KAISER ALUMINUM CORP
Form 424B1
January 26, 2007

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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-137623

PROSPECTUS

5,461,870 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 stockholders named in this prospectus. We will not receive any proceeds from the sale of the shares by the selling stockholders.

Our common stock is traded on the Nasdaq Global Market under the symbol KALU. On January 25, 2007, the last reported sales price of our common stock on the Nasdaq Global Market was $62.57 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	$ 61.2500	$ 334,539,538
Underwriting discounts and commissions	$ 3.0625	$ 16,726,977
Proceeds, before expenses, to the selling stockholders	$ 58.1875	$ 317,812,561

The underwriters may also purchase up to an additional 819,280 shares of common stock from one of the selling stockholders 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 $19,236,022 and total proceeds, before expenses, to the selling stockholders will be $365,484,416.

Delivery of the shares of common stock will be made on or about January 31, 2007.

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

UBS Investment Bank **Bear, Stearns & Co. Inc.**

Lehman Brothers **Lazard Capital Markets**

The date of this prospectus is January 25, 2007

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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^{tm}, Kaiser Precision Select^{tm}, Kaiser Precision Rod^{tm}, 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.

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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; (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; and (4) the Asbestos PI Trust refers to the Kaiser Aluminum & Chemical Corporation Asbestos Personal Injury Trust.

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 will be completed in phases, with one new heat treat furnace currently operating at full production, a second such furnace currently operational and expected to reach full production no later than early 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 nine months ended September 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 153.0 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 though 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 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.

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 and financial strength provide 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 chapter 11 bankruptcy reorganization. We also have net operating loss carry-forwards and other significant tax attributes that may reduce our future cash payments of U.S. income tax. We previously disclosed our belief that these tax attributes could together offset in the range of $555 to $900 million of otherwise taxable income, and we currently anticipate that, upon completion of our 2006 income tax return analysis, the amount of our tax attributes as of December 31, 2006 will likely be in the upper half of that range.

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 chapter 11 bankruptcy 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® 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® 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.

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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 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.

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 cyclicality 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 cyclicality 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. Information on, or accessible through, our website is not a part of, and is not incorporated into, this prospectus.

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The offering

Common stock offered by the selling stockholders	5,461,870 shares
Common stock outstanding before and after the offering	20,525,660 shares
Over-allotment option	The Union VEBA Trust has granted the underwriters a 30-day option to purchase up to 819,280 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 stockholders.
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 December 31, 2006 and excludes 1,696,562 shares of common stock reserved and available for issuance under our equity incentive plan.

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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.

As a result of the effectiveness of our plan of reorganization on July 6, 2006, we adopted fresh start reporting 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 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.

Our emergence from chapter 11 bankruptcy and the adoption of fresh start reporting resulted in a new reporting entity for accounting purposes. Although we emerged from chapter 11 bankruptcy on July 6, 2006, we adopted fresh start reporting under the provisions of SOP 90-7 effective as of the beginning of business on July 1, 2006. As such, it was assumed that our emergence from chapter 11 bankruptcy was completed instantaneously at the beginning of business on July 1, 2006 such that all operating activities during the three months ended September 30, 2006 are reported as applying to the new reporting entity. We believe that this is a reasonable presentation as there were no material transactions between July 1, 2006 and July 6, 2006 other than plan of reorganization-related transactions.

The accompanying financial statements include our financial statements for both before and after our emergence from chapter 11 bankruptcy. Financial information related to the newly emerged entity is generally referred to throughout this prospectus as successor information and financial information related to the pre-emergence entity is generally referred to as predecessor information. The financial information of the successor entity is not comparable to that of the predecessor given the effects of the plan of reorganization, the adoption of fresh start reporting and other factors.

The summary consolidated financial data as of and for the nine months ended September 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 (except as set forth in Note 2 of our interim 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 period. The summary consolidated financial and operating data as of and for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be obtained for a full year.

With respect to the nine months ended September 30, 2006, the successor s operating data for the period from July 1, 2006 through September 30, 2006 have been combined with the predecessor s operating data for the period from January 1, 2006 to July 1, 2006 and are compared to the predecessor s operating data for the nine months ended September 30, 2005.

The information presented in the following tables should be read in conjunction with Capitalization, 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.

Statements of income data:	Predecessor year ended December 31, 2003	2004	2005	Predecessor nine months ended September 30, 2005	Nine months ended September 30, 2006: Predecessor period from January 1, 2006 to July 1, 2006	Period from July 1, 2006 through September 30, 2006
(dollars in millions)				(unaudited) (restated)(1)	(unaudited)	(unaudited)
Net sales	$ 710.2	$ 942.4	$ 1,089.7	$ 815.9	$ 689.8	$ 331.4
Costs and expenses:						
Cost of products sold	681.2	852.2	951.1	710.9	596.4	291.8
Depreciation and amortization	25.7	22.3	19.9	15.0	9.8	2.8
Selling, administrative, research and development, and general	92.5	92.3	50.9	38.0	30.3	18.0
Other operating charges (credits), net (2)	141.6	793.2	8.0	6.5	0.9	(2.9)
Total costs and expenses	941.0	1,760.0	1,029.9	770.4	637.4	309.7
Operating income (loss)	(230.8)	(817.6)	59.8	45.5	52.4	21.7
Other income (expense):						
Interest expense(3)	(9.1)	(9.5)	(5.2)	(4.2)	(0.8)	
Reorganization items(4)	(27.0)	(39.0)	(1,162.1)	(25.3)	3,093.1	
Other, net	(5.2)	4.2	(2.4)	(1.5)	1.2	0.9
Income (loss) before income taxes and discontinued operations	(272.1)	(861.9)	(1,109.9)	14.5	3,145.9	22.6
Provision for income taxes	(1.5)	(6.2)	(2.8)	(6.0)	(6.2)	(8.3)
Income (loss) from continuing operations	(273.6)	(868.1)	(1,112.7)	8.5	3,139.7	14.3
Discontinued operations:						
Income (loss) from discontinued operations, net of income taxes, including minority interests	(514.7)	(5.3)	(2.5)	21.3	4.3	

Gain from sale of commodity interests		126.6	366.2	365.6		
Income (loss) from discontinued operations [5]	(514.7)	121.3	363.7	386.9	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)	$ 390.7	$ 3,144.0	$ 14.3

	Year ended December 31,			Nine months ended September 30,	
Operating data (unaudited):	**2003**	**2004**	**2005**	**2005**	**2006**
Shipments (millions of pounds):					
Fabricated products	372.3	458.6	481.9	365.2	399.7
Primary aluminum	158.7	156.6	155.6	115.7	117.1
Total	531.0	615.2	637.5	480.9	516.8
Average realized third-party sales price (per pound):					
Fabricated products[6]	$ 1.61	$ 1.76	$ 1.95	$ 1.94	$ 2.18
Primary aluminum[7]	$ 0.71	$ 0.85	$ 0.95	$ 0.93	$ 1.27
Capital expenditures, net of accounts payable (excluding discontinued operations) (in millions)	$ 8.9	$ 7.6	$ 31.0	$ 20.4	$ 39.7

(footnotes on following page)

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Balance sheet data:	**As of September 30, 2006**
(dollars in millions)	**(unaudited)**
Cash and cash equivalents	$ 52.7
Working capital[8]	212.1
Total assets	621.1
Long-term debt	50.0
Stockholders equity (deficit)	345.9

(1) We restated our operating results for the nine months ended September 30, 2005. See Note 15 to our interim consolidated financial statements for information regarding the restatement.

(2) Other operating charges (credits), 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 and Note 10 to our interim consolidated financial statements.

(3) Excludes unrecorded contractual interest expense of $95.0 million in each of 2003, 2004 and 2005, $71.2 million for the nine months ended September 30, 2005 and $47.4 million for the period from January 1, 2006 to July 1, 2006.

(4) Reorganization items for 2005 include 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. Reorganization items for the period from January 1, 2006 to July 1, 2006 include a gain of approximately $3.1 billion in connection with the implementation of our plan of reorganization and fresh start reporting. See Note 13 to our interim 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) 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.

(7) Average realized prices for our primary aluminum business unit exclude hedging revenues.

(8) Working capital represents total current assets, including cash, 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 reporting 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.

We depend on a core group of significant customers.

In 2005 and for the nine months ended September 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 42%, respectively, of our fabricated products net sales. The increase in the percentage of our net sales

Risk factors

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 nine months ended September 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.

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 the 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

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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 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.

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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 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.

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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 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

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regional markets. The daily closing 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, between $5.79 and $15.38 in 2005 and between $4.20 and $10.63 in the nine month period ended September 30, 2006. 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. Given the potential for future shutdown and related costs, dividends from Anglesey have been suspended while Anglesey studies future cash requirements. The shutdown 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. As a result, our financial position, results of operations and cash flows may be negatively affected even before the September 2009 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.

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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.

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

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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, with substantially all costs being incurred in 2006 and 2007, 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.

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;

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- 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 relating to hedge accounting in our internal control over financial reporting, which resulted in the restatement of our financial statements, and one significant deficiency.

During the first quarter of 2006 as part of 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 because a material weakness in internal control over financial reporting existed 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, thus requiring us to account for our derivatives on a mark-to-market basis. While we are working to modify our documentation and 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 to reflect mark-to-market accounting. See Management s discussion and analysis of financial condition and results of operations Controls and Procedures for more information. Until we requalify our derivatives for hedge accounting treatment, we will not consider this matter to be fully remediated.

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 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 at December 31, 2005. We corrected this deficiency during the preparation of our December 31, 2005 financial statements and, accordingly, such deficiency did not exist at the end of subsequent periods.

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 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

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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, or SEC, 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 control deficiency, or combination of control 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 SEC 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 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.

We have net operating loss carry-forwards and other significant tax attributes that we believe could offset otherwise taxable income. We previously disclosed our belief that these tax attributes could together offset in the range of $555 to $900 million of otherwise taxable income, and we currently anticipate that, upon completion of our 2006 income tax return analysis, the amount of our tax attributes as of December 31, 2006 will likely be in the upper half of that range. 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

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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;
- our annual accruals for variable payment obligations to the Union VEBA Trust and Salaried Retiree VEBA Trust (see Note 7 to our interim consolidated financial statements);
- 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

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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 currently 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 26.7% 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 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

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Risk factors

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, 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 or anticipates, or the negative of the foregoing or other variations thereon 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 managements strategies and decisions;
- general economic and business conditions, including cyclicality 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 any revisions to any forward-looking statements to reflect events or circumstances that occur, or that we become aware of, after the date of this prospectus.

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Use of proceeds

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

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)	$ 51.00	$ 36.50
Fourth Quarter 2006	$ 63.00	$ 43.00
2007:		
First Quarter 2007 (through January 25, 2007)	$ 64.64	$ 57.00

On January 25, 2007, the last reported sale price for our common stock on the Nasdaq Global Market was $62.57 per share. As of December 31, 2006, there were approximately 497 common stockholders of record.

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Capitalization

The following table sets forth our cash and cash equivalents and our consolidated capitalization as of September 30, 2006. You should read this table in conjunction with 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 September 30, 2006
(dollars in millions, except share and per share amounts)		
Cash and cash equivalents	$	52.7
Debt, including current portion		
Revolving credit facility	$	
Term loan facility		50.0
Other		
Total debt		50.0
Stockholders equity:		
Common stock, $0.01 par value, 45,000,000 shares authorized; 20,525,660 shares issued and outstanding(1)		0.2
Additional capital		482.5
Retained earnings		14.3
Common stock owned by the Union VEBA Trust subject to transfer restrictions, at reorganization value, 6,291,945 shares at September 30, 2006(2)		(151.1)
Total stockholders equity		345.9
Total capitalization	$	395.9

(1) Excludes 1,696,562 shares of common stock reserved and available for issuance under our equity incentive plan.

(2) See Note 7 to our interim consolidated financial statements for a discussion of the treatment of the Union VEBA Trust s shares that are subject to transfer restrictions.

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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.

As a result of the effectiveness of our plan of reorganization on July 6, 2006, we adopted fresh start reporting 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.

