Labor, appointed by President Bill Clinton and reappointed by President George W. Bush. He is also a member of the United States China Economic & Security Review Commission chartered by Congress to study and report on a wide range of issues. Mr. Becker previously served as an AFL-CIO vice president, chairing the AFL-CIO Executive Council's key economic policy committee. During that time Mr. Becker also served as an executive member of the International Metalworkers Federation and Chairman of the World Rubber Council of the International Federation of Chemical, Energy, Mine and General Workers Unions.

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*Carl B. Frankel* has served as a director of Kaiser since July 2006. Mr. Frankel currently serves as a union-nominated member of LTV Steel Corporation's board of directors and as a member of the board of directors of Us TOO, a prostate cancer support and advocacy organization. Previously, Mr. Frankel was General Counsel to the USW from May 1997 until his retirement in September 2000. Prior to May 1997, Mr. Frankel served as Assistant General Counsel and Associate General Counsel of the USW for 29 years. From 1987 through 1999, Mr. Frankel served at the staff level of the Collective Bargaining Forum, a government sponsored tripartite committee consisting of government, union and employer representatives designed to improve labor relations in the United States. Mr. Frankel is also an elected fellow of the College of Labor and Employment Lawyers and a published author of several articles. Mr. Frankel has earned the Sustained Superior Performance Award from the National Labor Relations Board, or NLRB, and the Outstanding Performance Award from the NLRB. Mr. Frankel earned a Bachelor's degree and Juris Doctorate from the University of Chicago.

*Teresa A. Hopp* has served as a director of Kaiser since July 2006. Ms. Hopp currently serves as a board member and audit committee chair for On Assignment, Inc., a provider of skilled contract professionals to the life sciences and healthcare industries, where she is responsible for oversight of Sarbanes-Oxley compliance. Prior to Ms. Hopp's retirement, she was the Chief Financial Officer for Western Digital Corporation, a hard disk manufacturer, from January 2000 to October 2001 and its Vice President, Finance from September 1998 to December 1999. Prior to her employment with Western Digital Corporation, Ms. Hopp was with Ernst & Young LLP from 1981 where she served as an audit partner for four years. During her tenure at Ernst & Young LLP, she managed audit department resource planning and scheduling, and served as internal education director and information systems audit and security director. She graduated summa cum laude from the California State University, Fullerton, with a Bachelor's degree in Business Administration.

*William F. Murdy* has served as a director of Kaiser since July 2006. Mr. Murdy has been the Chairman and Chief Executive Officer of Comfort Systems USA, a commercial heating, ventilation and air conditioning construction and service company, since June 2000. Mr. Murdy previously served as President and Chief Executive Officer of Club Quarters, and Chairman, President and Chief Executive Officer of Landcare USA, Inc. Mr. Murdy has also served as President and Chief Executive Officer of General Investment & Development, and as President and Managing General Partner with Morgan Stanley Venture Capital, Inc. He previously served as Senior Vice President and Chief Operating Officer of Pacific Resources, Inc. Mr. Murdy currently serves on the board of directors of Comfort Systems USA and UIL Holdings Corp. He holds a Bachelor of Science degree in Engineering from the U.S. Military Academy, West Point, and a Master's degree in Business Administration from the Harvard Business School.

*Alfred E. Osborne, Jr., Ph.D.*, has served as a director of Kaiser since July 2006. Dr. Osborne has been the Senior Associate Dean at the UCLA Anderson School of Management since July 2003 and an Associate Professor of Global Economics and Management since July 1978. From July 1987 to June 2003, Dr. Osborne served as the Director of the Harold and Pauline Price Center for Entrepreneurial Studies at the UCLA Anderson School of Management. He also served as Faculty Director of The Head Start Johnson & Johnson Management Fellows Program. Previously, he held various administrative posts at UCLA, including terms as chairman of the Business Economics faculty and Director of the MBA program. Dr. Osborne currently serves on the board of directors of K2, Inc., EMAK Worldwide, Inc., FPA New Income Fund Inc., FPA Capital Fund Inc. and FPA Crescent Fund, Inc. and serves as a trustee of the WM Group of Funds. He holds a Doctorate degree in Business Economics, a Master's degree in Business Administration, a Master of Arts degree in Economics and a Bachelor's degree in Electrical Engineering from Stanford University.

*Georganne C. Proctor* has served as a director of Kaiser since July 2006. Ms. Proctor is currently the Executive Vice President and Chief Financial Officer of TIAA-CREF, a financial services company.

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Previously, Ms. Proctor was the Executive Vice President Finance for Golden West Financial Corp., the second largest financial thrift in the United States and holding company of World Savings Bank, from February 2003 to April 2005. From July 1997 through September 2002, Ms. Proctor was Senior Vice President and Chief Financial Officer of Bechtel Corporation and served as the Vice President and Chief Financial Officer of Bechtel Enterprises, one of its subsidiaries, from June 1994 through June 1997. Ms. Proctor was a member of the board of directors of Bechtel Corporation from April 1999 to December 2002. She also served in several other financial positions with the Bechtel Group from 1982-1991. From 1991 through 1994, Ms. Proctor was Director of Project and Division Finance of Walt Disney Imagineering and Director of Finance & Accounting for Buena Vista Home Video International. Ms. Proctor currently serves on the board of directors of Redwood Trust, Inc. She holds a Master's degree in Business Administration from California State University, Hayward, and a Bachelor's degree in Business Administration from the University of South Dakota.

*Jack Quinn* has served as a director of Kaiser since July 2006. Mr. Quinn has been the President of Cassidy & Associates, a government relations firm, since January 2005. Mr. Quinn assists clients to promote policy and appropriations objectives in Washington, D.C. with a focus on transportation, aviation, railroad, highway, infrastructure, corporate and industry clients. From January 1993 to January 2005, Mr. Quinn served as a United States Congressman for the state of New York. While in Congress Mr. Quinn was Chairman of the Transportation and Infrastructure Subcommittee on Railroads. He was also a senior member of the Transportation Subcommittees on Aviation, Highways and Mass Transit. In addition, Mr. Quinn was Chairman of the Executive Committee in the Congressional Steel Caucus. Prior to his election to Congress, Congressman Quinn served as supervisor of the town of Hamburg, New York. Mr. Quinn currently serves as a trustee of the AFL-CIO Housing Investment Trust. Mr. Quinn received a Bachelor's degree from Siena College in Loudonville, New York, and a Master's degree from the State University of New York, Buffalo. Mr. Quinn received honorary Doctorate of Law degrees from Medaille College and Siena College. Mr. Quinn is also a certified school district superintendent through the New York State Education Department.

*Thomas M. Van Leeuwen* has served as a director of Kaiser since July 2006. Mr. Van Leeuwen served as a Director Senior Equity Research Analyst for Deutsche Bank Securities Inc. from March 2001 until his retirement in May 2002. Prior to that, Mr. Van Leeuwen served as a Director Senior Equity Research Analyst for Credit Suisse First Boston from May 1993 to November 2000. Prior to that time, Mr. Van Leeuwen was First Vice President of Equity Research with Lehman Brothers. Mr. Van Leeuwen held the position of research analyst with Sanford C. Bernstein & Co., Inc., and systems analyst with The Procter & Gamble Company. Mr. Van Leeuwen holds a Master's degree in Business Administration from the Harvard Business School and a Bachelor of Science degree in Operations Research and Industrial Engineering from Cornell University.

*Brett E. Wilcox* has served as a director of Kaiser since July 2006. Mr. Wilcox has been an executive consultant for a number of metals and energy companies since 2005. From 1986 to 2005, Mr. Wilcox served as Chief Executive Officer of Golden Northwest Aluminum Company and its predecessors. Golden Northwest Aluminum Company, together with its subsidiaries, filed a petition for reorganization under the United States Bankruptcy Code on December 22, 2003. Mr. Wilcox has also served as Executive Director of Direct Services Industries, Inc., a trade association of large aluminum and other energy-intensive companies; an attorney with Preston, Ellis & Gates in Seattle, Washington; Vice Chairman of the Oregon Progress Board; a member of the Oregon Governor's Comprehensive Review of the Northwest Regional Power System; a member of the Oregon Governor's Task Forces on structure and efficiency of state government, employee benefits and compensation, and government performance and accountability. Mr. Wilcox serves as a director of Oregon Steel Mills, Inc. Mr. Wilcox received a Bachelor's degree from the Woodrow Wilson School of Public and International Affairs at Princeton University and a Juris Doctorate from Stanford Law School.



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### BOARD OF DIRECTORS

Our board of directors currently has ten members, consisting of Mr. Hockema, our President and Chief Executive Officer, and nine independent directors, Messrs. Becker, Frankel, Murdy, Osborne, Quinn, Van Leeuwen and Wilcox and Mmes. Hopp and Proctor. Mr. Hockema serves as the Chairman of the Board, and Dr. Osborne serves as the lead independent director. Our certificate of incorporation and bylaws provide for a classified board of directors consisting of three classes. The term of the initial Class I directors will expire at the 2007 annual meeting of the stockholders; the term of the initial Class II directors will expire at the 2008 annual meeting of the stockholders; and the term of the Class III directors will expire at the 2009 annual meeting of the stockholders. Beginning in 2007, at each annual meeting of stockholders, successors to the class of directors whose terms expire in that year will be elected to three-year terms and until their respective successors are elected and qualified. The following table sets forth the class of each director.

Name	Class
Alfred E. Osborne, Jr., Ph.D.	Class I
Jack Quinn	Class I
Thomas M. Van Leeuwen	Class I
George Becker	Class II
Jack A. Hockema	Class II
Georganne C. Proctor	Class II
Brett E. Wilcox	Class II
Carl B. Frankel	Class III
Teresa A. Hopp	Class III
William F. Murdy	Class III

### DIRECTOR DESIGNATION AGREEMENT WITH THE USW

On July 6, 2006, we entered into a Director Designation Agreement with the USW under which the USW has certain rights to nominate individuals to serve on our board of directors and committees until December 31, 2012. The USW has the right to nominate, for submission to our stockholders for election at each annual meeting, the minimum number of candidates necessary to ensure that, assuming such candidates are included in the slate of director candidates recommended by our board of directors in our proxy statement relating to the annual meeting and our stockholders elect each candidate so included, at least 40% of the members of our board of directors immediately following such election are directors who were either designated by the USW pursuant to our plan of reorganization or have been nominated by the USW in accordance with the Director Designation Agreement. The Director Designation Agreement contains requirements as to the timeliness, form and substance of the notice the USW must give to our nominating and corporate governance committee in order to nominate such candidates. The nominating and corporate governance committee will determine in good faith whether each candidate properly submitted by the USW satisfies the qualifications set forth in the Director Designation Agreement. If our nominating and corporate governance committee determines that such candidate satisfies the qualifications, the committee will, unless otherwise required by its fiduciary duties, recommend such candidate to our board of directors for inclusion in the slate of directors to be recommended by the board of directors in our proxy statement. The board of directors will, unless otherwise required by its fiduciary duties, accept the recommendation and include the director candidate in the slate of directors the board of directors recommends.

The Director Designation Agreement also provides that the USW will have the right to nominate an individual to fill a vacancy on the board of directors resulting from the death, resignation,



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disqualification or removal of a director who was either designated by the USW to serve on the board of directors pursuant to our plan of reorganization or has been nominated by the USW in accordance with the Director Designation Agreement. The Director Designation Agreement further provides that, in the event of newly created directorships resulting from an increase in the number of our directors, the USW will have the right to nominate the minimum number of individuals to fill such newly created directorships necessary to ensure that at least 40% of the members of the board of directors immediately following the filling of the newly created directorships are directors who were either designated by the USW pursuant to our plan of reorganization or have been nominated by the USW in accordance with the Director Designation Agreement. In each such case, the USW, our nominating and corporate governance committee and the board of directors will be required to follow the nomination and approval procedures described above.