Our emergence from chapter 11 bankruptcy and the adoption of fresh start reporting resulted in a new reporting entity for accounting purposes. Although we emerged from chapter 11 bankruptcy on July 6, 2006, we adopted fresh start reporting under the provisions of SOP 90-7 effective as of the beginning of business on July 1, 2006. As such, it was assumed that our emergence from chapter 11 bankruptcy was completed instantaneously at the beginning of business on July 1, 2006 such that all operating activities during the three months ended September 30, 2006 are reported as applying to the new reporting entity. We believe that this is a reasonable presentation as there were no material transactions between July 1, 2006 and July 6, 2006 other than plan of reorganization-related transactions.

The accompanying financial statements include our financial statements for both before and after our emergence from chapter 11 bankruptcy. Financial information related to the newly emerged entity is generally referred to throughout this prospectus as successor information and financial information related to the pre-emergence entity is generally referred to as predecessor information. The financial information of the successor entity is not comparable to that of the predecessor given the effects of the plan of reorganization, the adoption of fresh start reporting and other factors.

The selected consolidated financial data as of and for the nine months ended September 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 (except as set forth in Note 2 of our interim 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 nine months ended September 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.

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Selected historical consolidated financial data

Statements of income data: (dollars in millions, except share and per share data)	Predecessor year ended December 31, 2001[1]	2002	2003	2004	2005	Predecessor nine months ended September 30, 2005 (unaudited) (restated)[2]	Nine months ended September 30, 2006: Predecessor period from January 1, 2006 to July 1, 2006 (unaudited)	Period from July 1, 2006 through September 30, 2006 (unaudited)
Net sales	$ 889.5	$ 709.0	$ 710.2	$ 942.4	$ 1,089.7	$ 815.9	$ 689.8	$ 331.4
Costs and expenses:								
Cost of products sold	823.4	671.4	681.2	852.2	951.1	710.9	596.4	291.8
Depreciation and amortization	32.1	32.3	25.7	22.3	19.9	15.0	9.8	2.8
Selling, administrative, research and development, and general	93.7	118.6	92.5	92.3	50.9	38.0	30.3	18.0
Other operating charges (credits), net[3]	30.1	31.8	141.6	793.2	8.0	6.5	0.9	(2.9)
Total costs and expenses	979.3	854.1	941.0	1,760.0	1,029.9	770.4	637.4	309.7
Operating income (loss)	(89.8)	(145.1)	(230.8)	(817.6)	59.8	45.5	52.4	21.7
Other income (expense):								
Interest expense[4]	(106.2)	(19.0)	(9.1)	(9.5)	(5.2)	(4.2)	(0.8)	
Reorganization items[5]		(33.3)	(27.0)	(39.0)	(1,162.1)	(25.3)	3,093.1	
Other, net	(68.7)	(0.9)	(5.2)	4.2	(2.4)	(1.5)	1.2	0.9

Income (loss) before income taxes and discontinued operations	(264.7)	(198.3)	(272.1)	(861.9)	(1,109.9)	14.5	3,145.9	22.6
Provision for income taxes	(523.4)	(4.4)	(1.5)	(6.2)	(2.8)	(6.0)	(6.2)	(8.3)
Minority interests	(0.2)							
Income (loss) from continuing operations	(788.3)	(202.7)	(273.6)	(868.1)	(1,112.7)	8.5	3,139.7	14.3
Discontinued operations:								
Income (loss) from discontinued operations, net of income taxes, including minority interests	165.3	(266.0)	(514.7)	(5.3)	(2.5)	21.3	4.3	
Gain from sale of commodity interests	163.6			126.6	366.2	365.6		
Income (loss) from discontinued operations[6]	328.9	(266.0)	(514.7)	121.3	363.7	386.9	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)	$ 390.7	$ 3,144.0	$ 14.3
Earnings (loss) per share basic[7]:								
Income (loss) from continuing operations	$ (9.82)	$ (2.52)	$ (3.41)	$ (10.88)	$ (13.97)	$ 0.11	$ 39.42	$ 0.72
Income (loss) from discontinued operations	$ 4.09	$ (3.30)	$ (6.42)	$ 1.52	$ 4.57	$ 4.85	$ 0.05	$
Loss from cumulative effect on years prior to	$	$	$	$	$ (0.06)	$ (0.06)	$	$

2005 of adopting accounting for conditional asset retirement obligations								
Net income (loss)	$ (5.73)	$ (5.82)	$ (9.83)	$ (9.36)	$ (9.46)	$ 4.90	$ 39.47	$ 0.72
Earnings (loss) per share diluted[(7)]:								
Income (loss) from continuing operations	$ (9.82)	$ (2.52)	$ (3.41)	$ (10.88)	$ (13.97)	$ 0.11	$ 39.42	$ 0.72
Income (loss) from discontinued operations	$ 4.09	$ (3.30)	$ (6.42)	$ 1.52	$ 4.57	$ 4.85	$ 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)	$ 4.90	$ 39.47	$ 0.72
Dividends per common share	$	$	$	$	$	$	$	$
Weighted average shares outstanding (in thousands):								
Basic	80,235	80,578	80,175	79,815	79,675	79,676	79,672	20,002
Diluted	80,235	80,578	80,175	79,815	79,675	79,676	79,672	20,029

(footnotes on following page)

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Selected historical consolidated financial data

	As of December 31,					As of September 30,	
Balance sheet data:	**2001**	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
(dollars in millions)							
						(unaudited)	
						(restated)[2]	
Cash and cash equivalents	$ 154.1	$ 77.4	$ 35.5	$ 55.4	$ 49.5	$ 43.3	$ 52.7
Working capital[8]	(44.2)	183.0	104.9	73.0	119.7	85.6	212.1
Total assets	2,743.7	2,225.4	1,623.5	1,882.4	1,538.9	2,197.8	621.1
Long-term debt	678.7	20.7	2.2	2.8	1.2	1.2	50.0
Stockholders equity (deficit)	(441.1)	(1,085.6)	(1,738.7)	(2,384.2)	(3,141.2)	(1,993.5)	345.9

(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 nine months ended September 30, 2005. See Note 15 to our interim consolidated financial statements for information regarding the restatement.*

(3) *Other operating charges (credits), 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 and Note 10 to our interim 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, $71.2 million for the nine months ended September 30, 2005 and $47.4 million for the period from January 1, 2006 to July 1, 2006.*

(5) *Reorganization items for 2005 include 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. Reorganization items for the period from January 1, 2006 to July 1, 2006 include a gain of approximately $3.1 billion in connection with the implementation of our plan of reorganization and fresh start reporting. See Note 13 to our interim 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 prior to our emergence from chapter 11 bankruptcy 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, including cash, minus total current liabilities.

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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.

In the discussion of operating results below, certain items are referred to as non-run-rate items. For purposes of such discussion, 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 the financial statements. Our intent is to allow users of the financial statements to consider our results both in light of and separately from fluctuations in underlying metal prices.

The following discussion gives effect to the restatement discussed in Note 15 of our notes to interim consolidated financial 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 chapter 11 bankruptcy 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 our chapter 11 bankruptcy reorganization on our sensitivity to changes in market conditions, see Quantitative and Qualitative Disclosures about Market Risks Sensitivity.

During the nine months ended September 30, 2005, the average London Metal Exchange transaction price, or LME price, per pound of primary aluminum was $0.83. During the nine months ended

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

September 30, 2006, the average LME price per pound for primary aluminum was approximately $1.14. At October 31, 2006, the LME price per pound was approximately $1.29.

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 aggregated in our June 30, 2006 balance sheet to approximately $4.4 billion) were addressed and resolved; and

- 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. Our financial statements for the quarter ending September 30, 2006 are the first set of financial statements that reflect financial information after our emergence. 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 have applied fresh start reporting to our opening July 1, 2006 consolidated balance sheet as required by generally accepted accounting principles. As such, we have taken the following steps:

- We have adjusted our stockholders equity to equal the reorganization value of our company;

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

- We have allocated the reorganization value to our individual assets and liabilities based on their estimated fair value. Such items as current liabilities, accounts receivable, and cash reflect values similar to those reported prior to emergence. Items such as inventory, property, plant and equipment, long-term assets and long-term liabilities have been 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.

We also made post-emergence changes to our accounting policies and procedures. In general, our accounting policies are the same as or are similar to those we have historically used to prepare our financial statements. In certain cases, however, we have adopted different accounting policies or applied methodologies differently to our post-emergence financial statement information. For instance, we changed our accounting methodologies with respect to inventory accounting. While we will account for inventories on a LIFO basis after emergence, we are applying 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.

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

Additionally, certain items such as earnings per share and Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, which had few, if any, implications while we were in chapter 11 bankruptcy will have increased importance in our future financial statement information.

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, and we issued 20,000,000 new shares of common stock to a third-party disbursing agent for distribution in accordance with our plan of 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. As of December 31, 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 held approximately 42.9% of our outstanding common stock as of December 31, 2006. See Recent reorganization and Principal and selling stockholders. 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 our ability to pay 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.

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

RESULTS OF OPERATIONS

Our main line of business is the production and sale of fabricated aluminum products. In addition, we own a 49% interest in Anglesey, which owns and operates an aluminum smelter in Holyhead, Wales.

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 nine months ended September 30, 2005 and 2006 (unaudited in millions of dollars, except shipments and prices). 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.

Our emergence from chapter 11 bankruptcy and the adoption of fresh start reporting resulted in a new reporting entity for accounting purposes. Although we emerged from chapter 11 bankruptcy on July 6, 2006, we adopted fresh start reporting under the provisions of SOP 90-7, effective as of the beginning of business on July 1, 2006. As such, it was assumed that our emergence from chapter 11 bankruptcy was completed instantaneously at the beginning of business on July 1, 2006 so that all operating activities during the three months ended September 30, 2006 are reported as applying to the new reporting entity. We believe that this is a reasonable presentation as there were no material transactions between July 1, 2006 and July 6, 2006 other than plan of reorganization related transactions.

The selected operational and financial information after the effective date of our plan of reorganization are those of the successor and are not comparable to those of the predecessor. However, for purposes of this discussion (in the table below), the successor s results for the period from July 1, 2006 through September 30, 2006 have been combined with the predecessor s results for the period from January 1, 2006 to July 1, 2006 and are compared to the predecessor s results for the nine months ended September 30, 2005. Differences between periods due to fresh start reporting are explained when material.

	Year ended December 31,			Nine months ended September 30,	
Operating data (unaudited)	**2003**	**2004**	**2005**	**2005**	**2006**
Shipments (millions of pounds):					
Fabricated products	372.3	458.6	481.9	365.2	399.7
Primary aluminum	158.7	156.6	155.6	115.7	117.1
Total	531.0	615.2	637.5	480.9	516.8
Average realized third party sales price (per pound):					
Fabricated products[(2)]	$ 1.61	$ 1.76	$ 1.95	$ 1.94	$ 2.18
Primary aluminum[(3)]	$ 0.71	$ 0.85	$ 0.95	$ 0.93	$ 1.27

(footnotes on following page)

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

Statements of income data: (dollars in millions)	Year ended December 31, 2003	2004	2005	Nine months ended September 30, 2005 (unaudited) (Restated)[1]	2006 (unaudited)
Net sales:					
Fabricated products	$ 597.8	$ 809.3	$ 939.0	$ 707.7	$ 872.5
Primary aluminum	112.4	133.1	150.7	108.2	148.7
Total net sales	$ 710.2	$ 942.4	$ 1,089.7	$ 815.9	$ 1,021.2
Segment operating income (loss)[1]:					
Fabricated products[4][5]	$ (21.2)	$ 33.0	$ 87.2	$ 66.3	$ 90.3
Primary aluminum[6]	6.7	13.9	16.4	13.4	15.2
Corporate and other	(74.7)	(71.3)	(35.8)	(27.7)	(33.4)
Other operating credits (charges), net [7]	(141.6)	(793.2)	(8.0)	(6.5)	2.0
Total operating income (loss)	$ (230.8)	$ (817.6)	$ 59.8	$ 45.5	$ 74.1
Reorganization items[8]	$ (27.0)	$ (39.0)	$ (1,162.1)	$ (25.3)	$ 3,093.1
Income (loss) from discontinued operations [9]	$ (514.7)	$ 121.3	$ 363.7	$ 386.9	$ 4.3
Cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligation[10]	$	$	$ (4.7)	$ (4.7)	$
Net income (loss)[1]	$ 788.3	$ (746.8)	$ (753.7)	$ 390.7	$ 3,158.3
Capital expenditures, net of accounts payable (excluding discontinued operations)	$ 8.9	$ 7.6	$ 31.0	$ 20.4	$ 39.7

(1) *We restated our operating results for the nine months ended September 30, 2005. See Note 15 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 nine months ended September 30, 2005 include metal losses of $2.3 million. Operating results for the nine months ended September 30, 2006 include a non-cash LIFO inventory charge of $18.4 million and metal profits of approximately $13.9 million.*

(5) *Includes non-cash mark-to-market losses of $1.5 million in the nine months ended September 30, 2006. For further discussion regarding mark-to-market matters, see Note 9 to our interim consolidated financial statements.*

(6) *Includes non-cash mark-to-market gains (losses) totaling $(4.5) million and $8.1 million in the nine months ended September 30, 2005 and 2006, respectively. For further discussion regarding mark-to-market matters, see Note 9 to our interim consolidated financial statements.*

(7) *Other operating credits (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.*

(8) *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. Reorganization items for the period from January 1, 2006 to July 1, 2006 includes a gain of approximately $3.1 billion in connection with the implementation of our plan of reorganization and fresh start reporting. See Note 13 to our interim consolidated financial statements.

(9) 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.

(10) See Note 2 to our interim consolidated financial statements for a discussion of the change in accounting for conditional asset retirement obligations.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

Summary

For the nine months ended September 30, 2006, we reported net income of $3,158.3 million, compared to net income of $390.7 million for the same period in 2005. Net income for the nine months ended September 30, 2006 includes a non-cash gain of $3,113.1 million related to the implementation of our plan of reorganization and the adoption of fresh start reporting. Net income for the nine months ended September 30, 2005 includes $365.6 million related to the gain on the sale of QAL and favorable QAL operating results prior to the sale of our QAL-related interests on April 1, 2005. In addition, the nine months ended September 30, 2005 and 2006 include a number of non-run-rate items that are more fully explained in the section below.

Net sales for the nine months ended September 30, 2006 totaled $1,021.2 million compared to $815.9 million for the nine months ended September 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 the 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 nine month period ended September 30, 2006, net sales of fabricated products increased by 23% to $872.5 million as compared to the same period in 2005, primarily due to a 12% increase in average realized prices and a 9% increase in shipments. The increase in the average realized prices primarily reflects higher underlying primary aluminum prices. The increase in volume in 2006 was led by aerospace and defense-related shipments. Shipments improved for all broad product lines in the nine months ended September 30, 2006.

Operating income for the nine months ended September 30, 2006 of $90.3 million was approximately $24 million higher than the prior year period. Operating income for the nine months ended September 30, 2006 also included an approximate $28 million favorable impact compared to the prior year from higher shipments, stronger conversion prices (representing the value added from the fabrication process) and favorable scrap raw material costs. Higher energy prices had an approximate $4 million adverse impact on the nine months ended September 30, 2006 versus the nine months ended September 30, 2005, but a majority of this impact was offset by favorable cost performance. Major maintenance costs during the nine months ended September 30, 2006 were comparable to the same period in 2005. Depreciation and amortization in the nine months ended September 30, 2006 was approximately $2.2 million lower than the prior year period as a result of the adoption of fresh start reporting.

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Both the nine months ended September 30, 2005 and 2006 include non-run-rate items. These items, which are listed below, had a combined approximate $6.0 million adverse impact on the nine months ended September 30, 2006, which is approximately $3.7 million worse than the comparable prior year period:

Metal profits in the nine months ended September 30, 2006 (before considering LIFO implications) of approximately $13.9 million, which is approximately $16.2 million better than the prior year period.

A non-cash LIFO inventory charge of $18.4 million in the nine months ended September 30, 2006. There were no LIFO charges or benefits in the comparable 2005 period.

Mark-to-market charges on energy hedging in the nine months ended September 30, 2006 were approximately $1.5 million. During the nine months ended September 30, 2005, there were no mark-to-market charges or gains.

Segment operating results for 2006 and 2005 include gains on intercompany hedging activities with the primary aluminum business unit totaling $31.5 million for the nine months ended September 30, 2006 and $3.4 million for the nine months ended September 30, 2005. These amounts eliminate in consolidation. Operating results for our fabricated products segment for the nine months ended September 30, 2005 exclude defined contribution savings plan charges of approximately $5.4 million.

The first furnace added as a part of the $105 million expansion project at our Trentwood facility has reached full production. A second furnace that is a part of the Trentwood expansion has begun production and is expected to ramp up to full production no later than early 2007. The third furnace expansion and the addition of the stretcher, which will enable us to produce heavier gauge plate products, are both expected to be on-line by early 2008. The additional production capacity from the first two furnace expansions has provided the opportunity for increased aerospace and defense-related shipments beginning in the fourth quarter of 2006 and should help offset the potential for lackluster automotive-related shipments due to the current industry decline in automotive sales.

Primary aluminum

During the nine months ended September 30, 2006, third-party net sales of primary aluminum increased 37%, compared to the same period 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 nine months ended September 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 impacted by items outside management s control.

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	Nine months ended September 30, 2006 vs. 2005		
Component	**Operating income**	**Better (worse)**	**Factor**
Sales of production from Anglesey	$ 38	$ 15	Market price for primary aluminum
Internal hedging with fabricated products segment	(32)	(29)	Eliminates in consolidation
Derivative settlements	1	3	Impacted by positions and market prices
Mark-to-market on derivative instruments	8	13	Impacted by positions and market prices
	$ 15	$ 2	

The improvement in Anglesey-related results, as well as the offsetting adverse internal hedging results, in the nine months ended September 30, 2006 over the comparable 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 15% 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 adversely affected (versus 2005) 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. In addition, given the potential for future shutdown and related costs, dividends from Anglesey have been suspended while Anglesey studies future cash requirements. Dividends over the past five years have fluctuated substantially depending on various operational and market factors. During the last five years and the nine months ended September 30, 2006, cash dividends received were as follows (in millions of dollars): 2001 $2.8, 2002 $6.0, 2003 $4.3, 2004 $4.5, 2005 $9.0, and 2006 $11.7.

Corporate and other

Corporate operating expenses represent corporate general and administrative expenses that are not allocated to our business segments. Corporate operating expenses for the nine months ended September 30, 2006 were approximately $5.7 million higher than the comparable period in 2005. Incentive compensation accruals were approximately $5.0 million higher than the nine months ended September 30, 2005, including a $2.2 million non-cash charge associated with vested and non-vested stock grants. Additionally, we incurred certain costs we considered largely non-run-rate, including $1.8 million of preparation costs related to the Sarbanes-Oxley Act of 2002, $0.7 million of higher post-emergence tax service/preparation costs and $1.1 million of costs associated with certain computer upgrades. The remaining change in the nine months ended September 30, 2006 primarily reflects lower salary and other costs related to the movement toward a post-emergence structure.

Once the activity with our emergence from chapter 11 bankruptcy, which will continue through early 2007, and incremental Sarbanes-Oxley-related activities are complete, we expect there will be a substantial decline in corporate and other operating costs.

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Corporate operating results for the nine months ended September 30, 2005, discussed above, exclude defined contribution savings plan charges of approximately $0.5 million.

Discontinued operations

Operating results from discontinued operations for the nine months ended September 30, 2006 consist of a $7.5 million payment from an insurer for certain residual claims we had in respect of a 2000 incident at our Gramercy, Louisiana alumina facility, which was sold in 2004, and a $1.1 million surcharge refund related to certain energy surcharges, which have been pending for a number of years, offset, in part, by a $5.0 million charge resulting from an agreement between us and the Bonneville Power Administration for an electric power contract rejected in connection with our chapter 11 bankruptcy. Operating results from discontinued operations for the nine months ended September 30, 2005 include the $365.6 million gain resulting from the sale of our interests in and related to QAL on April 1, 2005 and the favorable QAL operating results prior to the sale of our QAL-related interests.

Reorganization items

Reorganization items increased substantially in the nine months ended September 30, 2006 as compared to the comparable periods in 2005 as a result of the non-cash gain on the implementation of our plan of reorganization and the application of fresh start reporting of approximately $3,113.1 million in the third quarter of 2006.

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. As of March 2006, natural gas prices had decreased somewhat but had not 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, which were $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.

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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.

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 chapter 11 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 our 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 chapter 11 bankruptcy reorganization. Reorganization items increased substantially in 2005 over 2004 as a result of a non-cash charge of approximately of $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.

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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.

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.

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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.

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 Pension Benefit Guaranty Corporation, or 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 a settlement with the USW, 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, a charge of $15.7 million related to a multi-site environmental settlement 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, an 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.

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

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 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 nine months ended September 30, 2006, fabricated products operating activities provided $42 million of cash compared to $67 million of cash for the nine months ended September 30, 2005. Cash provided by fabricated products in the nine months ended September 30, 2006 was primarily due to improved operating results offset, in part, by increased working capital cash requirements. The increase in 2006 working capital cash requirements was primarily the result of the impact of higher primary aluminum prices and increased demand for fabricated aluminum products on inventories and accounts receivable, which was only partially offset by increases in accounts payable. Cash provided by fabricated products in the nine months ended September 30, 2005 was primarily due to improved operating results associated with improved demand for fabricated aluminum products. Working capital change in the nine months ended September 30, 2005 was modest. 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 $22 million and $17 million in the nine months ended September 30, 2006 and 2005, respectively.

Corporate and other operating activities used $82 million of cash in the nine months ended September 30, 2006 and 2005. Cash outflows for corporate and other operating activities in the nine months ended September 30, 2006 and 2005 included:

- $12 million and $18 million, respectively, for medical obligations and VEBA funding for all former and current operating units;
- $16 million and $30 million, respectively, for reorganization costs; and
- $30 million and $20 million, respectively, for general and administrative costs.

Cash outflows for corporate and other operating activities for the nine months ended September 30, 2006 also included $25 million of payments made pursuant to our plan of reorganization.

In the nine months ended September 30, 2006, discontinued operation activities provided $9 million of cash compared to $13 million in the nine months ended September 30, 2005. Cash provided by discontinued operations in the nine months ended September 30, 2006 consisted of, as discussed above, the proceeds from an $8 million payment from an insurer and a $1 million refund from

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commodity interests energy vendors. Cash provided in the nine months ended September 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 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 $38.7 million and $20.1 million for the nine months ended September 30, 2006 and 2005, respectively. As previously disclosed, we currently expect total capital expenditures for our fabricated products business in 2006 to be in the $65 million to $75 million range. Total capital expenditures for our fabricated products business are currently expected to be in the $60 million to $70 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 $45 million has been incurred as of September 30, 2006. Besides the Trentwood facility expansion, our remaining capital spending in 2006 was, and in 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.

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, respectively, 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 in 2007 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.

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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 thereof.

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 October 31, 2006, there were no borrowings outstanding under the revolving credit facility, there was approximately $15.9 million outstanding under letters of credit and there was $50.0 million outstanding under the term loan facility.

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 September 30, 2006 (dollars in millions):

		Payments due in			
Contractual obligations	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$ 50.0	$	$	$ 50.0	$
Operating leases	7.4	2.6	3.1	1.6	0.1
Total cash contractual obligations[1]	$ 57.4	$ 2.6	$ 3.1	$ 51.6	$ 0.1

(1) Total contractual obligations exclude future annual variable cash contributions to the VEBAs, 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.

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OFF BALANCE SHEET AND OTHER ARRANGEMENTS

As of September 30, 2006, 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.

The following employee benefit plans remain in effect:

A commitment to provide one or more defined contribution 401(k) plans as a replacement for three of four defined benefit pension plans for hourly bargaining unit employees at four of our production facilities. The defined benefit plans at these four production facilities were terminated during the fourth quarter of 2006, effective as of October 10, 2006, pursuant to a court ruling received in July 2006. These replacement plans provide for an annual contribution ranging from $800 to $2,400 per bargaining unit employee, depending on the employee s age. We also agreed to make monthly contributions of one dollar per hour worked by each bargaining unit employee to the appropriate multi-employer pension plans sponsored by the USW and certain other unions at each of these four facilities.