A candidate nominated by the USW may not be an officer, employee, director or member of the USW or any of its local or affiliated organizations as of the date of his or her designation as a candidate or election as a director. Each candidate nominated by the USW must satisfy:

the applicable independence criteria contained in the Nasdaq Marketplace Rules or other applicable criteria of the National Association of Securities Dealers, or NASD;

the qualifications to serve as a director as set forth in any applicable corporate governance guidelines adopted by the board of directors and policies adopted by our nominating and corporate governance committee establishing criteria to be utilized by it in assessing whether a director candidate has appropriate skills and experience; and

any other qualifications to serve as director imposed by applicable law.

Finally, the Director Designation Agreement provides that, so long as our the board of directors maintains an audit committee, executive committee or nominating and corporate governance committee, each such committee will, unless otherwise required by the fiduciary duties of the board of directors, include at least one director who was either designated by the USW to serve on the board of directors pursuant to our plan of reorganization or has been nominated by the USW in accordance with the Director Designation Agreement (provided at least one such director is qualified to serve on such committee as determined in good faith by the board of directors).

Current members of our board of directors that were designated by the USW pursuant to our plan of reorganization are Messrs. Becker, Frankel, Quinn and Wilcox.

### **COMMITTEES OF THE BOARD OF DIRECTORS**

Currently, we have four standing committees of the board of directors: an executive committee; an audit committee; a compensation committee; and a nominating and corporate governance committee.

#### **Executive committee**

The executive committee of the board of directors manages our business and affairs that require attention prior to the next regular meeting of our board of directors. However, the executive committee does not have the power to (1) approve or adopt, or recommend to our stockholders, any action or matter expressly required by law to be submitted to our stockholders for approval, (2) adopt, amend or repeal any bylaw of our company, or (3) take any other action reserved for action by the board of directors pursuant to a resolution of the board of directors or otherwise prohibited to be taken by the executive committee by law or pursuant to our certificate of incorporation or bylaws. The members of the executive committee must include the Chairman of the Board and at least one of the directors either designated by the USW pursuant to our plan of reorganization or nominated by the USW in accordance with the Director Designation Agreement (so long as at least one such director is

## **Management**

qualified to serve thereon). A majority of the members of the executive committee must satisfy the general independence criteria set forth in the Nasdaq Marketplace Rules or other applicable criteria of the NASD, as determined by the board of directors reasonably and in good faith. We refer to these criteria as the general independence criteria. Our executive committee consists of Messrs. Hockema, Becker and Wilcox and Ms. Hopp. Mr. Hockema currently serves as the chair of the executive committee.

### **Audit committee**

The audit committee oversees our accounting and financial reporting practices and processes and the audits of our financial statements on behalf of the board of directors. The audit committee is responsible for appointing, compensating, retaining and overseeing the work of our independent auditors. Other duties and responsibilities of the audit committee include:

establishing hiring policies for employees or former employees of the independent auditors;

reviewing our systems of internal accounting controls;

discussing risk management policies;

approving related party transactions;

establishing procedures for complaints regarding financial statements or accounting policies; and

performing other duties delegated to the audit committee by the board of directors from time to time.

The members of the audit committee must include at least one of the directors either designated by the USW pursuant to our plan of reorganization or nominated by the USW in accordance with the Director Designation Agreement (so long as at least one such director is appropriately qualified). Each member of the audit committee:

must satisfy the general independence criteria;

may not, other than as a member of the board of directors or a committee thereof, accept any consulting, advisory or other compensatory fee from the company or its subsidiaries (other than fixed amounts of compensation under a retirement plan for prior service, provided such compensation is not contingent on continued service);

may not be our affiliate;

must not have participated in the preparation of our financial statements at any time during the three years prior to July 6, 2006; and

must be able to read and understand fundamental financial statements.

At least one member of the audit committee must have past employment experience in finance or accounting, the requisite professional certification in accounting or comparable experience or background that results in financial sophistication. Our audit committee consists of Mmes. Hopp and Proctor and Messrs. Osborne, Van Leeuwen and Wilcox. Ms. Hopp currently serves as the chair of the audit committee.

### **Compensation committee**

The compensation committee of the board of directors establishes and administers our policies, programs and procedures for compensating our senior management, including determining and

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approving the compensation of our executive officers. Other duties and responsibilities of the compensation committee include:

administering plans adopted by the board of directors that contemplate administration by the compensation committee, including our Equity Incentive Plan;

overseeing regulatory compliance with respect to compensation matters;

reviewing director compensation; and

performing other duties delegated to the compensation committee by the board of directors from time to time.

Each member of the compensation committee must satisfy the general independence criteria, as well as qualify as a non-employee director within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, or the Exchange Act. Our compensation committee is composed of Messrs. Murdy and Quinn and Ms. Proctor. Mr. Murdy currently serves as the chair of the compensation committee.

### **Nominating and corporate governance committee**

The nominating and corporate governance committee of the board of directors identifies individuals qualified to become members of our board of directors, recommends candidates to fill vacancies and newly-created positions on our board of directors, recommends director nominees for the election by stockholders at the annual meetings of stockholders and develops and recommends to the board of directors our corporate governance principles. Other duties and responsibilities of the nominating and corporate governance committee include:

evaluating stockholder recommendations for director nominations;

assisting in succession planning;

considering possible conflicts of interest of members of the board of directors and management and making recommendations to prevent, minimize or eliminate such conflicts of interests;

making recommendations to the board of directors regarding the appropriate size of the board of directors; and

performing other duties delegated to the nominating and corporate governance committee by the board of directors from time to time.

The members of the nominating and corporate governance committee must include at least one of the directors either designated by the USW pursuant to our plan of reorganization or nominated by the USW in accordance with the Director Designation Agreement (so long as at least one such director is appropriately qualified). Each member of the nominating and governance committee must satisfy the general independence criteria. Our nominating and corporate governance committee consists of Messrs. Osborne, Frankel, Murdy, Quinn and Van Leeuwen. Dr. Osborne currently serves as the chair of the nominating and corporate governance committee.

### **DIRECTOR COMPENSATION**

Each non-employee director receives the following compensation:

an annual retainer of \$30,000 per year;

an annual grant of restricted stock having a value equal to \$30,000;

a fee of \$1,500 per day for each meeting of the board of directors attended in person and \$750 per day for each such meeting attended by phone; and



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a fee of \$1,500 per day for each committee meeting of the board of directors attended in person on a date other than a date on which a meeting of the board of directors is held and \$750 per day for each such meeting attended by phone. In addition, our lead independent director, currently Dr. Osborne, receives an additional annual retainer of \$10,000, the chair of our audit committee, currently Ms. Hopp, receives an additional annual retainer of \$10,000, the chair of our compensation committee, currently Mr. Murdy, receives an additional annual retainer of \$5,000 and the chair of our nominating and corporate governance committee, currently Dr. Osborne, receives an additional annual retainer of \$5,000, with all such amounts payable at the same time as the annual retainer. Each non-employee director may elect to receive shares of common stock in lieu of any or all of his or her annual retainer, including any additional annual retainer for service as the lead independent director or the chairman of a committee of the board of directors. We paid the annual retainers and made the first grant of restricted stock pursuant to the compensation arrangements described above as of August 1, 2006.

We reimburse all directors for reasonable and customary travel and other disbursements relating to meetings of the board of directors and committees thereof, and non-employee directors are provided accident insurance with respect to Kaiser-related business travel.

**Management****EXECUTIVE COMPENSATION**

The following table provides a summary of the compensation awarded to, earned by or paid to our chief executive officer and each of our other five most highly compensated executive officers for the year ended December 31, 2005 and the two previous years. We refer to these individuals as our named executive officers.

**Summary compensation table**

Name and Principal Position	Year	Annual compensation			
		Salary (\$)	Bonus (\$)	Other annual compensation (\$) <sup>(1)</sup>	All other compensation (\$)
Jack A. Hockema President, Chief Executive Officer and Chairman of the Board	2005	730,000	600,000		24,276 <sup>(2)</sup>
	2004	730,000	378,500		199,193 <sup>(2)(3)(4)</sup>
	2003	730,000			365,000 <sup>(3)</sup>
John Barneson Senior Vice President and Chief Administrative Officer	2005	275,000	150,000		23,875 <sup>(2)</sup>
	2004	275,000	94,625		81,200 <sup>(2)(3)</sup>
	2003	275,000			125,000 <sup>(3)</sup>
John M. Donnan Vice President, General Counsel and Secretary	2005	260,000	108,000		20,733 <sup>(2)</sup>
	2004	200,000	45,420		109,000 <sup>(2)(3)</sup>
	2003	200,000			200,000 <sup>(3)</sup>
Daniel D. Maddox Vice President and Controller	2005	200,000	84,000		19,720 <sup>(2)</sup>
	2004	200,000	52,990		116,000 <sup>(2)(3)</sup>
	2003	200,000		24,721 <sup>(5)</sup>	200,000 <sup>(3)</sup>
Edward F. Houff <sup>(6)</sup> Chief Restructuring Officer	2005	250,000 <sup>(7)</sup>	103,125 <sup>(8)</sup>		1,481,526 <sup>(2)(9)</sup>
	2004	400,000	219,625 <sup>(8)</sup>		118,450 <sup>(2)(3)</sup>
	2003	400,000	125,000 <sup>(8)</sup>		200,000 <sup>(3)</sup>
Kerry A. Shiba <sup>(10)</sup> Executive Vice President and Chief Financial Officer	2005	270,000	114,000		20,825 <sup>(2)</sup>
	2004	242,500	68,130		115,500 <sup>(2)(3)</sup>
	2003	190,000			190,000 <sup>(3)</sup>

(1) Excludes perquisites and other personal benefits, which in the aggregate amount do not exceed the lesser of either \$50,000 or 10% of the total of annual salary and bonus reported for the named executive officer.

(2) Includes contributions under our Savings Plan described below made with respect to 2004 and 2005, respectively, in the amount of \$16,400 and \$23,983 for Mr. Hockema; \$18,450 and \$5,863 for Mr. Houff; \$18,700 and \$23,875 for Mr. Barneson; \$9,000 and \$20,733 for Mr. Donnan; \$16,000 and \$19,720 for Mr. Maddox; and \$20,500 and \$20,825 for Mr. Shiba. For additional information, see discussion under Retirement Plans Savings and Investment Plan below.





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- (3) *Includes retention payments made during 2003 and 2004, respectively, under the Retention Plan in the amount of \$365,000 and \$182,500 for Mr. Hockema; \$200,000 and \$100,000 for Mr. Houff; \$125,000 and \$62,500 for Mr. Barneson; \$200,000 and \$100,000 for Mr. Donnan; \$200,000 and \$100,000 for Mr. Maddox; and \$190,000 and \$95,000 for Mr. Shiba. As described in more detail below, the program was not extended beyond March 2004, and no further retention payments were made after March 2004, except for the following withheld amounts. Excludes additional retention payments earned under the Retention Plan with respect to the years 2002, 2003 and 2004, respectively, for each of Messrs Hockema and Barneson as follows: \$182,333, \$365,000 and \$182,500 for Mr. Hockema; and \$62,500, \$125,000 and \$62,500 for Mr. Barneson. Pursuant to the Retention Plan, these additional retention payments were withheld for distribution to Messrs. Hockema and Barneson of one-half upon emergence from chapter 11 bankruptcy and one-half one year thereafter, subject to continued employment on that date. For additional information regarding retention payments made pursuant to the Retention Plan, see discussion under Key Employee Retention Program Retention Plan and Agreements below.*
- (4) *Includes \$293 paid to Mr. Hockema for unused allowances under our benefit program.*
- (5) *Includes an auto allowance of \$22,217 and personal use of company car of \$2,504.*
- (6) *Mr. Houff's employment was terminated August 15, 2005. Mr. Houff remained the Chief Restructuring Officer and served as a consultant through July 6, 2006.*
- (7) *Reflects the base salary paid to Mr. Houff in 2005 through the termination of his employment on August 15, 2005.*
- (8) *Under the terms of his employment agreement, Mr. Houff was guaranteed a bonus of \$125,000 annually. For 2005, Mr. Houff's bonus was pro rated as of the termination of his employment on August 15, 2005. Includes additional short-term incentive payments made to Mr. Houff in 2004 and 2005 in the amount of \$94,625 and \$25,000, respectively.*
- (9) *Includes \$1,200,000 in the form of payments made to Mr. Houff in 2005 in connection with the termination of his employment and \$275,663 in the form of payments to Mr. Houff under the terms of Mr. Houff's non-exclusive consulting agreement for services provided in 2005. For additional information, see discussion under Employment-Related Contracts Agreements with Edward F. Houff below.*
- (10) *Mr. Shiba resigned effective January 23, 2006.*

### **Key Employee Retention Program**

Effective September 3, 2002, in connection with our chapter 11 proceeding, we adopted our Key Employee Retention Program. The components of the Key Employee Retention that are currently in effect consist of: a Retention Plan, including related agreements; a Severance Plan, including related agreements; a Change in Control Severance Program, including related agreements; and a Long-Term Incentive Plan. The following summary is qualified in its entirety by reference to the full text of the Retention Plan, Severance Plan, Change in Control Severance Program and Long-Term Incentive Plan, which are filed as exhibits to our registration statement of which this prospectus forms a part.