A defined contribution 401(k) savings plan for hourly bargaining unit employees at all of our other production facilities. Pursuant to the terms of the defined contribution plan, 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 the defined contribution savings plan for active USW employees at these facilities that will range from $800 to $2,400 per employee per year, depending on the employee s age.

A defined benefit pension plan for our salaried employees at our facility in London, Ontario with annual contributions based on each salaried employee s age and years of service.

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.

A defined benefit pension plan for one inactive operation with three remaining former employees covered by that plan.

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.

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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.

				Cash Payments
EBITDA	**$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

A short-term incentive 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 7 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 for up to $5 million of losses suffered by the buyers that result from any failure of our representations and warranties to be true. Upon the closing of the transaction, such amount was recorded in long-term liabilities in the accompanying financial statements. A claim for the full amount of the indemnity was made initially. However, in October 2006, the claimant filed a revised report to indicate that its claim was approximately $2 million and separately filed for summary judgment in respect to its claim. We continue to evaluate the claim and, as such, have no basis nor enough information to revise the accrual. The indemnity expired with respect to additional claims in October 2006.

During the third quarter of 2005 and August 2006, we placed orders for certain 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 $105 million, of which approximately $45 million of such cost was incurred in 2005 and through the third quarter of 2006. The majority of the balance will likely be incurred primarily over the remainder of 2007.

At September 30, 2006, there was approximately $7.1 million of accrued, but unpaid professional fees that have been approved for payment by the bankruptcy court. Additionally, certain professionals had success fees due upon our emergence from chapter 11 bankruptcy. Approximately $5.0 million of such amounts were recorded in connection with our emergence from chapter 11 bankruptcy and the implementation of fresh start reporting and paid by us after September 30, 2006.

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NEW ACCOUNTING PRONOUNCEMENTS

Please see Note 2 to our interim consolidated financial statements for a discussion of new accounting pronouncements.

Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, SFAS No. 158, was issued in September 2006. SFAS No. 158 requires a company to recognize the overfunded or underfunded status of single-employer defined benefit postretirement plan(s) as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. Prior standards only required the overfunded or underfunded status of a plan to be disclosed in the notes to the financial statements. In addition, SFAS No. 158 requires that a company disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits and transition assets or obligations. We must adopt SFAS No. 158 in our 2006 annual financial statements. Given the application of fresh start reporting in the third quarter of 2006, the funded status of our defined benefit pension plans is fully reflected in our September 30, 2006 balance sheet and therefore we expect SFAS No. 158 to have no material impact on our balance sheet reporting for these plans. However, we have not yet completed our review of the possible impacts of SFAS No. 158 in respect of the net assets or obligations of the Salaried Retiree VEBA Trust and the Union VEBA Trust and cannot, therefore, predict what, if any, impacts adoption of SFAS No. 158 will have on the balance sheet in regard to the VEBAs.

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, SFAS No. 157, was issued in September 2006 to increase consistency and comparability in fair value measurements and to expand related disclosures. The new standard includes a definition of fair value as well as a framework for measuring fair value. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. The standard is effective for fiscal periods beginning after November 15, 2007 and should be applied prospectively, except for certain financial instruments where it must be applied retrospectively as a cumulative-effect adjustment to the balance of opening retained earnings in the year of adoption. We are still evaluating SFAS No. 157 but do not currently anticipate that the adoption of this standard will have a material impact on our financial statements.

Staff Accounting Bulletin No. 108, *Guidance for Quantifying Financial Statement Misstatements*, SAB No. 108, was issued by the SEC staff in September 2006. SAB No. 108 establishes a specific approach for the quantification of financial statement errors based on the effects of the error on each of our financial statements and the related financial statement disclosures. The provisions of SAB No. 108 are effective for our 2006 annual financial statements. We do not anticipate that the adoption of this bulletin will have a material impact on its financial statements.

CRITICAL ACCOUNTING POLICIES

Successor

Critical accounting policies fall into two broad categories. The first type of critical accounting policies includes those that are relatively straightforward in their application, but which can have a significant impact on the reported balances and operating results, like revenue recognition policies and inventory accounting methods. The first type of critical accounting policies is outlined in Note 2 of our interim consolidated financial statements and is not addressed below. The second type of critical accounting policies includes 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

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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, as many of the significant judgments affecting the financial statements related to matters or items directly a result of the chapter 11 bankruptcy or related to liabilities that were resolved pursuant to our plan of reorganization. See the Notes to our interim consolidated financial statements for discussion of possible differences.

While we believe that all aspects of our financial statements should be studied and understood in assessing our current and expected future financial condition and results, we believe that the accounting policies that warrant additional attention include:

Application of fresh start reporting

Upon our emergence from chapter 11 bankruptcy, we applied fresh start reporting to our consolidated financial statements as required by SOP 90-7. As such, in July 2006, we adjusted stockholders equity to equal the reorganization value of the entity at emergence. Additionally, items such as accumulated depreciation, accumulated deficit and accumulated other comprehensive income (loss) were reset to zero. We allocated the reorganization value to our individual assets and liabilities based on their estimated fair value at the emergence date based, in part, on information from a third-party appraiser. Such items 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 reporting was adopted at emergence and because of the significance of liabilities subject to compromise that were relieved upon emergence, meaningful comparisons between the historical financial statements and the financial statements from and after emergence are difficult to make.

Our judgments and estimates with respect to commitments and contingencies

Valuation of legal and other contingent claims is subject to a great deal of judgment and substantial uncertainty. Under U.S. generally accepted accounting principles, or GAAP, companies are required to accrue for contingent matters in their financial statements only if the amount of any potential loss is both probable and the amount (or a range) of possible loss is estimatable. In reaching a determination of the probability of an adverse ruling in respect of a matter, we typically consult outside experts. However, any such 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, therefore, was not accrued for in our financial statements. Additionally, facts and circumstances in respect of a matter can change causing key assumptions that were used in previous assessments of a matter to change. It is possible that amounts at risk in respect of one matter may be traded off against amounts under negotiations in a separate matter. Further, in estimating the amount of any loss, in many instances a single estimation of the 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.

Our judgments and estimates in respect of our employee defined benefit plans

Defined benefit pension and post-retirement medical obligations included in the consolidated financial statements at June 30, 2006 and at prior dates are based on assumptions that were subject to variation from year to year. Such variations could have caused our estimate of such obligations to vary significantly. Restructuring actions relating to our exit from most of our commodities businesses (such as the indefinite curtailment of the Mead smelter) also had a significant impact on such amounts.

The most significant assumptions used in determining the estimated year-end obligations were the assumed discount rate, long-term rate of return, or LTRR, and the assumptions regarding future

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medical cost increases. Since recorded obligations represent the present value of expected pension and post-retirement benefit 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 LTRR on plan assets reflects an 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 LTRR would cause the projected value of plan assets available to satisfy pension and post-retirement obligations to increase, yielding a reduced net expense in respect of these obligations. A reduction in the LTRR would reduce the amount of projected net assets available to satisfy pension and post-retirement obligations and, thus, cause the net expense in respect of these obligations to increase. As the assumed rate of increase in medical costs goes up, so does the net projected obligation. Conversely, if the rate of increase was assumed to be smaller, the projected obligation declines.

Our judgments and estimates in respect to environmental commitments and contingencies

We are subject to a number of environmental laws and regulations, to fines or penalties assessed for alleged breaches of such laws and regulations and to claims and litigation based upon such laws and regulations. Based on our evaluation of environmental matters, we have established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. 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 remediation action to be taken. However, making estimates of possible environmental remediation 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, changes in these and other factors may result in actual costs exceeding the current environmental accruals.

See Note 8 of our notes to interim consolidated financial statements for additional information in respect of environmental contingencies.

Our judgments and estimates in respect of 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) at 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.

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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.

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/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 (or must) be sold on an accelerated or more 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 assets, 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 carry-forwards or other tax attributes to offset taxable income. Making such estimates and judgments is subject to inherent uncertainties given the difficulty of 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 September 30, 2006 interim consolidated financial statements, we have considered our actual operating results in the nine months ended September 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, if, among other things:

- actual results for the balance of 2006 vary from that in the nine months ended September 30, 2006 and our forecasts due to one or more of the factors cited above or elsewhere in this prospectus;
- income is 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 are not available;

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then, it is possible that the effective tax rate for 2006 could vary materially from the assessments used to prepare the September 30, 2006 interim consolidated financial statements included elsewhere in this prospectus. Additionally, following emergence from chapter 11 bankruptcy, our tax provision will be affected by the impacts of our plan of reorganization and by the application of fresh start reporting.

Predecessor

As indicated above, 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 matters related to our chapter 11 bankruptcy 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:

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 GAAP companies are required to accrue for contingent matters in their financial statements only if the amount of any potential loss is both probable and the amount or range of possible loss is estimatable. In reaching a determination of the probability of an adverse rulings, 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 19 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 chapter 11 bankruptcy 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 19 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

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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 19 to our interim consolidated financial statements, we were one of many defendants in personal injury claims by a large number of persons who asserted 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 represented 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 were aware that certain constituents had 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 not approved) and additional amounts were recoverable in the future if additional liability were 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 have 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 LTRR 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 LTRR 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 LTRR 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 LTRR 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

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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. Accordingly, four of the five remaining plans were terminated during the fourth quarter of 2006, effective as of October 10, 2006, and were replaced by defined contribution 401(k) plans and contributions to related multi-employer pension plans maintained by the USW and certain other unions.

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.

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 at our current operating facilities that may have been adversely impacted by hazardous materials, including polychlorinated biphenyls, or 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) at 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

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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 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.

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 carry-forwards or other tax attributes to offset taxable income. Making such estimates and judgments is subject to inherent uncertainties given the difficulty of 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.

Predecessor reporting while in reorganization

Consolidated financial statements and information for dates and periods prior to July 1, 2006 were prepared on a going concern basis in accordance with SOP 90-7, and did 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

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

stockholders. Adjustments related to our plan of reorganization materially affected our consolidated financial statements included in this prospectus.
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.

The amount of pre-filing date claims ultimately allowed by the bankruptcy court related to disputed claims was materially different from the amount reflected in our consolidated financial statements.

Changes in our business plan precipitated by the chapter 11 bankruptcy proceedings resulted in significant charges associated with the disposition of assets.

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 3 and 13 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.

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 the applicable year. Total fabricated products shipments during the nine month periods ended September 30, 2005 and 2006 for which we had price risk were (in millions of pounds) 109.6 and 153.0, respectively, representing 29% and 38% of total fabricated products shipments in the applicable 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

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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 September 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 fourth quarter of 2006 and the period 2007 2010 totaling approximately (in millions of pounds): 2006: 69, 2007: 116, 2008: 94, and 2009: 71 and 2010: 72.

Foreign currency

From time to time, we 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 October 1, 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 76% of the natural gas purchases for October 2006 through December 2006, approximately 31% of our natural gas purchases from January 2007 through March 2007 and approximately 14% of our natural gas purchases from April 2007 through June 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

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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 have been 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 did indicate that a deficiency in our internal controls over financial reporting existed at December 31, 2005, such deficiency was fully remediated during the final reporting and closing process in connection with the preparation of our December 31, 2005 financial statements and, accordingly, did not exist at the end of subsequent periods.

During the first quarter of 2006 as part of 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 existed relating to our accounting for derivative financial instruments under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). Specifically, we lacked sufficient technical expertise as to the application of SFAS No. 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.

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. 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. Having identified the material weakness prior to the end of the first quarter of 2006, we changed our accounting for derivative instruments from hedge treatment to mark-to-market treatment in our financial statements for the first quarter of 2006 and subsequent periods in order to

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comply with GAAP. While we believe this change in our accounting for derivative instruments technically resolves the material weakness from a GAAP perspective, we believe that hedge accounting is more desirable than mark-to-market accounting treatment and, accordingly, we will not, from our own perspective, consider this matter to be fully remediated until we complete all the steps outlined above and requalify our derivatives for hedge accounting treatment under GAAP.

Changes in internal controls over financial reporting

We did not have any change in our internal controls over financial reporting during the third quarter of 2006 that has materially affected, or is reasonably likely to affect, our internal controls over financial reporting.

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.

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.

In May 2006, we hired a new CFO, and over recent months, we have upgraded our corporate accounting and financial staffs with respect to certain key roles.

The relocation and changes in personnel described above have made the 2005 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.

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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 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.

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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 250,000 shares were being held by the third-party disbursing agent as of December 31, 2006 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

Recent reorganization

agreement are not discharged, impaired or affected in any way by our plan of reorganization, and we 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 December 31, 2006:

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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

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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 cyclicality 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 cyclicality 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.

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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 will be completed in phases, with one new heat treat furnace currently operating at full production, a second such furnace currently operational and expected to reach full production no later than early 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 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 and financial strength provide 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 chapter 11 bankruptcy reorganization. We also have net operating loss carry-forwards and other significant tax attributes that may reduce our future cash payments of U.S. income tax. We previously disclosed our belief that these tax attributes could together offset in the range of $555 to $900 million of otherwise taxable income, and we currently anticipate that, upon completion of our 2006 income tax return analysis, the amount of our tax attributes as of December 31, 2006 will likely be in the upper half of that range.

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 chapter 11 bankruptcy 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 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® 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® 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.

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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 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 are used in the vacuum chambers 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 nine months ended September 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 153.0 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 though 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

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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.

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 relatively short lead times. 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 nine months ended September 30, 2006, we had more than 550 and 525 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 42%, respectively, of our net sales for the nine months ended September 30, 2006. The increase in the percentage of our net sales to our largest fabricated products 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 nine months ended September 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, a large rectangular slab of aluminum, 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

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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 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

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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 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® 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.

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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 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. If Anglesey cannot obtain sufficient power, Anglesey s operations will likely be shut down. Given the potential for future shutdown and related costs, dividends from Anglesey have been suspended while Anglesey studies future cash requirements. The shutdown process may involve significant costs to Anglesey which would decrease or eliminate its ability to pay future 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.

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.

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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.
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 September 30, 2006, we had approximately 2,400 employees, of which approximately 2,360 were employed in the fabricated products operations and approximately 40 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 bankruptcy 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.

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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.

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 pre-petition 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 pre-petition 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 December 31, 2006.

Name	Age	Position(s)
Jack A. Hockema	60	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	78	Director
Carl B. Frankel	72	Director
Teresa A. Hopp	47	Director
William F. Murdy	64	Director
Alfred E. Osborne, Jr., Ph.D.	62	Director
Georganne C. Proctor	50	Director
Jack Quinn	55	Director
Thomas M. Van Leeuwen	50	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 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 INDEPENDENCE

Our board of directors was reconstituted upon our emergence from chapter 11 bankruptcy. Our corporate governance guidelines, adopted upon our emergence from chapter 11 bankruptcy, require that a majority of the members of our board of directors satisfy the independence requirements set forth in the Nasdaq Marketplace Rules and other applicable criteria of the National Association of Securities Dealers, or NASD. We refer to these requirements as the general independence criteria. Additionally, our audit committee charter, compensation committee charter and nominating and corporate governance committee charter, each adopted upon our emergence from chapter 11 bankruptcy, require that all respective committee members satisfy the general independence criteria.

Based upon information requested from and provided by each director concerning their background, employment and affiliations, including family relationships, our board of directors has determined that each of Messrs. Becker, Frankel, Murdy, Osborne, Quinn, Van Leeuwen and Wilcox and Mmes. Hopp and Proctor, representing nine of our ten directors, satisfy the general independence criteria and are independent within the meaning of such term under our corporate governance guidelines. In making such determination, the board of directors considered the relationships that each of the directors had with our company and all other facts and circumstances the board of directors deemed relevant in determining the independence of each of the directors in accordance with the general independence criteria, including the fees paid to such individuals for attending meetings prior to our emergence from chapter 11 bankruptcy and their formal appointment as directors.

Prior to our emergence from chapter 11 bankruptcy, we were not listed on a national securities exchange and, consequently, the members of our board of directors as constituted prior to our emergence from chapter 11 bankruptcy were not subject to independence requirements. However, our board of directors as constituted prior to emergence determined that, of its six members,

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Robert J. Cruikshank, Ezra G. Levin and John D. Roach satisfied the independence requirements standards set forth in both the Nasdaq Marketplace Rules and the New York Stock Exchange Listed Company Manual and that George T. Haymaker, Jr., Jack A. Hockema and Charles E. Hurwitz did not meet such independence standards. Prior to our emergence, Messrs. Cruikshank and Roach were members of our audit committee, Messrs. Cruikshank, Roach and Levin were members of our compensation policy committee and Mr. Cruikshank was the sole member of our Section 162(m) compensation committee. We did not have a nominating and corporate governance committee prior to our emergence from chapter 11 bankruptcy.

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, 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.

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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 general independence criteria;
- 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 qualified to serve thereon). A majority of the members of the executive committee must satisfy the general independence criteria as determined by the board of directors reasonably and in good faith. 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

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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 us or our 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 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 2006 Equity and Performance 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.

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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 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.

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EXECUTIVE COMPENSATION

The following discussion of executive compensation contains descriptions of various employee benefit plans and employment-related agreements. These descriptions are qualified in their entirety by reference to the full text or detailed descriptions of the plans and agreements which are filed as exhibits to our registration statement of which this prospectus forms a part.

Compensation discussion and analysis

Introduction

This section provides (1) an overview of the compensation committee of the board of directors, (2) a discussion of the background and objectives of our compensation programs for senior management, and (3) a discussion of all material elements of the compensation of each of the executive officers identified in the following table, whom we refer to as our named executive officers:

Name	Title
Jack A. Hockema	President and Chief Executive Officer (our principal executive officer)
Joseph P. Bellino	Executive Vice President and Chief Financial Officer (our principal financial officer)
John Barneson	Senior Vice President and Chief Administrative Officer
John M. Donnan	Vice President, Secretary and General Counsel
Daniel D. Maddox	Vice President and Controller (our principal accounting officer)
Kerry A. Shiba	Former Vice President and Chief Financial Officer (our former principal financial officer)

The year ended December 31, 2006 was a transition year for us. It was also a transition year for the board of directors and our compensation programs. On July 6, 2006, we emerged from chapter 11 bankruptcy, and a new board of directors selected by our pre-emergence creditors was installed at that time.

In contemplation of our emergence from chapter 11 bankruptcy, the individuals expected to serve on the compensation committee at emergence began an extensive review of all aspects of our executive compensation programs in early 2006. Based on their review and discussions with the other individuals expected to serve on the board of directors at emergence, a comprehensive compensation structure was approved for implementation upon our emergence.

Overview of the compensation committee

As indicated above, the compensation committee of the board of directors is comprised entirely of independent directors. The compensation committee s primary duties and responsibilities are to establish and implement our compensation policies and programs for senior management. The compensation committee has the authority under its charter to engage the services of outside advisors, experts and others to assist it and has engaged an outside compensation consultant to advise it on all matters related to compensation of our chief executive officer and other members of senior management. We refer to the outside compensation consultant engaged by the compensation committee as our outside compensation consultant.

Our chief executive officer, other members of our management and outside advisors may be invited to attend all or a portion of a compensation committee meeting depending on the nature of the agenda items. Neither our chief executive officer nor any other member of management votes on items before the compensation committee; however, the compensation committee and board of directors solicit the views of the chief executive officer on compensation matters, including as they relate to the compensation of the other named executive officers and members of senior management reporting to

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the chief executive officer, including the other named executive officers. The compensation committee also works with our senior management to determine the agenda for each meeting, and our human resources department, with the assistance of our outside advisors, prepares the meeting materials.

Objectives of our compensation program

The comprehensive compensation structure implemented upon our emergence from chapter 11 bankruptcy was developed based on the following objectives:

- Create alignment between senior management and stockholders by rewarding senior management for the achievement of strategic goals that successfully drive our operations and enhance stockholder value;
- Attract, motivate and retain highly experienced executives vital to our short-term and long-term success, profitability and growth;
- Differentiate senior management rewards based on actual performance; and
- Provide targeted compensation levels consistent with the 50th percentile of our compensation peer group, which is discussed below, for base salary, the 50th percentile for annual monetary incentives at target-level performance and between the 50th and the 65th percentile for annualized economic equity grant value of long-term incentives.

Design of our compensation program

The compensation program for senior management, including the named executive officers, is intended to reinforce the importance of performance and accountability at both the individual and corporate levels. In addition to focusing on pay for performance, our compensation program is designed to:

- Balance short-term and long-term goals (approximately 50% of the chief executive officer s target total compensation is delivered through long-term incentives, while approximately 40% of the target total compensation for the other named executive officers is delivered through long-term incentives);
- Deliver a mix of fixed and at-risk compensation (by design, approximately 70% of the chief executive officer s target total compensation and approximately 60% of the target total compensation for the other named executive officers is variable, *i.e.*, at-risk, annual and long-term incentive compensation) that is directly related to stockholder value and our overall performance;
- Provide guidelines for a compensation program that is competitive with our compensation peer group; and
- Use equity-based awards, stock ownership guidelines and annual incentives that are linked to stockholder value and achievement of individual, business unit and corporate performance.

Each element of compensation is reviewed individually and considered collectively with the other elements of our compensation program to ensure that it is consistent with the goals and objectives of both that particular element of compensation and our overall compensation program.

In designing the compensation program and in determining senior management compensation, including the compensation of the named executive officers, we also considered the following factors:

- The external challenges to our ability to attract and retain strong senior management;
- Each individual s contributions to our overall results;
- Our operating and financial performance compared with the targeted goals; and
- Our size and complexity compared with companies in our compensation peer group.

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We also use tally sheets that provide a summary of the compensation history of our chief executive officer and those members of senior management reporting to the chief executive officer. These tally sheets include a historical summary of base salary, annual bonus and long-term equity awards. They also provide a review of wealth and retirement accumulation as a result of employment with our company.

In developing the compensation structure that was effective upon our emergence from chapter 11 bankruptcy, we reviewed the compensation and benefit practices, as well as levels of pay, of a compensation peer group of companies. The selection of an appropriate peer group was an important part of the work performed by the individuals expected to serve on the compensation committee at emergence. Working closely with our outside compensation consultant, the companies selected were determined to: (1) be of a similar size; (2) have positions of similar complexity and scope of responsibility; and (3) compete with us for talent. The selected companies include companies in similar industries, as well as companies in different industries. While we will continue to review, evaluate and update the compensation peer group, for the compensation structure developed in 2006 in anticipation of our emergence from chapter 11 bankruptcy the compensation peer group consisted of 41 companies. As we developed the peer group, we also determined that it was appropriate to design programs that deliver total compensation between the 50th and 65th percentiles of the compensation peer group. However, we also recognize that we compete with much larger companies that aggressively recruit for the best qualified talent in particularly critical functions and that to attract and retain that talent, we may determine that it is in the best interests of our company and stockholders to provide packages that deviate from the targeted pay objectives.