### **Retention Plan and agreements**

Effective September 3, 2002, we adopted the Kaiser Aluminum & Chemical Corporation Key Employee Retention Plan, or Retention Plan, and entered into retention agreements with selected key employees, including Messrs. Hockema, Barneson, Donnan and Maddox.

In general, awards payable under the Retention Plan vested, as applicable, on September 30, 2002, March 31, 2003, September 30, 2003 and March 31, 2004. The Retention Plan was not extended

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beyond March 2004. Except with respect to payments of the withheld amounts (as described below) to Messrs. Hockema and Barneson, no further payments are payable under the Retention Plan.

For Messrs. Hockema and Barneson, \$730,000 and \$250,000, respectively of vested awards payable under the Retention Plan were withheld for subsequent payment. One-half of such withheld amount was paid in a lump sum in August 2006 upon our emergence from chapter 11 bankruptcy and one-half is payable in a lump sum on July 6, 2007, the first anniversary of our emergence from chapter 11 bankruptcy. Messrs. Hockema and Barneson must be employed by us on July 6, 2007 to receive the remaining payment. If the employment of Messrs. Hockema or Barneson is terminated prior to July 6, 2007 as a result of his death, disability, retirement on or after age 62 or our termination of his employment without cause, he or his estate, as applicable, is entitled to receive the July 6, 2007 payment.

### Severance Plan and agreements

Effective September 3, 2002, we adopted the Kaiser Aluminum & Chemical Corporation Severance Plan, or Severance Plan, to provide selected executive officers, including Messrs. Hockema, Barneson, Donnan and Maddox, and other key employees with appropriate protection in the event of certain terminations of employment and entered into severance agreements with plan participants. Mr. Hockema's employment agreement discussed below replaces his coverage under the Severance Plan and supersedes his severance agreement. The Severance Plan terminates on July 6, 2007.

The Severance Plan provides for payment of a severance benefit and continuation of welfare benefits in the event of certain terminations of employment. Participants are eligible for the severance payment and continuation of benefits in the event the participant's employment is terminated without cause or the participant terminates employment with good reason. The severance payment and continuation of benefits are not available if:

the participant receives severance compensation or benefit continuation pursuant to a Change in Control Agreement (as described below);

the participant's employment is terminated other than without cause or by the participant for good reason; or

the participant declines to sign, or subsequently revokes, a designated form of release.

In consideration for the severance payment and continuation of benefits, a participant will be subject to noncompetition, nonsolicitation and confidentiality restrictions following the participant's termination of employment. The severance payment payable under the Severance Plan to Messrs. Barneson, Donnan and Maddox consists of a lump-sum cash payment equal to two times (for Mr. Barneson) or one time (for Messrs. Donnan and Maddox) his base salary. In addition, medical, dental, vision, life insurance and disability benefits are continued for a period of two years (for Mr. Barneson) or one year (for Messrs. Donnan and Maddox) following termination of employment. Severance payments payable under the Severance Plan are in lieu of any severance or other termination payments provided for under any of our other plans or any other agreement we have with the participant.

### Change in Control Severance Program and agreements

In 2002, we entered into change in control severance agreements, or Change in Control Agreements, with certain key executives, including Messrs. Hockema, Barneson, Donnan and Maddox, in order to provide them with appropriate protection in the event of a termination of employment in connection with a change in control or (except as noted below) significant restructuring. Mr. Hockema's employment agreement discussed below replaces his coverage under the Change in Control Severance

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Program and supersedes his Change in Control Agreement. The Change in Control Agreements terminate on the second anniversary of a change in control.

The Change in Control Agreements provide for severance payments and continuation of benefits in the event of certain terminations of employment. The participants are eligible for severance benefits if their employment terminates or constructively terminates due to a change in control during a period that commences 90 days prior to the change in control and ends on the second anniversary of the change in control. Participants (other than Mr. Barneson) also are eligible for severance benefits if their employment is terminated due to a significant restructuring outside of the period commencing 90 days prior to a change in control and ending on the second anniversary of such change in control. These benefits are not available if:

the participant receives severance compensation or benefit continuation pursuant to the Severance Plan or any other prior agreement;

the participant's employment is terminated other than without cause or by the participant for good reason; or

the participant declines to sign, or subsequently revokes, a designated form of release.

In consideration for the severance payment and continuation of benefits, a participant will be subject to noncompetition, nonsolicitation and confidentiality restrictions following his or her termination of employment with us.

Upon a qualifying termination of employment, Messrs. Barneson, Donnan and Maddox are entitled to receive the following:

three times (for Mr. Barneson) or two times (for Messrs. Donnan and Maddox) the sum of his base pay and most recent short-term incentive target;

a pro-rated portion of his short-term incentive target for the year of termination; and

a pro-rated portion of his long-term incentive target in effect for the year of his termination, provided that such target was achieved.

In addition, medical, dental, life insurance, disability benefits and perquisites are continued for a period of three years (for Mr. Barneson) or two years (for Messrs. Donnan and Maddox) after termination of employment with us.

Participants are also entitled to a payment in an amount sufficient, after the payment of taxes, to pay any excise tax due by him under Section 4999 of the Internal Revenue Code or any similar state or local tax.

Severance payments payable under the Change in Control Agreements are in lieu of any severance or other termination payments provided for under any of our other plans or any other agreement we have with the executive officer.

### Long-Term Incentive Plan

During 2002, we adopted a long-term incentive plan under which key management employees, including Messrs. Hockema, Barneson, Donnan and Maddox, became eligible to receive a cash award based on our attainment of sustained cost reductions above a stipulated threshold for the period 2002 through our emergence from chapter 11 bankruptcy on July 6, 2006. We refer to this plan as our Long-Term Incentive Plan. Under the Long-Term Incentive Plan, 15% of cost reductions above the stipulated threshold were placed in a pool to be shared by participants based on the percentage their individual targets comprised of the aggregate target for all participants.

In general, awards payable under the Long-Term Incentive Plan are payable in two installments. The first installment was paid in August 2006 and the second will be paid on July 6, 2007, the first

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anniversary of our emergence from chapter 11 bankruptcy. The second installment will be forfeited if the participant voluntarily terminates his or her employment (other than at normal retirement) or is terminated for cause prior to July 6, 2007.

The following table and accompanying footnotes further describe the awards that were earned by the named executive officers under the Long-Term Incentive Plan.

Name	Payouts under non-stock price-based plans		
	Inception to date actual <sup>(1)</sup>	Annual target <sup>(2)</sup>	Annual maximum <sup>(2)</sup>
Jack A. Hockema <sup>(3)</sup>	\$3,298,880	\$1,500,000	\$4,500,000
John Barneson <sup>(4)</sup>	693,876	350,000	1,050,000
John M. Donnan <sup>(5)</sup>	208,575	200,000	600,000
Edward F. Houff <sup>(6)</sup>	670,582	300,000	900,000
Daniel D. Maddox <sup>(7)</sup>	227,228	100,000	300,000
Kerry A. Shiba <sup>(8)</sup>	111,716	258,000	774,000

(1) This column reflects the total amount earned under the Long-Term Incentive Plan from February 2002 through July 6, 2006. Participants were paid one-half of this amount in August 2006, following our emergence from chapter 11 bankruptcy, and will receive the remainder on July 6, 2007, the first anniversary of our emergence from chapter 11 bankruptcy, assuming continued employment at such date.

(2) The target and maximum payout amounts are per annum.

(3) Individual amounts earned by year for Mr. Hockema under the Long-Term Incentive Plan were \$2,324,557 in 2002 and 2003, \$918,818 in 2004, (\$240,819) in 2005 and \$296,324 in 2006.

(4) Individual amounts earned by year for Mr. Barneson under the Long-Term Incentive Plan were \$466,534 in 2002 and 2003, \$214,391 in 2004, (\$56,191) in 2005 and \$69,142 in 2006.

(5) Individual amounts earned by year for Mr. Donnan under the Long-Term Incentive Plan were \$146,045 in 2002 and 2003, \$55,129 in 2004, (\$32,109) in 2005 and \$39,510 in 2006. The initial target and maximum for Mr. Donnan were \$90,000 and \$270,000, respectively. These amounts were increased to the levels indicated in the table effective January 2005 in connection with Mr. Donnan's promotion to General Counsel.

(6) Individual amounts earned by year for Mr. Houff under the Long-Term Incentive Plan were \$486,818 in 2002 and 2003, and \$183,764 in 2004.

(7) Individual amounts earned by year for Mr. Maddox under the Long-Term Incentive Plan were \$162,273 in 2002 and 2003, \$61,255 in 2004, (\$16,055) in 2005 and \$19,755 in 2006.

(8) In connection with his Release Agreement discussed below, Mr. Shiba settled his rights under the Long-Term Incentive Plan for a total of \$111,176.

**2006 SHORT-TERM INCENTIVE COMPENSATION PLAN**

Upon our emergence from chapter 11 bankruptcy, our compensation committee approved our 2006 Short-Term Incentive Plan for key managers, our STI Plan, which is summarized below. This summary is qualified in its entirety by the detailed description of the STI Plan filed as an exhibit to our registration statement of which this prospectus forms a part.

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Incentive awards under the STI Program are based upon:

the fabricated products business unit's operating income plus depreciation and amortization, as adjusted for extraordinary items, which may be spread over a period of years based upon the recommendation of our chief executive officer and approval of the compensation committee;

the fabricated products business unit's safety performance as measured by total case incident rate;

performance of the business to which a participant is assigned; and

individual performance objectives.

Under the STI Plan, a participant may receive an incentive award between zero to three times the individual's target amount. Set forth below are the minimum, target and maximum award amounts for each of the named executive officers (excluding Messrs. Houff and Shiba, who are no longer employed by us) and Mr. Bellino for 2006.

Name	Minimum award amount	Target award amount	Maximum award amount
Jack A. Hockema	\$	500,050	\$ 1,500,150
Joseph P. Bellino	\$	175,000	\$ 525,000
John Barneson	\$	126,000	\$ 378,000
John M. Donnan	\$	117,000	\$ 351,000
Daniel D. Maddox	\$	75,000	\$ 225,000

## 2006 EQUITY AND PERFORMANCE INCENTIVE PLAN

Upon our emergence from chapter 11 bankruptcy, our 2006 Equity and Performance Incentive Plan, our Equity Incentive Plan, which is summarized below, became effective. This summary is qualified in its entirety by the full text of the Equity Incentive Plan, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part.

The Equity Incentive Plan is administered by a committee of non-employee directors of the board of directors, currently our compensation committee. The compensation committee may from time to time delegate all or any part of its authority under the Equity Incentive Plan to a subcommittee of the compensation committee, as constituted from time to time.

Officers and other key employees of our company as selected by the compensation committee, are eligible to participate in the Equity Incentive Plan. As of July 31, 2006, approximately 40 officers and other key employees had been selected by the compensation committee to receive awards under the Equity Incentive Plan. Our non-employee directors also participate in the Equity Incentive Plan.

Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the Equity Incentive Plan, a maximum of 2,222,222 shares of common stock may be issued under the Equity Incentive Plan, of which 525,660 have been issued to our directors, officers and key employees and were outstanding as of September 15, 2006. Shares of common stock issued pursuant to the Equity Incentive Plan may be shares of original issuance or treasury shares or a combination of both. For additional information regarding the grants of restricted stock to our executive officers and directors, see the beneficial ownership table in Principal and selling stockholders.