Background of our compensation programs

This section will focus on 2006 compensation and our post-emergence compensation programs. It also addresses certain aspects of our key employee retention program, which was implemented in 2002 during our chapter 11 bankruptcy with the support of our creditors and approval of the bankruptcy court in order to meet the dual goals of (1) providing the retention incentives necessary to retain certain key employees who were expected to remain with us through our emergence from chapter 11 bankruptcy, assume the additional administrative and operational burdens imposed on us during chapter 11 bankruptcy and take the actions necessary to improve our operating performance and strategic positioning during the chapter 11 bankruptcy and (2) addressing the financial constraints and obligations to creditors faced by companies in chapter 11 bankruptcy. We refer to the key employee retention program as the Chapter 11 KERP. Among other elements, the Chapter 11 KERP included:

- a two-year retention plan (which we refer to as our Chapter 11 Retention Plan) that provided semi-annual retention payments to key employees through March 31, 2004, with a significant portion of those payments to certain senior employees, including Messrs. Hockema and Barneson, being withheld and paid, subject to certain conditions relating to continued employment, in two installments the first on the date of emergence and the second one year later, all as more fully described below (see Chapter 11 Retention Plan and footnote 8 under Summary compensation table for 2006);

- a long-term incentive plan (which we refer to as our Chapter 11 Long-Term Incentive Plan) designed to provide incentives for key employees to achieve cost reductions in excess of $80 million annually, with all awards earned being withheld and paid, subject to certain conditions relating to continued employment, in two installments the first on the date of emergence and the second one year later, all as more fully described below (see Long-term incentives and footnote 2 under Summary compensation table for 2006);

- a severance plan (which we refer to as our Severance Plan) and related agreements designed to provide key employees with job security in an uncertain environment, as more fully described below

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(see Employment contracts, termination of employment arrangements and change in control agreements and Employment-related agreements and certain employee benefit plans Severance Plan);

change-in-control severance agreements (which we refer to as Change in Control Agreements) intended to retain key employees through any potential merger or acquisition transaction, as more fully described below (see Employment contracts, termination of employment arrangements and change in control agreements and Employment-related agreements and certain employee benefit plans Change in control severance agreements); and

the continuance for key employees of our then-existing nonqualified, unfunded supplemental executive retirement plan (which we refer to as our Old Restoration Plan) intended to restore benefits that would be payable to participants in the Kaiser Aluminum Salaried Employees Retirement Plan, a defined benefit pension plan previously maintained by us for our salaried employees (which we refer to as our Old Pension Plan), but for legal limitations on benefit accruals and payments thereunder, as more fully described below (see Retirement benefits and Nonqualified deferred compensation for 2006).

Retention of our senior management was determined to be important to our successful emergence from chapter 11 bankruptcy. Implemented in 2002 with the support of creditors and approval of the bankruptcy court, a discussion of certain elements of the Chapter 11 KERP is relevant to any discussion of (1) compensation received by our named executive officers in 2006, (2) compensation accrued to our named executive officers during our chapter 11 bankruptcy, but payable in 2007, (3) the rights of our named executive officers upon termination of employment, and (4) the comprehensive compensation structure implemented upon our emergence from chapter 11 bankruptcy. This is particularly true because, as indicated above, several elements of the Chapter 11 KERP were designed to enhance retention of key employees by conditioning payments on continued employment and withholding payments until at and after our emergence.

Elements of compensation

Our compensation program currently consists of base salary, annual cash incentives, long-term incentives, retirement benefits and certain perquisites. In addition, we impose stock ownership requirements on senior management and provide for general severance and change-in-control protections for certain members of senior management, including each of the named executive officers. We have also entered into employment agreements with Messrs. Hockema, Bellino and Maddox.

Base salary

We review base salaries for our chief executive officer and those members of senior management reporting to the chief executive officer and determine if a change is appropriate. In reviewing base salaries, we consider several factors, including level of responsibility, prior experience, a comparison to base salaries paid for comparable positions in our compensation peer group and the relationship among base salaries paid within our company. Our intent is to fix base salaries at levels that we believe are consistent with our program design objectives, including the ability to attract, motivate and retain individuals in a competitive environment.

During 2006, we did not increase the base salary of Mr. Hockema or Mr. Donnan. Mr. Hockema s base salary remained at the same level as 2005 as part of the negotiation of his new employment agreement based on our analysis of competitive market practice. Mr. Donnan was promoted to his current position in 2005 and received a base salary increase at that time. In April 2006, each of Messrs. Barneson and Maddox received a base salary increase so that his salary level would be better aligned with the compensation structure that was being developed in contemplation of our emergence from chapter 11 bankruptcy. Mr. Shiba, who resigned effective January 23, 2006, did not receive a

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base salary increase in 2006. The base salary of Mr. Bellino, who joined us in May 2006, was negotiated based on our analysis of competitive market practice information provided by our outside compensation consultant. Base salaries for our named executive officers in 2006 were as follows:

Name	Amount of base salary increase for 2006	2006 Base salary
Jack A. Hockema		$ 730,000
Joseph P. Bellino		$ 350,000
John Barneson	$ 5,000	$ 280,000
John M. Donnan		$ 260,000
Daniel D. Maddox	$ 25,000	$ 225,000
Kerry A. Shiba		$ 270,000

Annual cash incentives

Our annual cash incentives link the compensation of participants directly to the accomplishment of specific business goals, as well as individual performance. Annual cash incentive compensation is intended to focus and reward individuals based on measures identified as having a positive impact on our annual business results. Our 2006 Short-Term Incentive Plan, a transition program based on historical programs using return on net assets and core cash flows, was designed to (i) focus attention on earnings before interest, taxes, depreciation and amortization, or EBITDA, from the fabricated products business unit in order to continue to tie compensation to returns on net assets and core cash flows, with modifiers for achievement of plan, individual performance and safety performance, (ii) reward achievement of aggressive performance goals, (iii) provide incentive opportunities consistent with those provided by companies in the compensation peer group, and (iv) link performance compensation to individual performance as well as our ability to pay. Average performance is not rewarded. When establishing our threshold performance incentive targets, the compensation committee reviews and discusses with both senior management and the full board of directors our business plan and its key underlying assumptions, expectations under then-existing and anticipated market conditions and the opportunity to generate stockholder value and then establishes the performance thresholds and targets for the year.

During 2006, we made nominal adjustments to the annual cash incentive targets for each of our named executive officers (other than Mr. Bellino and Mr. Shiba) based on our analysis of competitive market practice information provided by our outside compensation consultant. The annual cash incentive target of Mr. Bellino, who joined us in May 2006, was negotiated as part of his employment agreement and based on competitive market practice at that time. Mr. Shiba, who resigned effective January 23, 2006, did not participate in the 2006 Short-Term Incentive Plan. The table below sets forth the approximate payouts, stated as a percentage of base salary, that can be earned by our named executive officers (other than Mr. Shiba), under our 2006 Short-Term Incentive Plan at each performance level.

Name	Below threshold	Threshold	Target	Maximum
Jack A. Hockema	0%	34.25%	68.50%	205.50%
Joseph P. Bellino	0%	25.00%	50.00%	150.00%
John Barneson	0%	22.50%	45.00%	135.00%
John M. Donnan	0%	22.50%	45.00%	135.00%
Daniel D. Maddox	0%	16.67%	33.33%	100.00%

A monetary incentive target for each participant is established for annual cash incentive compensation based on a percentage of base salary (generally determined based on the 50th percentile of our

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compensation peer group, internal compensation balance and position responsibilities). The monetary incentive targets are generally set at the beginning of each annual performance period. For determining compensation under the 2006 Short-Term Incentive Plan, EBITDA will be determined in March 2007 based on our 2006 results subject to any adjustments approved by the compensation committee. These adjustments may spread extraordinary items over a period of years based upon the recommendation of our chief executive officer and the approval of the compensation committee. The resulting award multiple may then be adjusted within a range of plus or minus 10 percent based upon fabricated products safety performance.

Each participant s base award is determined by multiplying his or her monetary incentive target by the award multiple. Based on the fabricated products EBITDA and safety performance, as well as business unit and individual performance, a participant s monetary award can be modified, in the aggregate, up to plus or minus 100 percent of the incentive target or base award (as set forth in the table above for our named executive officers), subject to an overall cap on the aggregate award of three times target. A cash pool is established based upon the award multiple multiplied by the sum of individual monetary incentive targets for all plan participants. Although individual monetary awards may be adjusted up or down, the entire cash pool is paid to participants. While 2006 results are not yet available, based on our results through the third quarter, we currently estimate the 2006 award multiple to be between 1.5 to 2.5 of the target percentage or base award.

Long-term incentives

Upon our emergence from chapter 11 bankruptcy in July 2006, our Chapter 11 Long-Term Incentive Plan adopted in 2002 as part of the Chapter 11 KERP terminated and Messrs. Hockema, Bellino, Barneson, Donnan and Maddox each received an emergence grant of restricted stock under our 2006 Equity and Performance Incentive Plan (which we refer to as our Equity Incentive Plan). We determined that the emergence grants to senior management were appropriate since our primary concerns upon emergence were to retain senior management, including the named executive officers (other than Mr. Shiba), and to immediately align the interests of senior management with the interests of our stockholders. We also wanted to recognize and reward the commitment and efforts of members of senior management through the four and one-half years we were in chapter 11 bankruptcy and their ability during that period to both grow our fabricated products business and complete a restructuring that allowed us to emerge with a strong balance sheet and platform for future growth. We accomplished our objectives by providing stock ownership of approximately two percent of the outstanding common stock in the aggregate to members of senior management.

The size of the emergence grants was developed based on extensive data provided by our outside compensation consultant on emergence grant practices at other companies emerging from chapter 11 bankruptcy. Mr. Bellino, who joined us in May 2006, did not receive an emergence grant but did receive a grant of shares of restricted stock under the Equity Incentive Plan based on an analysis of competitive market practice for a normal annual grant and the terms of his employment agreement. Mr. Shiba, who resigned effective January 23, 2006, did not receive a grant of restricted stock under

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the Equity Incentive Plan. The table below summarizes the grants made to our named executive officers (other than Mr. Shiba) under the Equity Incentive Plan in July 2006:

Name	Number of shares restricted stock	Percentage of outstanding shares
Jack A. Hockema	185,000	.90%
Joseph P. Bellino	15,000	.07%
John Barneson	48,000	.23%
John M. Donnan	45,000	.22%
Daniel D. Maddox	11,334	.06%

Recognizing that our business is cyclical and that the market value of the common stock may fluctuate during business cycles, we also intended the grants to provide an incentive for the named executive officers and other members of senior management to remain with us throughout business cycles. Through the issuance of restricted stock with three-year cliff vesting to our named executive officers and other members of senior management, the recipients do not become unconditionally entitled to receive any of those shares until July 6, 2009, subject to certain exceptions related to the termination of employment. Finally, while we view the emergence grants as a one-time event, we will take the emergence grants into account in the design of future programs and awards.

We have not yet determined the form of long-term incentive compensation that we will use in 2007, the form of grants (*i.e.*, whether it will consist of restricted stock, stock options, performance shares or other equity-based awards) or the applicable performance thresholds. That work is ongoing and, similar to the process we follow to establish annual cash incentives, includes discussions between the compensation committee and our outside compensation consultant with respect to the design and terms of the grants, as well as discussions between and among the compensation committee, senior management and the full board of directors with respect to the design and terms of the grants and our performance and compensation objectives over the long-term period. For each of Messrs. Hockema and Bellino, the target cash economic value of his annual long-term award starting in 2007 was negotiated as part of his employment agreement and based on competitive market practice. As part of the negotiation of Mr. Hockema s agreement, the target cash economic value of his annual long-term incentive was reduced from approximately $1.5 million to $1.2 million.

As indicated below, each of the named executive officers (other than Mr. Bellino, who joined us in May 2006) received payments under our Chapter 11 Long-Term Incentive Plan. The Chapter 11 Long-Term Incentive Plan, which is described in more detail below, terminated upon our emergence from chapter 11 bankruptcy. Under the Chapter 11 Long-Term Incentive Plan, key management employees, including Messrs. Hockema, Barneson, Donnan, Maddox and Shiba, were eligible to receive an annual cash award based on sustained cost reductions above $80 million annually for the four and one-half year period from 2002 through emergence. Awards accrued on an annual basis during this period in a range between approximately (16%) to 81% of target, with an average accrual of approximately 55% of target over the four and one-half year period. Because the Chapter 11 Long-Term Incentive Plan was based on sustained cost reductions and continuation of employment through emergence, no amounts were paid or payable to the named executive officers until emergence. At emergence, each of Messrs. Hockema, Barneson, Donnan and Maddox received approximately one-half of his award, with the remaining portion of the award payable in a lump sum on July 6, 2007 unless his employment is terminated by us for cause or voluntarily terminated by him prior to that date. Mr. Shiba, who resigned effective January 23, 2006, received his total award in early 2006 pursuant to the terms of a release entered into between him and us in connection with his resignation.

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Stock ownership guidelines

Stock ownership guidelines were introduced upon our emergence from chapter 11 bankruptcy in July 2006, as part of our comprehensive compensation structure, in order to further align the interests of senior management, including the named executive officers, with those of our stockholders. Under the guidelines, members of our senior management are expected to hold common stock having a value equal to a multiple of their base salary as determined by their position. The guidelines contemplate a multiple of five times base salary for Mr. Hockema, and three times base salary for the other named executive officers. Each member of senior management covered by our stock ownership guidelines is expected to retain at least 75 percent of the net shares resulting from equity compensation awards until he or she achieves the applicable ownership level contemplated by the stock ownership guidelines. For purposes of these guidelines, stock ownership includes shares over which the holder has direct or indirect ownership or control, including restricted stock and restricted stock units, but does not include unexercised stock options. The ownership guidelines are expected to be met within five years. The compensation committee reviews compliance with the guidelines on an annual basis. Based on the grants of restricted stock in July 2006 and the reported closing price for our common stock on the Nasdaq Global Market on December 29, 2006, each named executive officer owns common stock above the applicable stock ownership requirements under the stock ownership guidelines.

Retirement benefits

We no longer maintain a defined benefit pension plan or retiree medical program that covers members of senior management. Retirement benefits to our senior management, including the named executive officers, are currently provided through two principal plans: (1) the Kaiser Aluminum Savings and Investment Plan, a tax-qualified profit-sharing and 401(k) plan (which we refer to as our Savings Plan), and (2) a nonqualified, unfunded and unsecured deferred compensation plan (which we refer to as our New Restoration Plan) intended to restore benefits that would be payable to participants in the Savings Plan but for the limitations on benefit accruals and payments imposed by the Internal Revenue Code. Each of these plans is discussed more fully below. Although these plans provide reduced benefits to members of senior management when compared to the benefits available prior to and during our chapter 11 bankruptcy, we believe that they support the objectives of our post-emergence comprehensive compensation structure, including the ability to attract and retain senior and experienced mid- to late-career executives for critical positions within our organization.

In April 2005, we implemented a new defined contribution retirement program for salaried employees, to be effective as of May 1, 2005. The program was intended to replace our Old Pension Plan, which was terminated by the Pension Benefit Guaranty Corporation, or PBGC, on December 17, 2003, but with lower costs and risks to us and reduced benefits to the participants. The new defined contribution retirement program has three primary components, which are discussed more fully below: (1) a company match of the employee s pre-tax deferrals under our Savings Plan; (2) a company contribution to the employee s account under our Savings Plan; and (3) a company contribution to the employee s account under the New Restoration Plan. A decision with respect to the implementation of the third component was deferred for consideration by the post-emergence board of directors in the context of the implementation of our post-emergence comprehensive compensation structure. Our New Restoration Plan was adopted upon emergence from chapter 11 bankruptcy.

The implementation of the New Restoration Plan included the transfer, rather than distribution (as had been contemplated by the Chapter 11 KERP), of the lump-sum equivalent of the accrued benefits for the remaining participants under the Old Restoration Plan into the New Restoration Plan. The table below summarizes the balances that were transferred into the New Restoration Plan from the Old Restoration Plan for Messrs. Hockema, Barneson, Donnan and Maddox. Mr. Shiba, who resigned effective January 23, 2006, and Mr. Bellino, who joined us in May 2006, did not participate in the New Restoration Plan in 2006.

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Name	Balance transferred to the New Restoration Plan
Jack A. Hockema	$964,718
John Barneson	$887,366
John M. Donnan	$54,851
Daniel D. Maddox	$41,416

Under the terms of the New Restoration Plan, these balances were transferred to a rabbi trust where they remain subject to the claims of our creditors and are otherwise invested in funds designated by each individual from a menu of possible investments.

Perquisites

During 2006, all of our named executive officers received a vehicle allowance and all (except Messrs. Donnan and Maddox) were reimbursed for admission to, and the dues for, a club membership. Additionally, we reimbursed the legal fees and expenses incurred by Mr. Hockema in connection with the negotiation and consummation of his employment agreement and the housing and other expenses incurred by Mr. Bellino in connection with his relocation to California upon joining us. Our use of perquisites as an element of compensation is limited and is largely based on historical practices and policies of our company. We do not view perquisites as a significant element of our comprehensive compensation structure but do believe that they can be used in conjunction with base salary to attract, motivate and retain individuals in a competitive environment.

Chapter 11 Retention Plan

As part of the Chapter 11 KERP, we also adopted the Chapter 11 Retention Plan, a retention plan with certain key employees, including Messrs. Hockema, Barneson, Donnan and Maddox, which continued through the first two years of our restructuring. Although the Chapter 11 Retention Plan was not extended beyond March 31, 2004, portions of the payments to Messrs. Hockema and Barneson under the Chapter 11 Retention Plan through that date were withheld to further enhance the retention aspects of the Chapter 11 KERP. For Messrs. Hockema and Barneson, $730,000 and $250,000, respectively, of accrued awards payable under the Chapter 11 Retention Plan were withheld for subsequent payment. One-half of the withheld amount was paid in a lump sum in August 2006 following our emergence from chapter 11 bankruptcy. The remaining one-half is expected to be paid in a lump sum on July 6, 2007, subject to the continued employment of Messrs. Hockema and Barneson as more fully discussed below.

Employment contracts, termination of employment arrangements and change-in-control arrangements

As discussed more fully below, we have entered into employment agreements with Messrs. Hockema, Bellino and Maddox. Our decisions to enter into employment agreements and the terms of those agreements were based on the facts and circumstances at the time and an analysis of competitive market practice. With respect to Messrs. Hockema and Bellino, we worked with our outside compensation consultant and determined that employment agreements and the negotiated terms of those agreements were consistent with market practice. We also determined that entering into an employment agreement with Mr. Hockema was important to provide an economic incentive for Mr. Hockema to delay his retirement until at least July 2011, improve our ability to retain other key members of senior management and provide assurance to our customers and other stakeholders of the continuity of senior management for an extended period beyond our emergence from chapter 11 bankruptcy. With respect to Mr. Maddox, who lives in Houston, Texas where we were formerly headquartered and who expressed his desire to remain in Houston, we determined that it was important to provide an incentive for Mr. Maddox to remain with our company through at least

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March 2007 in order to help facilitate and complete the transition of our accounting function to our current headquarters in Foothill Ranch, California and the training of his replacement. In each case, we determined that the agreements and the terms of those agreements were in the best interests of our company and stockholders.

Also, as discussed more fully below, we provide all named executive officers with benefits related to certain terminations of employment, including in connection with a change in control, by us without cause and by the named executive officer with good reason. These protections for all the named executive officers (other than Mr. Bellino, who joined us in May 2006 just prior to our emergence from chapter 11 bankruptcy and, accordingly, did not participate in the Chapter 11 KERP) and other members of senior management were supported by our creditors and approved by the bankruptcy court as part of the Chapter 11 KERP. Importantly, these protections limit our ability to downwardly adjust certain aspects of compensation, including base salaries and target incentive compensation, without triggering the ability of the affected named executive officer to receive termination benefits. Mr. Hockema s protection is now part of his employment agreement, replacing the similar protection previously available to him under Chapter 11 KERP agreements. Similarly, Mr. Bellino s protection is part of his employment agreement. We view these severance protection benefits as an important component of the total compensation package for each of our named executive officers. In our view, having these protections helps to maintain the named executive officer s objectivity in decision-making and provides another vehicle to align the interests of our named executive officer with the interests of our stockholders.

Tax deductibility

Section 162(m) of the Internal Revenue Code limits the deductibility of compensation in excess of $1 million paid to our chief executive officer and our four other highest-paid executive officers unless certain specific and detailed criteria are satisfied. We believe that it is often desirable and in our best interests to deduct compensation payable to our executive officers. In this regard, we consider the anticipated tax treatment to our company and our executive officers in the review and establishment of compensation programs and payments. While no assurance can be given that compensation will be fully deductible under Section 162(m), we will continue to evaluate steps that we can take to increase or otherwise preserve deductibility. In the interim, we have determined that we will not seek to limit compensation to that deductible under Section 162(m), particularly in light of the substantial net operating loss carry-forwards that we expect to be available to us to offset taxable income.

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Summary compensation table for 2006

The table below sets forth information regarding 2006 compensation for our named executive officers: (1) Jack A. Hockema, our President, Chief Executive Officer and Chairman of the Board; (2) Joseph P. Bellino, our Executive Vice President and Chief Financial Officer (who joined us in May 2006); (3) each of John Barneson, John M. Donnan and Daniel D. Maddox, our three other most highly compensated executive officers (based on total compensation for 2006); and (4) Kerry A. Shiba, our former Vice President and Chief Financial Officer (who resigned effective January 23, 2006). As indicated below and more fully explained in footnote 3, the table below does not reflect earnings under our 2006 Short-Term Incentive Plan.

Name and principal position	Year	Salary	Stock awards(1)	Non-equity incentive plan compensation(2)(3)	Change in pension value and nonqualified deferred compensation earnings(4)	All other compensation	Total
Jack A. Hockema President, Chief Executive Officer and Chairman of the Board	2006	$730,000	$ 1,301,167	$ 1,649,440(5)	$ 8,403	$ 539,556(6)(7)(8)(9)	$ 4,228,566
Joseph P. Bellino Executive Vice President and Chief Financial Officer	2006	$220,018	$ 105,500	(5)		$ 39,119(6)(7)(10)	$ 364,637
John Barneson Senior Vice President and Chief Administrative Officer	2006	$278,750	$ 337,600	$ 346,938(5)	$ 5,020	$ 191,942(6)(7)(8)(11)	$ 1,160,250
John M. Donnan Vice President, Secretary and General Counsel	2006	$260,000	$ 316,500	$ 104,554(5)	$ (603)	$ 41,897(6)(7)(12)	$ 722,348
Daniel D. Maddox Vice President and Controller	2006	$222,917	$ 318,863	$ 114,043(5)	$ (256)	$ 36,971(6)(7)(13)	$ 692,538
Kerry A. Shiba	2006	$17,386		$ 253,511(5)	$ 884	$ 433,646(6)(14)	$ 705,427

Vice President
and Chief
Financial Officer

(1) *Reflects the value of restricted stock awards granted to our named executive officers under our Equity Incentive Plan on July 6, 2006 in connection with our emergence from chapter 11 bankruptcy based on the compensation cost of the award with respect to our 2006 fiscal year computed in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, which we refer to as SFAS No. 123-R, but excluding any impact of assumed forfeiture rates. The number of shares of restricted stock received by our named executive officers pursuant to such awards was as follows: Mr. Hockema, 185,000; Mr. Bellino, 15,000; Mr. Barneson, 48,000; Mr. Donnan, 45,000; and Mr. Maddox, 11,334. The table reflects the expense recognized for each named*

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executive officer (other than Messrs. Maddox and Shiba) for the six-month portion of the three-year vesting period for the restricted stock extending from our emergence date through December 31, 2006, computed in accordance with SFAS No. 123-R, but excluding any impact of assumed forfeiture rates, based on (a) a per share value at emergence of $42.20 and (b) the total number of shares of restricted stock received by the named executive officer. The table reflects the expense recognized for Mr. Maddox computed in accordance with SFAS No. 123-R, but excluding any impact of assumed forfeiture rates, based on (a) a per share value at emergence of $42.20, (b) the total number of shares of restricted stock received by him, (c) the assumptions that his employment will terminate and that his shares of restricted stock will vest on March 31, 2007, and (d) the six-month portion of the assumed nine-month vesting period for his restricted stock extending from our emergence date through December 31, 2006. Mr. Shiba, who resigned effective January 23, 2006, did not receive a restricted stock award.

(2) Reflects payments under our Chapter 11 Long-Term Incentive Plan, pursuant to which key management employees accrued cash awards based on our attainment of sustained cost reductions above $80 million annually for the four and one-half year period from 2002 through our emergence from chapter 11 bankruptcy on July 6, 2006.