Our Equity Incentive Plan permits the granting of awards in the form of options to purchase our common stock, stock appreciation rights, restricted shares of our common stock, restricted stock units, performance shares, performance



units and other awards.

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## **Management**

The Equity Incentive Plan will expire on July 6, 2016. No grants will be made under the Equity Incentive Plan after that date, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of the Equity Incentive Plan.

The board of directors may, in its discretion, terminate the Equity Incentive Plan at any time. The termination of the Equity Incentive Plan will not affect the rights of participants or their successors under any awards outstanding and not exercised in full on the date of termination.

The compensation committee may at any time and from time to time amend the Equity Incentive Plan in whole or in part. Any amendment which must be approved by our stockholders in order to comply with applicable law or the rules of the principal securities exchange, association or quotation system on which our common stock is then traded or quoted will not be effective unless and until such approval has been obtained. The compensation committee will not, without the further approval of the stockholders, authorize the amendment of any outstanding option right or appreciation right to reduce the option price or base price. Furthermore, no option right will be cancelled and replaced with awards having a lower option price without further approval of the stockholders.

### **RETIREMENT PLANS**

#### **Defined Benefit Plan**

We previously maintained a qualified, defined-benefit retirement plan for our salaried employees who met certain eligibility requirements, the Defined Benefit Plan. Effective December 17, 2003, the Pension Benefit Guaranty Corporation, or PBGC, terminated and effectively assumed responsibility for making benefit payments in respect of the Defined Benefit Plan. As a result of the termination, all benefit accruals under the Defined Benefit Plan were terminated and benefits available to certain executive officers, including Messrs. Hockema and Barneson, were significantly reduced due to the limitation on benefits payable by the PBGC. For example, benefits payable to participants will be reduced to a maximum of \$34,742 annually for retirement at age 62, a lower amount for retirement prior to age 62, and a higher amount for retirements after age 62, up to \$43,977 at age 65, and participants will not accrue additional benefits. In addition, the PBGC will not make lump-sum payments to participants.

#### **Savings and Investment Plan**

We sponsor a tax-qualified profit sharing and 401(k) plan, the Kaiser Aluminum Savings and Investment Plan, our Savings Plan, in which eligible salaried employees may participate. Pursuant to our Savings Plan, employees may elect to reduce their current annual compensation up to the lesser of 75% or the statutorily prescribed limit of \$15,000 in calendar year 2006, and have the amount of any reduction contributed to our Savings Plan. Our Savings Plan is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code, so that contributions by us or our employees to our Savings Plan, and income earned on contributions, are not taxable to employees until withdrawn from our Savings Plan, and so that contributions will be deductible by us when made. We match 100% of the amount an employee contributes to our Savings Plan, subject to a 4% maximum based on the employee's compensation as defined in our Savings Plan. Employees are immediately vested 100% in our matching contributions to our Savings Plan.

We also make annual fixed-rate contributions on behalf of our employees in the following amounts:

For our employees who were employed with us on or before January 1, 2004, we contribute in a range from 2% to 10% of the employee's compensation, based upon the sum of the employee's age and years of continuous service as of January 1, 2004; and

## Management

For our employees who were employed with us after January 1, 2004, we contribute 2% of the employee's compensation.

An employee is required to be employed on the last day of the year in order to receive the fixed-rate contribution. Employees are vested 100% in our fixed-rate contributions to our Savings Plan after five years of service. The total amount of elective, matching and fixed-rate contributions in any year cannot exceed the lesser of 100% of an employee's compensation or \$42,000 (adjusted annually). We may amend or terminate these matching and fixed-rate contributions at any time by an appropriate amendment to our Savings Plan. The trustee of our Savings Plan invests the assets of our Savings Plan as directed by participants.

This summary is qualified in its entirety by reference to full text of the Savings Plan, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part.

### Restoration Plan

In addition, we sponsor a nonqualified, unfunded, unsecured deferred compensation plan, the Kaiser Aluminum Fabricated Products Restoration Plan, our Restoration Plan, in which a select group of our management and highly compensated employees may participate. Eligibility to participate in our Restoration Plan is determined by our compensation committee which currently administers our Restoration Plan. The purpose of our Restoration Plan is to restore the benefit of matching and fixed-rate contributions that we would have otherwise paid to participants under our Savings Plan but for the limitations on benefit accruals and payments imposed by the Internal Revenue Code. We maintain an account on behalf of each participant in our Restoration Plan and contributions to a participant's Restoration Plan account to restore benefits under our Savings Plan are made generally in the manner described below:

If our matching contributions to a participant under our Savings Plan are limited in any year, we will make an annual contribution to that participant's account under our Restoration Plan equal to the difference between:

The matching contributions that we could have made to that participant's account under our Savings Plan if the Internal Revenue Code did not impose any limitations; and

The maximum contribution we could in fact make to that participant's account under our Savings Plan in light of the limitations imposed by the Internal Revenue Code.

A participant is required to be making elective contributions under our Savings Plan on the first day of the year in order to receive a matching contribution from us under our Restoration Plan for that year. However, matching contributions under our Restoration Plan are calculated as though the participant elected to make the maximum permissible elective contributions under our Savings Plan sufficient to receive the maximum matching contribution from us under our Savings Plan, without regard for the participant's actual elective contributions. Participants are immediately vested 100% in our matching contributions to our Restoration Plan.

Annual fixed-rate contributions to the participant's account under our Restoration Plan are made in an amount equal to between 2% and 10% of the participant's excess compensation, as defined in Section 401(a)(17) of the Internal Revenue Code. The actual fixed-rate contribution percentage is determined based upon the sum of the participant's age and years of continuous service as of January 1, 2004. If a participant is employed with us after January 1, 2004, the fixed-rate contribution percentage is 2%. A participant is required to be employed on the last day of the year in order to receive the fixed-rate contribution. Further, to the extent that fixed-rate contributions to a participant under our Savings Plan on compensation that is not excess compensation, as defined in Internal Revenue Code Section 401(a)(17), cannot be made under the Savings Plan due to

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Internal Revenue Code limitations, such fixed-rate contributions will be made to such participant's account under our Restoration Plan. Participants are vested 100% in our fixed-rate contributions to our Restoration Plan after five years of service, or upon retirement, death, disability or a change of control.

Any participant who is terminated for cause, as defined in our Restoration Plan, will forfeit the entire amount of matching and fixed-rate contributions made by us to that participant's account under our Restoration Plan.

The Restoration Plan became effective as of May 1, 2005, the date on which the Kaiser Aluminum Supplemental Benefits Plan (which had continued as a component of the Key Employee Retention Program) was terminated. The lump-sum actuarial equivalent amount of the benefit accrued to a participant under the Kaiser Aluminum Supplemental Benefits Plan has been transferred to such participant's account under the Restoration Plan.

We may amend or terminate these matching and fixed-rate contributions at any time by an appropriate amendment to our Restoration Plan. The value of each participant's account under our Restoration Plan is based upon the performance of hypothetical investment benchmarks designated by the participant.

This summary is qualified in its entirety by reference to the full text of the Restoration Plan, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part.

### **EMPLOYMENT-RELATED CONTRACTS**

#### **Employment agreement with Jack A. Hockema**

On July 6, 2006, in connection with our emergence from chapter 11 bankruptcy, we entered into an employment agreement with Jack A. Hockema, pursuant to which Mr. Hockema will continue his duties as our President and Chief Executive Officer. Under the terms of his employment agreement, Mr. Hockema's initial base salary is \$730,000, and his annual short-term incentive target is equal to 68.5% of his base salary. The short-term incentive is payable in cash, but is subject to both our meeting the applicable underlying performance thresholds and an annual cap of three times the target. The short-term incentive is payable pro rata if Mr. Hockema's employment is terminated other than for cause or without good reason. Under the employment agreement, Mr. Hockema received an initial long-term incentive grant of 185,000 restricted shares of common stock on July 6, 2006, which will vest on July 6, 2009, or earlier upon a change in control or certain events of termination of employment. Starting in 2007, he will be eligible to receive annual equity awards (such as restricted stock, stock options or performance shares) with an economic value of 165% of his base salary. The terms of all equity grants to Mr. Hockema will be similar to the terms of equity grants made to other senior executives at the time they are made, except that the grants will provide for full vesting at retirement. Mr. Hockema is also entitled to severance and change-in-control benefits under the terms of the employment agreement. In the event Mr. Hockema's employment is terminated by us without cause or by Mr. Hockema with good reason, Mr. Hockema will be entitled to receive a lump-sum payment of two times the sum of his base salary and annual short-term incentive target, plus the continuation of benefits for two years, and Mr. Hockema's equity awards outstanding at that time will vest in accordance with the equity awards, but at least on a pro rata basis (except the initial grant of 185,000 shares which will immediately vest in full). In the event Mr. Hockema's employment is terminated without cause or terminated by Mr. Hockema with good reason within two years following a change in control, Mr. Hockema will be entitled to receive a lump-sum payment of three times the sum of his base salary and annual short-term incentive target, plus the continuation of benefits for three years, and Mr. Hockema's equity awards outstanding at that time will vest in accordance with the equity awards, but at least on a pro rata basis (except the initial grant of 185,000 shares which

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will immediately vest in full). In addition, if a lump-sum payment payable upon either a change of control or as result of Mr. Hockema's termination without cause or for good reason is subject to federal excise tax, we will gross up the payment to include such excise tax. These provisions of Mr. Hockema's employment agreement replace his coverage under participation in the Severance Plan and Change in Control Severance Program and supersede his agreements thereunder. The initial term of his employment agreement is five years and it will be automatically renewed and extended for one-year periods unless either party provides notice one year prior to the end of the initial term or any extension period. Mr. Hockema also participates in the various retirement and benefit plans for salaried employees. This summary is qualified in its entirety by reference to the full text of Mr. Hockema's agreement, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part.

### **Employment agreement with Joseph P. Bellino**

On July 6, 2006, in connection with our emergence from chapter 11 bankruptcy, we entered into an employment agreement with Joseph P. Bellino, pursuant to which Mr. Bellino will continue his duties as our Executive Vice President and Chief Financial Officer. The agreement supersedes an employment agreement with Mr. Bellino that was entered into when he joined our company in May 2006. Under the terms of his employment agreement, Mr. Bellino's initial base salary is \$350,000, and his annual short-term incentive target is equal to 50% of his base salary. The short-term incentive is payable in cash, but is subject to both our meeting the applicable underlying performance thresholds and an annual cap of three times the target. The short-term incentive is payable pro rata if Mr. Bellino's employment is terminated other than for cause or without good reason. For 2006, Mr. Bellino's short-term incentive award will not be prorated. Under the employment agreement, Mr. Bellino received an initial long-term incentive grant of 15,000 restricted shares of common stock on July 6, 2006, which will vest on July 6, 2009, or earlier upon a change in control or certain events of termination of employment. Starting in 2007, he will be entitled to receive annual equity awards (such as restricted stock, stock options or performance shares) with an economic value of \$450,000. The terms of all equity grants will be similar to the terms of equity grants made to other senior executives at the time they are made. Mr. Bellino is also entitled to severance and change-in-control benefits under the terms of the employment agreement. In the event Mr. Bellino's employment is terminated without cause or terminated by Mr. Bellino with good reason, Mr. Bellino will be entitled to receive a lump-sum payment of two times his base salary plus the continuation of benefits for two years, and Mr. Bellino's equity awards outstanding at that time will vest in accordance with the terms of the equity awards. In the event Mr. Bellino's employment is terminated without cause or terminated by Mr. Bellino with good reason within two years following a change in control, Mr. Bellino will be entitled to receive a lump-sum payment of three times the sum of his base salary and annual short-term incentive target, plus the continuation of benefits for three years, and Mr. Bellino's equity awards outstanding at that time will vest in accordance with the terms of the equity awards. In addition, if a lump-sum payment payable upon either a change of control or as result of Mr. Bellino's termination without cause or for good reason is subject to federal excise tax, we will gross up the payment to include such excise tax. The initial term of his employment agreement is through May 15, 2009 and will be automatically renewed and extended for one-year periods unless either party provides notice one year prior to the end of the initial term or any extension period. Mr. Bellino also participates in the various retirement and benefit plans for salaried employees.

This summary is qualified in its entirety by reference to the full text of Mr. Bellino's agreement, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part.

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### Employment agreement with Daniel D. Maddox

On July 6, 2006, in connection with our emergence from chapter 11 bankruptcy, we entered into an employment agreement with Daniel D. Maddox, pursuant to which Mr. Maddox will continue his duties as our Vice President and Controller. Under the terms of his employment agreement, Mr. Maddox's initial base salary is \$225,000 and his annual short-term incentive target is equal to \$75,000, prorated for partial years. The short-term incentive is payable in cash, but is subject to our meeting the applicable underlying performance thresholds. Under the employment agreement, Mr. Maddox received an initial long-term incentive grant of 11,334 restricted shares of common stock on July 6, 2006. The terms of the equity grant to Mr. Maddox are similar to the terms of equity grants made to other senior executives on July 6, 2006. Mr. Maddox is also entitled to payments and benefits under the Key Employee Retention Program described above. The term of his employment agreement continues until the earlier of a mutually agreed upon termination date and March 31, 2007. If Mr. Maddox terminates his employment upon the conclusion of this agreement, he will receive benefits under his Change in Control Agreement as if both a change in control had occurred prior to his departure and he was terminating his employment for good reason. Mr. Maddox also participates in the various retirement and benefit plans for salaried employees.

This summary is qualified in its entirety by reference to the full text of Mr. Maddox's agreement, which is filed as an exhibit to our registration statement of which this prospectus forms a part.

### Agreements with Edward F. Houff

On August 15, 2005, Mr. Houff's employment with us was terminated by mutual agreement in anticipation of our emergence from chapter 11 bankruptcy. Upon his termination, we executed a release with Mr. Houff and agreed to pay him severance benefits under his severance agreement. Concurrently, we entered into a consulting agreement with Mr. Houff, and thereafter amended it several times, in order to secure his continued services as our Chief Restructuring Officer and a consultant through our emergence from chapter 11 bankruptcy.

Under the release and severance agreement, Mr. Houff received a severance payment in an amount equal to two times his base salary, or \$800,000. In addition, medical, dental, vision, life insurance and disability benefits were continued through the earlier of August 15, 2007 and the date Mr. Houff becomes eligible for comparable medical coverage under another employer's health insurance plans. Mr. Houff also released us from all claims he may have had prior to his termination.

Under the consulting agreement, Mr. Houff earned the following:

from August 15, 2005 to February 14, 2006, Mr. Houff received a monthly base fee of \$43,200 per month, plus \$360 per hour for each hour worked in excess of 120 hours per month, subject to a monthly cap of 200 billable hours;

from February 15, 2006 to February 28, 2006, Mr. Houff received a base fee of \$22,500, plus \$450 per hour for each hour worked in excess of 50 hours, subject to a cap of 75 billable hours;

from March 1, 2006 to March 31, 2006, Mr. Houff received a base fee of \$33,750, plus \$450 per hour for each hour worked in excess of 75 hours, subject to a cap of 100 billable hours;

from April 1, 2006 to June 30, 2006, Mr. Houff received a monthly base fee of \$22,500, plus \$450 per hour for each hour worked in excess of 50 hours per month, subject to a monthly cap of 75 billable hours;

during July 2006, until our emergence from chapter 11 bankruptcy, Mr. Houff was paid an hourly fee of \$450 for each hour worked.

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In addition, we reimbursed Mr. Houff for reasonable and customary expenses incurred while providing us with consulting services. Upon our emergence from chapter 11 bankruptcy on July 6, 2006, the consulting agreement terminated, and Mr. Houff ceased to be our Chief Restructuring Officer, whereupon the position was eliminated. This summary is qualified in its entirety by reference to the form of severance agreement for Mr. Houff, and the full text of Mr. Houff's release and consulting agreement, which are filed as exhibits to our registration statement of which this prospectus forms a part.

### Release with Kerry A. Shiba

Kerry A. Shiba resigned as our Vice President and Chief Financial Officer effective January 23, 2006. In connection with his resignation, we entered into a release with Mr. Shiba. Pursuant to the terms of the release, in lieu of all other benefits to which Mr. Shiba might otherwise be entitled and in consideration of his satisfaction of certain post-termination obligations, Mr. Shiba received payments of \$686,554 in the aggregate, which included payments of his earned long-term incentive awards for 2002, 2003, 2004 and 2005, earned short-term incentive award for 2005 and accrued unpaid vacation.

We also agreed to pay Mr. Shiba's COBRA premiums for his medical and dental coverage through the earlier of February 28, 2007 and the date Mr. Shiba becomes eligible for comparable medical coverage under another employer's health insurance plans. Mr. Shiba has obtained subsequent employment, and we no longer have any obligation to pay his COBRA premiums. The release also provides for a mutual release and subjects Mr. Shiba to certain non-competition, non-disclosure and non-solicitation obligations.

This summary is qualified in its entirety by reference to the full text of Mr. Shiba's release, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part.

### AGGREGATED OPTION/ SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/ SAR VALUES

The table below provides information on the 2005 fiscal year-end value of unexercised options. During 2005, we did not have any stock appreciation rights, or SARs, outstanding. Immediately prior to our emergence from chapter 11 bankruptcy on July 6, 2006, the equity interests of our then existing stockholders were cancelled without consideration. Concurrently, all options to purchase common stock from our company existing immediately prior to our emergence from bankruptcy, including those listed in the table below, were also cancelled.

Name	Number of securities underlying unexercised options/SARs at fiscal year end (#)		Value of unexercised in-the-money options/SARs at fiscal year-end (\$)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Jack A. Hockema	375,770 <sup>(1)</sup>	28,184 <sup>(1)</sup>	(2)	(2)
John Barneson				
John M. Donnan				
Edward F. Houff				
Daniel D. Maddox	35,715 <sup>(1)</sup>		(2)	
Kerry A. Shiba				

(1) Represents shares of our then existing common stock underlying stock options.

(2)

*No value is shown because the exercise price was higher than the closing price of \$0.03 per share for our then existing common stock on the OTC Bulletin Board on December 30, 2005.*



## Management

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

On July 6, 2006, all of our non-employee directors resigned and the compensation policy committee and the Section 162(m) compensation committee of our board were dissolved. On the same date, new directors were appointed to our board and a new compensation committee was formed. For additional information on our new directors or our current compensation committee, see Executive Officers and Directors Experience of directors and Committees of the Board of Directors Compensation Committee respectively, above.

During 2005, Robert J. Cruikshank, James T. Hackett, Ezra G. Levin (Chairman) and John D. Roach were members of our compensation policy committee, and Messrs. Cruikshank and Hackett (Chairman) were members of our Section 162(m) compensation policy committee. Mr. Hackett resigned as a director of our company as of the end of February 2005, whereupon Mr. Cruikshank became the sole member of our Section 162(m) compensation policy committee. Mr. Roach was appointed to our compensation policy committee on May 24, 2005.

During 2005, no member of the compensation policy committee or the Section 162(m) compensation committee of our board of directors was an officer or employee of Kaiser or any of our subsidiaries, or was formerly an officer of Kaiser or any of our subsidiaries, or had any relationships requiring disclosure by us under Item 404 of Regulation S-K.

During 2005, none of our executive officers served as:

a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on our compensation policy committee or our Section 162(m) compensation committee;

a director of another entity, one of whose executive officers served on our compensation policy committee or our Section 162(m) compensation committee; or

a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as one of our directors.

## Principal and selling stockholders

The following table sets forth the number and percentage of outstanding shares of our common stock beneficially owned as of September 15, 2006, by:

each named executive officer, as well as Messrs. Bellino and Rinkenberger;

each of our directors;

all our directors and current executive officers as a group;

each person known to us to beneficially own 5% or more of our common stock; and

the selling stockholder.

Unless otherwise indicated by footnote, and subject to applicable community property laws, the persons named in the table have sole voting and investment power over the common stock shown as beneficially owned by them. The percentage of beneficial ownership is calculated on the basis of 20,525,660 shares of our common stock outstanding as of September 15, 2006.

Name	Shares Beneficially Owned Prior to Offering		Number of Shares Offered	Shares Beneficially Owned After Offering	
	Number	%		Number	%
<i>Directors and Executive Officers<sup>(1)(2)</sup></i>					
Jack A. Hockema	185,000	*		185,000	*
John Barneson	48,000	*		48,000	*
Joseph P. Bellino	15,000	*		15,000	*
John M. Donnan	45,000	*		45,000	*
Edward F. Houff					
Daniel D. Maddox	11,334	*		11,334	*
Daniel J. Rinkenberger	24,000	*		24,000	*
Kerry A. Shiba					
George Becker	1,039	*		1,039	*
Carl B. Frankel	1,213	*		1,213	*
Teresa A. Hopp	924	*		924	*
William F. Murdy	1,097	*		1,097	*
Alfred E. Osborne, Jr., Ph.D.	693	*		693	*
Georganne C. Proctor	1,386	*		1,386	*
Jack Quinn	1,386	*		1,386	*
Thomas M. Van Leeuwen	1,386	*		1,386	*
Brett E. Wilcox	1,386	*		1,386	*
All directors and current executive officers as a group (15 persons)	338,844	1.7%		338,844	1.7%
<i>5% Stockholders</i>					
Union VEBA Trust <sup>(3)</sup>	8,809,900	42.9%	2,517,955	6,291,945	30.7%
Asbestos PI Trust <sup>(4)</sup>	1,113,915	5.4%		1,113,915	5.4%

*Selling Stockholder*

Union VEBA Trust <sup>(3)</sup>	8,809,900	42.9%	2,517,955	6,291,945	30.7%
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*(footnotes on following page)*

**Principal and selling stockholders**

\* *Indicates less than 1%*

- (1) *The shares held by our executive officers were received under our Equity Incentive Plan. Pursuant to the plan, these shares are restricted and are subject to forfeiture until July 6, 2009 and, consequently, may not be traded in the public market until such date.*
- (2) *Each of our independent directors received 693 shares of our common stock on August 1, 2006 under our Equity Incentive Plan. Pursuant to the plan, these shares are restricted and are subject to forfeiture until August 1, 2007 and, consequently, may not be traded in the public market until such date. In addition, certain of our directors elected to receive shares of our common stock in lieu of all or a portion of their annual cash retainer, including Messrs. Becker (346 shares), Frankel (520 shares), Murdy (404 shares), Quinn (693 shares), Van Leeuwen (693 shares) and Wilcox (693 shares) and Mmes. Hopp (231 shares) and Proctor (693 shares).*
- (3) *Shares beneficially owned by the Union VEBA Trust are as reported on its Form 13G filed on July 24, 2006. The number of shares offered and the number and percentage of shares beneficially owned after the offering by the Union VEBA Trust assume that the underwriters do not exercise their option to purchase additional shares from the Union VEBA Trust to cover any over allotment. The principal address of the Union VEBA Trust is c/o National City Bank, as Trustee for Kaiser VEBA Trust, 20 Stanwix Street, Locator 46-25162, Pittsburgh, PA 15222.*
- (4) *Shares beneficially owned by the Asbestos PI Trust are as reflected on the stock ownership register maintained by Mellon Investor Services LLC, the transfer agent for our common stock. The principal address of the Asbestos PI Trust reflected on the stock ownership register is 325 N. La Salle Dr., Suite 625, Chicago, IL 60610, c/o Frank Gecker, LLP-Francis Gecker.*

Certain relationships and related transactions

For a description of the Director Designation Agreement with the USW, see Management Director Designation Agreement with the USW.

For a description of the Stock Transfer Restriction Agreement with the trustee of the Union VEBA Trust, see Description of capital stock Stock Transfer Restriction Agreement.

For a description of the Registration Rights Agreement with, and the registration rights granted to, the Union VEBA Trust, see Shares eligible for future sale Registration Rights.

The registration statement of which this prospectus forms a part was filed pursuant to a request made by the Union VEBA Trust pursuant to the Registration Rights Agreement. The Union VEBA Trust is offering 2,517,955 shares of our common stock pursuant to this offering, constituting the maximum number of shares of our common stock that, as of the date of this prospectus, it may include in this offering under the Stock Transfer Restriction Agreement absent approval of our board of directors. At the request of the Union VEBA Trust, pursuant to the Stock Transfer Restriction Agreement and our certificate of incorporation, our board of directors has approved the sale by the Union VEBA Trust of up to 377,693 additional shares of our common stock pursuant to a 30-day option granted to the underwriters to cover over-allotments, if any, in connection with this offering. See Underwriting. In connection with such approval, the Union VEBA Trust agreed that, for purposes of determining whether any transfer of shares of common stock by the Union VEBA Trust following this offering is permissible under the Stock Transfer Restriction Agreement, the Union VEBA Trust will be deemed to have effected the transfer of any such additional shares sold by it pursuant to such option at the earliest possible date or dates the Union VEBA Trust would have been permitted to effect such transfer under the Stock Transfer Restriction Agreement absent such approval.

#### Description of capital stock

Our authorized capital stock consists of 45,000,000 shares of common stock, par value \$0.01 per share, and 5,000,000 shares of preferred stock, par value \$0.01 per share, the rights and preferences of which may be established from time to time by our board of directors. As of September 15, 2006, there were 20,525,660 outstanding shares of common stock and 1,696,562 shares reserved and available for issuance under our Equity Incentive Plan. There are no outstanding shares of preferred stock. This offering will have no effect on the number of shares of common stock or preferred stock outstanding. The following description of our capital stock is only a summary, does not purport to be complete and is subject to and qualified by the full text of our certificate of incorporation and bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus forms a part, and of the applicable provisions of Delaware law.

#### **COMMON STOCK**

Holders of our common stock are entitled to one vote for each share on all matters voted upon by our stockholders, including the election of directors, and do not have cumulative voting rights. Our common stockholders are entitled to receive ratably any dividends that may be declared by our board of directors out of funds legally available for payment of dividends. While we currently have no intention to pay regular dividends on our common stock, we may pay such dividends from time to time. The declaration and payment of dividends on our common stock, if any, will be at the discretion of our board of directors and will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the board of directors. In addition, our financing arrangements place restrictions on our ability to pay dividends. For a more complete description of these limitations, see Dividend policy. Holders of our common stock are entitled to share ratably in our net assets upon our dissolution or liquidation after payment or provision for all liabilities and any preferential liquidation rights of our preferred stock then outstanding. Holders of our common stock do not have preemptive rights to purchase shares of our stock. Holders of our common stock do not have subscription, redemption or conversion rights. The rights, preferences and privileges of holders of our common stock will be subject to those of the holders of any shares of our preferred stock we may issue in the future.

#### **BLANK CHECK PREFERRED STOCK**

Our board of directors may, from time to time, authorize the issuance of one or more classes or series of preferred stock without stockholder approval. We have no current intention to issue any shares of preferred stock. Our certificate of incorporation permits us to issue up to 5,000,000 shares of preferred stock from time to time. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, our board of directors is authorized to issue preferred shares and to fix before issuance the number of preferred shares to be issued and the designation, relative powers, preferences, rights and qualifications, limitations or restrictions of the preferred shares, terms of redemption, conversion rights and liquidation preferences, in each case without any action or vote by our stockholders.

The issuance of preferred stock may adversely affect the rights of our common stockholders by, among other things:

restricting dividends on the common stock;

diluting the voting power of the common stock;

impairing the liquidation rights of the common stock; or

delaying or preventing a change in control without further action by the stockholders.

## Description of capital stock

As a result of these or other factors, the issuance of preferred stock could have an adverse effect on the market price of our common stock.

### RESTRICTIONS ON TRANSFER OF COMMON STOCK

#### Amended and restated certificate of incorporation

In order to reduce the risk that any change in our ownership would jeopardize the preservation of our federal income tax attributes, including net operating loss carryovers, for purposes of Sections 382 and 383 of the Internal Revenue Code, our certificate of incorporation, as amended and restated upon our emergence from chapter 11 bankruptcy, prohibits certain transfers of our equity securities until the date, referred to as the Restriction Release Date, that is the earliest of:

July 6, 2016;

the repeal, amendment or modification of Section 382 of the Internal Revenue Code in such a way as to render us no longer subject to the restrictions imposed by Section 382;

the beginning of a taxable year in which none of the income tax benefits in existence on July 6, 2006 are currently available or will be available;

the determination by the board of directors that the restrictions will no longer apply;

a determination by the board of directors or the Internal Revenue Service that we are ineligible to use Section 382(1)(5) of the Internal Revenue Code permitting full use of the income tax benefits existing on July 6, 2006; and

an election by us for Section 382(1)(5) of the Internal Revenue Code not to apply.

Generally, our amended and restated certificate of incorporation prohibits a transfer of our equity securities if either: the transferor holds 5% or more of the total fair market value of all issued and outstanding equity securities, a 5% stockholder; or

as a result of such transfer, either (1) any person or group of persons would become a 5% stockholder, or (2) the percentage stock ownership of any 5% stockholder would be increased.

These transfers are referred to as 5% Transactions. The restrictions on transfer will not apply, however, if: the transferor or transferee obtains the prior written approval of the board of directors;

in the case of a 5% Transaction by any holder of equity securities (other than the Union VEBA Trust), prior to such transaction, the board of directors determines in good faith, upon request of the transferor or transferee, that the proposed transfer is a 5% Transaction:

- which, together with any 5% Transactions consummated during the previous three years, or since July 6, 2006, if shorter, represent aggregate 5% Transactions involving transfers of less than 45% of our equity securities issued and outstanding at the time of transfer; and
- which, together with any 5% Transactions consummated during the previous three years, or since July 6, 2006, if shorter, and all 5% Transactions that the Union VEBA Trust may consummate without breach of the Stock Transfer Restriction Agreement, described below, during the three years following the time of transfer, represent, during any period of three consecutive years during the three years prior to the transfer, or since July 6, 2006, if shorter, and the three years after the





## Description of capital stock

transfer, aggregate 5% Transactions involving transfers of less than 45% of the equity securities issued and outstanding at the time of transfer; or

in the case of a 5% Transaction by the Union VEBA Trust, such 5% Transaction does not result in a breach of the Stock Transfer Restriction Agreement, so long as, contemporaneously with such 5% Transaction, the Union VEBA Trust delivers to our board of directors a written notice setting forth the number and type of equity securities involved in, and the date of, such 5% Transaction.

Any approval or determination by the board of directors requires the affirmative vote of a majority of the total number of directors (assuming no vacancies). As a condition to granting any such approval or in connection with making any such determination, the board of directors may, in its discretion, require (at the expense of the transferor and/or transferee) an opinion of counsel selected by the transferor or the transferee, which counsel must be reasonably acceptable to the board of directors, that the consummation of the proposed transfer will not result in the application of any limitation under Section 382 of the Internal Revenue Code on the use of the tax benefits described above taking into account any and all other transfers that have been consummated prior to receipt of the request relating to the proposed transfer, any and all other proposed transfers that have been approved by the board of directors prior to receipt of the request relating to the proposed transfer and any and all other proposed transfers for which the requests relating thereto have been received prior to receipt of the request relating to the proposed transfer.

Each certificate representing our equity securities issued prior to the Restriction Release Date will contain a legend referring to these restrictions on transfer and any purported transfer of our equity securities in violation of such restrictions will be null and void. The purported transferor will remain the owner of such transferred securities and the purported transferee will be required to turn over the transferred securities, together with any distributions received by the purported transferee with respect to the transferred securities after the purported transfer, to an agent authorized to sell such securities, if it can do so, in arm's-length transactions that do not violate such restrictions. If the purported transferee resold such securities prior to receipt of our demand that they be so surrendered, the purported transferee will generally be required to transfer the proceeds from such distribution, together with any distributions received by the purported transferee with respect to the transferred securities after the purported transfer, to the agent. Any amounts held by the agent will be applied first to reimburse the agent for its expenses, then to reimburse the transferee for any payments made by the purported transferee to the transferor, and finally, if any amount remains, to pay the purported transferor. Any resale by the purported transferee will itself be subject to these restrictions on transfer.

### **Stock Transfer Restriction Agreement**

On July 6, 2006, in connection with our emergence from chapter 11 bankruptcy, we also entered into a Stock Transfer Restriction Agreement with the trustee of the Union VEBA Trust. This summary is qualified in its entirety by the full text of the Stock Transfer Restriction Agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part.

Pursuant to the Stock Transfer Restriction Agreement, until the Restriction Release Date, except as described below the trustee of the Union VEBA Trust will be prohibited from transferring or otherwise disposing of more than 15% of the total number of shares of common stock issued pursuant to our plan of reorganization to the Union VEBA Trust in any 12-month period without the prior written approval of the board of directors in accordance with our amended and restated certificate of incorporation. Pursuant to the Stock Transfer Restriction Agreement, the trustee of the Union VEBA Trust also expressly acknowledged and agreed to comply with the restrictions on the transfer of our securities contained in our certificate of incorporation.

## Description of capital stock

Simultaneously with the execution and delivery of the Stock Transfer Restriction Agreement, we entered into a registration rights agreement, or Registration Rights Agreement, with the trustee of the Union VEBA Trust and transferees of the Union VEBA Trust pursuant to the pre-effective date sales protocol discussed below. The Stock Transfer Restriction Agreement provides that, notwithstanding the general restriction on transfer described above, the Union VEBA Trust may transfer a larger percentage of its holdings through an underwritten offering. Prior to March 31, 2007, the Union VEBA Trust may request in writing that we file a registration statement covering the resale of shares of our common stock equal to a maximum of 30% of the total number of shares of common stock received by the Union VEBA Trust pursuant to the plan of reorganization in an underwritten offering, as contemplated by the Registration Rights Agreement, so long as:

the number of shares of common stock to be sold is not more than 45% of the total number of shares of common stock received by the Union VEBA Trust pursuant to the plan of reorganization, less the number of shares included in all other transfers previously effected by the Union VEBA Trust during the preceding 36 months or since July 6, 2006, if shorter; and

the shares of common stock to be sold have a market value of not less than \$60.0 million on the date the request is made.

In the event that no underwritten offering has been effected prior to, or is pending on, March 31, 2007, the Union VEBA Trust may transfer, in an underwritten offering as contemplated by the Registration Rights Agreement, a number of shares of our common stock equal to 45% of the total number of shares of common stock received by the Union VEBA Trust pursuant to the plan of reorganization, less the number of shares included in all other transfers previously effected by the Union VEBA Trust during the preceding 36 months or since July 6, 2006, if shorter, so long as:

no such underwritten offering has been previously effected from a shelf registration statement;

the demand for such underwritten offering is made by the Union VEBA Trust between March 31, 2007 and April 1, 2008; and

the shares of common stock to be sold have a market value of not less than \$60.0 million on the date such request is made.

If, through an underwritten offering, the Union VEBA Trust transfers a greater number of shares than the Union VEBA Trust could transfer under the general restriction on transfer described above, then, for purposes of determining whether any future transfer of shares of common stock by the Union VEBA Trust is permissible under the general restriction, the Union VEBA Trust will be deemed to have effected the transfer of the excess shares at the earliest possible date or dates the Union VEBA Trust would have been permitted to effect such transfer under the general restriction absent these exceptions. See Certain relationships and related transactions.

The plan of reorganization stated that on its effective date, 11,439,900 shares of our common stock would be contributed to the Union VEBA Trust. Prior to the effective date of the plan of reorganization, in accordance with a sales protocol established by order of the bankruptcy court, the Union VEBA Trust sold interests entitling the purchasers thereof to receive 2,630,000 shares of common stock that otherwise would have been issuable to the Union VEBA Trust on the effective date of the plan of reorganization. Accordingly, on the effective date, 8,809,900 shares of common stock were issued to the Union VEBA Trust. Pursuant to the terms of the sale protocol, unless we otherwise agree or it is determined in a ruling by the Internal Revenue Service that any such sale does not constitute a sale of shares on or following the effective date of the plan of reorganization for purposes of the applicable limitations of section 382 of the Internal Revenue Code, the shares attributable to a sale of all or part of the interest of the Union VEBA Trust will be deemed to have been received by the



## **Description of capital stock**

Union VEBA Trust on the effective date and sold on or after the effective date out of the permitted sale allocation under the Stock Transfer Restriction Agreement as if sold at the earliest possible date or dates such sales would have been permitted thereunder for purposes of determining the permissibility of future sales of shares under the Stock Transfer Restriction Agreement. The Union VEBA Trust has informed us that it intends to seek such a ruling from the Internal Revenue Service.

### **ANTI-TAKEOVER EFFECTS OF CERTAIN PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS**

Our certificate of incorporation and our bylaws, together with our contractual arrangements with the USW and applicable Delaware state law, may discourage or make more difficult the acquisition of control of our company by means of a tender offer, open market purchase, proxy fight or otherwise. These provisions are intended to discourage, or may have the effect of discouraging, certain types of coercive takeover practices and inadequate takeover bids and are also intended to encourage a person seeking to acquire control of our company to first negotiate with us. We believe that these measures, many of which are substantially similar to the anti-takeover related measures in effect for numerous other publicly held companies, enhance our potential ability to negotiate with the proponent of an unsolicited proposal to acquire or restructure the company, providing benefits that outweigh the disadvantages of discouraging such proposals because, among other things, such negotiation could improve the terms of such a proposal and protect the stockholders from takeover bids that the board of directors have determined to be inadequate. A description of these provisions is set forth below.

#### **Classified board of directors**

Our certificate of incorporation divides our board of directors into three classes of directors serving staggered three year terms. The existence of a classified board will make it more difficult for a third party to gain control of our board of directors by preventing such third party from replacing a majority of the directors at any given meeting of stockholders.

#### **Removal of directors and filling vacancies in directorships**

Our certificate of incorporation and bylaws provide that directors may be removed by the stockholders, with or without cause, only at a meeting of stockholders and by the affirmative vote of the holders of at least 67% of our stock generally entitled to vote in the election of directors. Our certificate of incorporation and bylaws provide that any vacancy on our board of directors or newly created directorship may be filled solely by the affirmative vote of a majority of the directors then in office or by a sole remaining director, and that any director so elected will hold office for the remainder of the full term of the class of directors in which the vacancy occurred or the new directorship was created and until such director's successor has been elected and qualified. The limitations on the removal of directors and the filling of vacancies may deter a third party from seeking to remove incumbent directors and simultaneously gaining control of our board of directors by filling the vacancies created by such removal with its own nominees.

#### **Stockholder action and meetings of stockholders**

Our certificate of incorporation and bylaws provide that special meetings of the stockholders may only be called by our chairman of the board, chief executive officer or president, or by the secretary of the company within ten calendar days after the receipt of the written request of a majority of the total number of directors (assuming no vacancies), and further provide that, at any special meeting of stockholders, the only business that may be considered or conducted is business that is specified in the notice of such meeting or is otherwise properly brought before the meeting by the presiding officer or by or at the direction of a majority of the directors (assuming no vacancies), effectively precluding the

## **Description of capital stock**

right of the stockholders to raise any business at any special meeting. Our certificate of incorporation also provides that the stockholders may not act by written consent in lieu of a meeting.

### **Advance notice requirements for stockholder proposals**

Our bylaws provide that a stockholder seeking to bring business before an annual meeting of stockholders provide timely notice in writing to the corporate secretary. To be timely, a stockholder's notice must be received not less than 60, nor more than 90, calendar days prior to the first anniversary date of the date on which we first mailed proxy materials for the prior year's annual meeting of stockholders, except that, if there was no annual meeting in the prior year or if the annual meeting is called for a date that is not within 30 calendar days before or after that anniversary, notice must be so delivered not later than the close of business on the later of the 90th calendar day prior to such annual meeting and the 10th calendar day following the date on which public disclosure of the date of the annual meeting is first made. Our bylaws also specify requirements as to the form and substance of notice. These provisions may make it more difficult for stockholders to bring matters before an annual meeting of stockholders.

### **Director nomination procedures**

#### **Nominations in accordance with our bylaws**

Our bylaws provide that the nominations for election of directors by the stockholders will be made either by or at the direction of our board of directors or a committee thereof, or by any stockholder entitled to vote for the election of directors at the annual meeting at which such nomination is made. The bylaws require that stockholders intending to nominate candidates for election as directors provide timely notice in writing. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not less than 60, nor more than 90, calendar days prior to the first anniversary of the date on which we first mailed our proxy materials for the prior year's annual meeting of stockholders, except that, if there was no annual meeting during the prior year or if the annual meeting is called for a date that is not within 30 calendar days before or after that anniversary, notice by stockholders to be timely must be delivered not later than the close of business on the later of the 90th calendar day prior to the annual meeting and the 10th calendar day following the day on which public disclosure of the date of such meeting is first made. Our bylaws also specify requirements as to the form and substance of notice. These provisions of our bylaws make it more difficult for stockholders to make nominations of directors.

#### **Nominating and corporate governance committee**

Our nominating and corporate governance committee is responsible for recommending to the board of directors director nominee candidates to be submitted to the stockholders for election at each annual meeting of stockholders. In accordance with this responsibility, the committee has adopted policies regarding the consideration of candidates for a position on our board of directors, including the procedures by which stockholders may propose candidates directly to the committee for consideration. Such policies provide an alternative to the rights granted to the stockholders by law and pursuant to our bylaws. These policies provide that a single stockholder or a group of stockholders that has beneficially owned more than 5% of the then outstanding common stock for at least one year as of the date of recommendation of a director candidate will be eligible to propose a director candidate to the nominating and corporate governance committee for consideration and evaluation by notice to such committee in accordance with such policies, including timely notice. To be timely, a stockholders notice must be received by the Nominating and Corporate Governance Committee not less than 120, nor more than 150, calendar days prior to the first anniversary of the date on which we first mailed proxy materials for the prior year's annual meeting of stockholders, except that, if there was no annual meeting in the prior year or if the annual meeting is called for a date that is not within

## **Description of capital stock**

30 calendar days before or after that anniversary, notice must be received by the nominating and corporate governance committee no later than the close of business on the 10th calendar day following the date on which public disclosure of the date of the annual meeting is first made, unless such public disclosure specifies a different date. The policies also provide that any such candidate must (1) be independent in accordance with applicable independence criteria, (2) may not, other than as a member of our board of directors or a committee thereof, accept any consulting, advisory or other compensatory fee from us or our subsidiaries (other than the fixed amounts of compensation under a retirement plan for prior service, provided such compensation is not contingent on continued service), and (3) may not be an affiliated with us or any of our subsidiaries. Further, these policies establish criteria to be used by such committee to assess whether a candidate for a position on our board of directors has appropriate skills and experience. In addition, the USW will be able to nominate director candidates in accordance with the Director Designation Agreement described below.

### **Director Designation Agreement with the USW**

Upon our emergence from chapter 11 bankruptcy, we entered into a Director Designation Agreement with the USW, in order to effectuate the rights of the USW to nominate individuals to serve on our board of directors and specified committees thereof. Please see [Management Director Designation Agreement with the USW](#) for a discussion of the Director Designation Agreement.

### **Authorized but unissued shares**

Authorized but unissued shares of our common stock and preferred stock under our certificate of incorporation will be available for future issuance without stockholder approval, unless otherwise required pursuant to the rules of any national securities exchange or association on which our securities are traded from time to time. These additional shares will give our board of directors the flexibility to issue shares for a variety of proper corporate purposes, including in connection with future public offerings to raise additional capital or corporate acquisitions, without incurring the time and expense of soliciting a stockholder vote. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or otherwise. In addition, any future issuance of shares of common stock or preferred stock, whether or not in connection with an anti-takeover measure, could have the effect of diluting the earnings per share, book value per share and voting power of shares held by our stockholders.

### **Supermajority vote requirements**

Delaware law provides generally that the affirmative vote, as a class, of the holders of a majority of each class of shares entitled to vote on any matter will be required to amend a corporation's certificate of incorporation and that the affirmative vote of the holders of a majority of the shares present in person or represented by proxy identified to vote on any matter will be required to amend a corporation's bylaws, unless the corporation's certificate of incorporation or bylaws, as the case may be, require a vote by the holders of a greater number of shares. Our certificate of incorporation and bylaws require the affirmative vote of the holders of at least 67% of the shares of our stock generally entitled to vote in the election of directors in order to amend, repeal or adopt any provision inconsistent with certain provisions of our certificate of incorporation or bylaws, as the case may be, relating to (1) the time and place of meetings of the stockholders, (2) the calling of special meetings of stockholders, (3) the conduct or consideration of business at meetings of stockholders, (4) the filling of any vacancies on the board of directors or newly created directorships, (5) the removal of directors, (6) the nomination and election of directors, (7) the ability of the stockholders to act by written consent in lieu of a meeting, or (8) the number and terms of directors.

## Description of capital stock

### DELAWARE ANTI-TAKEOVER LAW

Section 203 of the Delaware General Corporation Law provides that, subject to exceptions specified therein, an interested stockholder of a Delaware corporation shall not engage in any business combination with the corporation for a three-year period following the time that such stockholder becomes an interested stockholder unless:

prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding specified shares); or

on or subsequent to such time, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding voting stock not owned by the interested stockholder.

Under Section 203, the restrictions described above also do not apply to specified business combinations proposed by an interested stockholder following the announcement or notification of one of the specified transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation's directors, if such transaction is approved or not opposed by a majority of the directors who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors.

Except as otherwise specified in Section 203, a business combination is defined to include:  
any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;

subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

subject to exceptions, any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; and

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

Except as otherwise specified in Section 203, an interested stockholder is defined to include:

any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the date of determination; and

the affiliates and associates of any such person.

## **Description of capital stock**

Under some circumstances, Section 203 makes it more difficult for a person who is an interested stockholder to effect various business combinations with us for a three-year period. We have not elected to be exempt from the restrictions imposed under Section 203.

### **LIMITATION OF LIABILITY OF OFFICERS AND DIRECTORS**

Our certificate of incorporation limits the liability of our directors to the fullest extent permitted by Delaware law, which provides that a corporation may limit the personal liability of its directors for monetary damages for breach of that individual's fiduciary duties as a director except for liability for any of the following: (1) a breach of the director's duty of loyalty to the corporation or its stockholders; (2) any act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law; (3) certain unlawful payments of dividends or unlawful stock repurchases or redemptions; or (4) any transaction from which the director derived an improper personal benefit. This limitation of liability does not apply to liabilities arising under federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our certificate of incorporation provides that we are required to indemnify our directors and officers to the fullest extent permitted or required by Delaware law, although, except with respect to certain actions, suits or proceedings to enforce rights to indemnification, a director or officer will only be indemnified with respect to any action, suit or proceeding such person initiated to the extent such action, suit or proceeding was authorized by the board of directors. Our certificate of incorporation also requires us to advance expenses incurred by a director or officer in connection with the defense of any action, suit or proceeding arising out of that person's status or service as director or officer of the company or as director, officer, employee or agent of another enterprise, if serving at our request. In addition, our certificate of incorporation permits us to secure insurance to protect us and any director, officer, employee or agent of the company or any other corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss.

In addition, we have entered into indemnification agreements with each of our directors and executive officers containing provisions that obligate us to, among other things:

indemnify, defend and hold harmless the director or officer to the fullest extent permitted or required by Delaware law, except that, subject to certain exceptions, the director or officer will be indemnified with respect to a claim initiated by such director or officer against us or any other director or officer of the company only if we have joined in or consented to the initiation of such claim;

advance prior to the final disposition of any indemnifiable claim any and all expenses relating to, arising out of or resulting from any indemnifiable claim paid or incurred by the director or officer or which the director or officer determines is reasonably likely to be paid or incurred by him or her; and

utilize commercially reasonable efforts to cause to be maintained in effect policies of directors' and officers' liability insurance providing coverage that is at least substantially comparable in scope and amount to that provided by our policies of directors' and officers' liability insurance at the time the parties enter into such indemnification agreement.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for our common stock is Mellon Investor Services LLC.



#### Shares eligible for future sale

Upon completion of this offering, based upon the number of our shares of common stock outstanding as of September 15, 2006, there will be outstanding 20,525,660 shares of our common stock, of which 2,630,000 shares will be deemed restricted securities, as that term is defined under Rule 144 of the Securities Act. All of the shares sold in this offering will be freely tradable without restriction under the Securities Act, except for any shares of our common stock purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, which would be subject to the limitations and restrictions described below.

Restricted securities may be sold in the United States public market only if registered or if they qualify for an exemption from registration under Rule 144 or 144(k) under the Securities Act, which rules are described below. Subject to the provisions of the lock-up agreements, the 2,630,000 shares will be eligible for sale at various times pursuant to Rules 144 or 144(k).

#### **RULE 144**

In general, under Rule 144 as currently in effect, a person, or persons whose shares must be aggregated, who has beneficially owned restricted shares of our common stock for at least one year is entitled to sell within any three-month period a number of shares that does not exceed the greater of the following:

one percent of the number of shares of common stock then outstanding, which will equal approximately 205,256 shares immediately after this offering; or

the average weekly trading volume of our common stock on the Nasdaq Global Market during the four calendar weeks preceding the date of filing of a notice on Form 144 with respect to the sale, which equals approximately 208,675 shares as of the date of this prospectus.

Sales under Rule 144 are also generally subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

#### **RULE 144(K)**

Under Rule 144(k), a person, or persons whose shares must be aggregated, who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years would be entitled to sell the shares under Rule 144(k) without complying with the manner of sale, public information, volume limitations or notice or public information requirements of Rule 144. Therefore, unless otherwise restricted, the shares eligible for sale under Rule 144(k) may be sold immediately upon the completion of this offering.

#### **LOCK-UP AGREEMENTS**

For a description of the lock-up agreements with the underwriters that restrict sales of shares by us, the selling stockholder, certain other stockholders and our executive officers and directors, see Underwriting No Sales of Similar Securities.

#### **REGISTRATION RIGHTS**

Pursuant to the terms of a Registration Rights Agreement, we have provided the Union VEBA Trust with registration rights, including a demand registration right, a shelf registration right and piggy-

**Shares eligible for future sale**

back registration rights, with respect to our common stock. This registration has been effected because the Union VEBA Trust exercised its demand registration right. Under the Registration Rights Agreement, other selling stockholders may be able to elect to participate in the registration on the same terms as the Union VEBA Trust. Commencing April 1, 2007, the Union VEBA Trust may demand that we prepare and file with the Securities and Exchange Commission a shelf registration statement covering the resale of certain securities held by the Union VEBA Trust. Our obligations to effect a shelf or piggy-back registration are subject to customary limitations. We are obligated to pay all expenses incidental to such registration, excluding underwriters' discounts and commissions and certain legal fees and expenses. This summary is qualified in its entirety by reference to the full text of the Registration Rights Agreement, a copy of which is filed as an exhibit to our registration statement of which this prospectus forms a part. See Certain relationships and related transactions.

U.S. federal tax consequences to non-U.S. holders of common stock

The following is a general discussion of the material U.S. federal income and estate tax consequences to non-U.S. Holders with respect to the acquisition, ownership and disposition of our common stock. In general, a Non-U.S. Holder is any holder of our common stock other than:

a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence test under section 7701(b)(3) of the Internal Revenue Code;

a corporation (or an entity treated as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons can control all substantial decisions of the trust, or certain other trusts that have a valid election in effect to be treated as a U.S. person pursuant to applicable Treasury Regulations.

This discussion is based on current provisions of the Internal Revenue Code, Treasury Regulations, judicial opinions, published positions of the Internal Revenue Service, or IRS, and all other applicable administrative and judicial authorities, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation or any aspects of state, local, or non-U.S. taxation, nor does it consider any specific facts or circumstances that may apply to particular Non-U.S. Holders that may be subject to special treatment under the U.S. federal income tax laws including, but not limited to, insurance companies, tax-exempt organizations, pass-through entities, financial institutions, brokers, dealers in securities and U.S. expatriates. If a partnership or other entity treated as a partnership for U.S. federal income tax purposes is a beneficial owner of our common stock, the treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. This discussion assumes that the Non-U.S. Holder will hold our common stock as a capital asset, which generally is property held for investment.

Prospective investors are urged to consult their tax advisors regarding the U.S. federal, state and local, and non-U.S. income and other tax considerations with respect to acquiring, holding and disposing of shares of our common stock.

#### **DIVIDENDS**

In general, dividends paid to a Non-U.S. Holder (to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles) will be subject to U.S. withholding tax at a rate equal to 30% of the gross amount of the dividend, or a lower rate prescribed by an applicable income tax treaty, unless the dividends are effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States. Under applicable Treasury Regulations, a Non-U.S. Holder will be required to satisfy certain certification requirements, generally on IRS Form W-8BEN, directly or through an intermediary, in order to claim a reduced rate of withholding under an applicable income tax treaty. If tax is withheld in an amount in excess of the amount applicable under an income tax treaty, a refund of the excess amount generally may be obtained by filing an appropriate claim for refund with the IRS.

## **U.S. federal tax consequences to non-U.S. holders of common stock**

Dividends that are effectively connected with such a U.S. trade or business generally will not be subject to U.S. withholding tax if the Non-U.S. Holder files the required forms, including IRS Form W-8ECI, or any successor form, with the payor of the dividend, but instead generally will be subject to U.S. federal income tax on a net income basis in the same manner as if the Non-U.S. Holder were a resident of the United States. A corporate Non-U.S. Holder that receives effectively connected dividends may be subject to an additional branch profits tax at a rate of 30%, or a lower rate prescribed by an applicable income tax treaty, on the repatriation from the United States of its effectively connected earnings and profits, subject to adjustments.

### **GAIN ON SALE OR OTHER DISPOSITION OF COMMON STOCK**

In general, a Non-U.S. Holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other taxable disposition of the Non-U.S. Holder's shares of common stock unless:

the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States (and, where an income tax treaty applies, is attributable to a U.S. permanent establishment of the Non-U.S. Holder), in which case the branch profits tax discussed above may also apply if the Non-U.S. Holder is a corporation;

the Non-U.S. Holder is an individual who holds shares of common stock as capital assets and is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes.

Because of the real property and manufacturing assets we own, we may be a U.S. real property holding corporation. Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests, as defined in the Internal Revenue Code and applicable Treasury Regulations equals or exceeds 50% of the aggregate fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. If we are, have been, or become, a U.S. real property holding corporation in the future, since our common stock is regularly traded on an established securities market, a Non-U.S. Holder who (actually or constructively) holds or held (at anytime during the shorter of the five-year period preceding the disposition or the holder's holding period) more than 5% of our common stock would be subject to U.S. federal income tax on a disposition of our common stock but other Non-U.S. Holders generally would not be. If our common stock becomes not so traded, all Non-U.S. Holders would be subject to U.S. federal income tax on a disposition of our common stock.

You should consult your own tax advisor regarding our possible status as a U.S. real property holding corporation and its possible consequences in your particular circumstances.

### **INFORMATION REPORTING AND BACKUP WITHHOLDING**

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the recipient. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced by an applicable income tax treaty. Under income tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Dividends paid made to a Non-U.S. Holder that is not an exempt recipient generally will be subject to backup withholding, currently at a rate of 28% of the gross proceeds, unless a Non-U.S. Holder certifies on IRS Form W-8BEN or similar form as to its foreign status.

**U.S. federal tax consequences to non-U.S. holders of common stock**

Proceeds from the disposition of common stock by a Non-U.S. Holder effected by or through a U.S. office of a broker will be subject to information reporting and backup withholding, unless the Non-U.S. Holder certifies to the payor under penalties of perjury as to, among other things, its address and foreign status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the transaction is effected outside the United States by or through a non-U.S. office. However, if the broker is, for U.S. federal income tax purposes, a U.S. person, a controlled foreign corporation, a foreign person who derives 50% or more of its gross income for specified periods from the conduct of a U.S. trade or business, a U.S. branch of a foreign bank or insurance company or a foreign partnership with various connections to the United States, information reporting but not backup withholding will apply unless:

the broker has documentary evidence in its files that the holder is a Non-U.S. Holder and certain other conditions are met; or

the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Rather, the amount of tax withheld is applied as a credit to the U.S. federal income tax liability of persons subject to backup withholding. If backup withholding results in an overpayment of U.S. federal income tax, a refund may be obtained, provided the required documents are timely filed with the IRS.

**ESTATE TAX**

Our common stock owned or treated as owned by an individual who is not a citizen or resident of the United States (as specifically defined for U.S. federal estate tax purposes) at the time of death will be includible in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

**Underwriting**

The selling stockholder is offering the shares of our common stock described in this prospectus through the underwriters named below. UBS Securities LLC and Bear, Stearns & Co. Inc. are the joint bookrunners of this offering and representatives of the underwriters. We and the selling stockholder have entered into an underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, each of the underwriters has severally agreed to purchase the number of shares of common stock listed next to its name in the following table:

<b>Underwriters</b>	<b>Number of shares</b>
UBS Securities LLC	
Bear, Stearns & Co. Inc.	
<b>Total</b>	<b>2,517,955</b>

The underwriting agreement provides that the underwriters must buy all of the shares if they buy any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

Our common stock is offered subject to a number of conditions, including:

- receipt and acceptance of the common stock by the underwriters; and

- the underwriters' right to reject orders in whole or in part.

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

**OVER-ALLOTMENT OPTION**

The selling stockholder has granted the underwriters an option to buy up to 377,693 additional shares of common stock. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriters have 30 days from the date of this prospectus to exercise this option. If the underwriters exercise this option, they will each purchase additional shares approximately in proportion to the amounts specified in the table above.

**COMMISSIONS AND DISCOUNTS**

Shares sold by the underwriters to the public will initially be offered at the offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ \_\_\_\_\_ per share from the initial public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to \$ \_\_\_\_\_ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriters. Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the price and upon the terms stated in the underwriting agreement, and, as a result, will thereafter bear any risk associated with changing the offering price to the public or other selling terms.

**Underwriting**

The following table shows the per share and total underwriting discounts and commissions to be paid by the selling stockholder to the underwriters, assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 377,693 shares:

	<b>No exercise</b>	<b>Full exercise</b>
Per share	\$	\$
Total	\$	\$

We estimate that the total expenses of this offering payable by us will be approximately \$ million. We have agreed to pay the expenses associated with this offering, other than the underwriting discounts and commissions.

**NO SALES OF SIMILAR SECURITIES**

We, the selling stockholder, our executive officers and directors and certain other stockholders have entered into lock-up agreements with the underwriters. Under these agreements, subject to certain exceptions, we and each of these persons may not, without the prior written approval of UBS Securities LLC and Bear, Stearns & Co. Inc., offer, sell, contract to sell or otherwise dispose of, directly or indirectly, or hedge our common stock or securities convertible into or exchangeable for our common stock. These restrictions will be in effect for a period of 180 days after the date of the underwriting agreement. These restrictions will not apply to issuances of restricted shares of common stock or employee stock options pursuant to Equity Incentive Plan. At any time and without public notice, UBS Securities LLC and Bear, Stearns & Co. Inc. may, in their sole discretion, release some or all of the securities from these lock-up agreements.

**INDEMNIFICATION AND CONTRIBUTION**

We and the selling stockholder have agreed to indemnify the underwriters and their controlling persons against certain liabilities, including liabilities under the Securities Act. If we or the selling stockholder are unable to provide this indemnification, we or they will contribute to payments the underwriters and their controlling persons may be required to make in respect of those liabilities.

**NASDAQ GLOBAL MARKET QUOTATION**

Our common stock is quoted on the Nasdaq Global Market under the symbol KALU.

**PRICE STABILIZATION, SHORT POSITIONS**

In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock, including:

stabilizing transactions;

short sales;