(3) Does not reflect earnings under our 2006 Short-Term Incentive Plan, pursuant to which key management employees earned cash awards based on the financial and safety performance of our fabricated products business unit, the performance of the particular business unit to which the employee was assigned and individual performance objectives, because earnings under our 2006 Short-Term Incentive Plan are not presently calculable. Amounts earned by Messrs. Hockema, Bellino, Barneson, Donnan and Maddox under our 2006 Short-Term Incentive Plan are expected to be determined in March 2007, at which time they will be disclosed by us in a Current Report on Form 8-K filed with the SEC. As indicated above, although 2006 results are not yet available, based on our results through the third quarter, we currently estimate that the 2006 award multiple will be between 1.5 and 2.5 of the target percentage or award and, accordingly, that individual awards will be between 1.5 and 2.5 times an individual s incentive target percentage or award, before taking into account any adjustments for individual performance and applicable modifiers. Mr. Shiba, who resigned effective January 23, 2006, did not participate in our 2006 Short-Term Incentive Plan.

(4) Reflects the aggregate change in actuarial present value of the named executive officer s accumulated benefit under our Old Pension Plan during 2006 calculated by (a) assuming mortality according to the RP-2000 Combined Health mortality table published by the Society of Actuaries and (b) applying a discount rate of 5.50% per annum to determine the actuarial present value of the accumulated benefit at December 31, 2005 and a discount rate of 5.75% per annum to determine the actuarial present value of the accumulated benefit at December 31, 2006. Effective December 17, 2003, the PBGC terminated and effectively assumed responsibility for making benefit payments in respect of our Old Pension Plan, whereupon all benefit accruals under the Old Pension Plan ceased and benefits available thereunder to certain salaried employees, including Messrs. Hockema and Barneson, were significantly reduced due to the limitations on benefits payable by the PBGC. Above-market or preferential earnings are not available under our New Restoration Plan, which is our only plan or arrangement pursuant to which compensation may be deferred on a basis that is not tax-qualified, or any of our other benefit plans.

(5) Reflects amounts paid under our Chapter 11 Long-Term Incentive Plan in 2006. For each of Messrs. Hockema, Barneson, Donnan and Maddox, these amounts represent approximately one-half of the total amounts accrued under our Chapter 11 Long-Term Incentive Plan during the four and one-half year period from 2002 through

our emergence from chapter 11 bankruptcy on July 6, 2006; for Mr. Shiba, the amount represents the total amount accrued. The total amounts accrued under our Chapter 11 Long-Term Incentive Plan during the four and one-half year period for Messrs. Hockema, Barneson, Donnan and Maddox were as follows: Mr. Hockema, $3,298,880; Mr. Barneson, $693,876; Mr. Donnan, $208,575; and Mr. Maddox, $227,228.

(footnotes continued on following page)

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Individual amounts accrued by year for Messrs. Hockema, Barneson, Donnan and Maddox were as follows: Mr. Hockema, $2,324,557 in 2002 and 2003, $918,818 in 2004, ($240,819) in 2005 and $296,324 in 2006; Mr. Barneson, $466,534 in 2002 and 2003, $214,391 in 2004, ($56,191) in 2005 and $69,142 in 2006; Mr. Donnan, $146,045 in 2002 and 2003, $55,129 in 2004, ($32,109) in 2005 and $39,510 in 2006; and Mr. Maddox, $162,274 in 2002 and 2003, $61,255 in 2004, ($16,055) in 2005 and $19,755 in 2006. Annual awards during this period were approximately 81% of target in 2002 and 2003; 61% of target in 2004; (16%) of target in 2005; and 40% of target in 2006, with an average award of approximately 55% of target over the four and one-half year period. For each of Messrs. Hockema, Barneson, Donnan and Maddox, the 2006 payments under our Chapter 11 Long-Term Incentive Plan were made in August 2006 following our emergence and the remaining portion of the total amount (subject to adjustment in accordance with the terms of the Chapter 11 Long-Term Incentive Plan) will be paid on July 6, 2007 unless he is terminated for cause or voluntarily terminates his employment prior to that date. For Mr. Shiba, pursuant to the terms of a release entered into between him and us in connection with his resignation, the total was paid in early 2006. Mr. Bellino, who joined us in May 2006, did not participate in our Chapter 11 Long-Term Incentive Plan.

(6) Includes contributions made by us under our Savings Plan, as follows: Mr. Hockema, $22,883; Mr. Barneson, $24,225; Mr. Donnan, $21,133; and Mr. Maddox, $20,240. We did not make contributions under our Savings Plan to Mr. Shiba, who resigned effective January 23, 2006, or Mr. Bellino, who joined us in May 2006.

(7) Includes contributions made by us under our New Restoration Plan which is intended to restore the benefit of contributions that we would have otherwise paid to participants under our Savings Plan but for limitations imposed by the Internal Revenue Code, as follows: Mr. Hockema, $105,037; Mr. Barneson, $27,873; Mr. Donnan, $9,809; and Mr. Maddox, $5,579. Mr. Shiba, who resigned effective January 23, 2006, and Mr. Bellino, who joined us in May 2006, did not participate in our New Restoration Plan.

(8) Includes amounts paid to Messrs. Hockema and Barneson under our Chapter 11 Retention Plan in 2006 as follows: Mr. Hockema, $365,000; and Mr. Barneson, $125,000. For each of Messrs. Hockema and Barneson, these amounts represent approximately one-half of the total retention payments withheld from Messrs. Hockema and Barneson under the Chapter 11 Retention Plan. The total amounts withheld from Messrs. Hockema and Barneson were as follows: Mr. Hockema, $730,000; and Mr. Barneson, $250,000. The 2006 payments under our Chapter 11 Retention Plan were made in August 2006 following our emergence from chapter 11 bankruptcy and the remaining portion of the total amount withheld from each of Messrs. Hockema and Barneson will be paid on July 6, 2007 unless he is terminated for cause or voluntarily terminates his employment prior to that date.

(9) Includes the cost to us of perquisites and other personal benefits for Mr. Hockema as follows: club membership dues, $6,875; legal fees and expenses incurred by Mr. Hockema in connection with the negotiation and consummation of his employment agreement with us, $25,191; and vehicle allowance, $14,570.

(10) Includes the cost to us of perquisites and other personal benefits for Mr. Bellino as follows: club membership dues, $3,040; housing and other expenses associated with his relocation to California, $27,840; and vehicle allowance, $8,239.

(11) Includes the cost to us of perquisites and other personal benefits for Mr. Barneson as follows: club membership dues, $4,385; and vehicle allowance, $10,459.

(12)

Includes the cost to us of perquisites and other personal benefits for Mr. Donnan as follows: vehicle allowance, $10,955.

(13) Includes the cost to us of perquisites and other benefits for Mr. Maddox as follows: vehicle allowance, $11,152.

(14) Includes $431,777 paid or accrued to Mr. Shiba pursuant to the release entered into between him and us in connection with his resignation (exclusive of amounts earned by him under our Chapter 11 Long-Term Incentive Plan (see Note 4 above) and amounts referred to in the next

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sentence). Also includes the cost to us of perquisites and other personal benefits for Mr. Shiba as follows: club membership dues, $1,210; and vehicle allowance, $659.

As reflected in the table above, the salary received by each of our named executive officers as a percentage of their respective total compensation during 2006 was as follows: Mr. Hockema, 17.3%; Mr. Bellino (who joined us in May 2006), 60.3%; Mr. Barneson, 24.0%; Mr. Donnan, 36.0%; Mr. Maddox, 32.2%; and Mr. Shiba (who resigned effective January 23, 2006), 2.5%.

Grants of plan-based awards in 2006

The table below sets forth information regarding grants of plan-based awards made to our named executive officers during 2006.

		Estimated future payouts under non-equity incentive plan awards(1)			All other stock awards: number of shares of stock or units(2)	Grant date fair value of stock awards(3)
Name	Grant date	Threshold ($)	Target ($)	Maximum ($)	(#)	($)
Jack A. Hockema		$ 250,025	$ 500,050	$ 1,500,150		
	7/6/06				185,000	$ 7,807,000
Joseph P. Bellino		$ 87,500	$ 175,000	$ 525,000		
	7/6/06				15,000	$ 633,000
John Barneson		$ 63,000	$ 126,000	$ 378,000		
	7/6/06				48,000	$ 2,025,600
John M. Donnan		$ 58,500	$ 117,000	$ 351,000		
	7/6/06				45,000	$ 1,899,000
Daniel D. Maddox		$ 37,500	$ 75,000	$ 225,000		
	7/6/06				11,334	$ 478,295
Kerry A. Shiba						

(1) Reflects the threshold, target and maximum award amounts under our 2006 Short-Term Incentive Plan for our named executive officers. No awards are available below the threshold performance level. Mr. Shiba, who resigned effective January 23, 2006, did not participate in our 2006 Short-Term Incentive Plan. Under our 2006 Short-Term Incentive Plan, participants may receive a cash incentive award between one-half and three times the participant s target award amount. As indicated above, although 2006 results are not yet available, based on our results through the third quarter, we currently estimate that the 2006 award multiple will be between 1.5 and 2.5 of the target percentage or award and, accordingly, that individual awards will be between 1.5 and 2.5 times an individual s incentive target percentage or award, before taking into account any adjustments for individual performance and applicable modifiers.

(2) Reflects the number of shares of restricted stock received by our named executive officers pursuant to awards granted under our Equity Incentive Plan on July 6, 2006 in connection with our emergence from chapter 11 bankruptcy. The restrictions on all such shares will lapse on July 6, 2009 or earlier if the named executive

officer s employment terminates as a result of death or disability, the named executive officer s employment is terminated by us without cause, the named executive officer s employment is voluntarily terminated by him for good reason or if there is a change in control or, in the case of Mr. Maddox, his employment is terminated (other than by us for cause) upon the conclusion of his employment agreement. Mr. Shiba, who resigned effective January 23, 2006, did not receive a restricted stock award.

(footnotes continued on following page)

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(3) The grant date fair value of the restricted stock awards reflected in this table is computed in accordance with SFAS No. 123-R, but excluding any impact of assumed forfeiture rates, based on (a) a per share value at our emergence from chapter 11 bankruptcy of $42.20 and (b) the total number of shares of restricted stock awarded.

Employment-related agreements and certain employee benefit plans

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 continued 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 under our 2006 Short-Term Incentive Plan 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. If Mr. Hockema s employment terminates other than on a date which is the last day of a fiscal year, then his annual short-term incentive target with respect to the fiscal year in which his employment terminates will be prorated for the actual number of days of employment during such fiscal year, and such amount will be paid to Mr. Hockema or his estate unless his employment was terminated by us for cause or was voluntarily terminated by him without good reason. Under the employment agreement, Mr. Hockema received a grant of 185,000 shares of restricted stock on July 6, 2006 under our Equity Incentive Plan; the restrictions on all such shares will lapse on July 6, 2009 or earlier if his employment is terminated as a result of his death, disability or retirement, his employment is terminated by us without cause or his employment is voluntarily terminated by him with good reason, or if there is a change in control. Starting in 2007, he will be entitled to receive annual equity awards (such as restricted stock, stock options or performance shares) with a target cash 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 must provide for full vesting at retirement and pro rata vesting upon any other termination of his employment except termination by us for cause or voluntary termination by him without good reason. 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 benefit plans for salaried employees.

Under Mr. Hockema s employment agreement, following any termination of his employment, we must pay or provide to Mr. Hockema or his estate:

- base salary earned through the date of such termination;
- except in the case of a termination by us for cause or by him other than for good reason, earned but unpaid incentive awards;
- accrued but unpaid vacation;
- benefits under our employment benefit plans to the extent vested and not forfeited on the date of such termination; and
- benefit continuation and conversion rights to the extent provided under our employment benefit plans.

In addition, if Mr. Hockema s employment is terminated as a result of his death or disability, all of his outstanding equity awards will vest in accordance with their terms, subject to the provisions described above, and all of his vested but unexercised grants will remain exercisable through the second anniversary of such termination. If Mr. Hockema s employment is terminated by us for cause or is

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voluntarily terminated by him without good reason, all of his unvested equity grants will be forfeited and all of his vested but unexercised equity grants will be forfeited on the date that is 90 days following such termination. If Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him with good reason, in addition to the payment of his accrued benefits as described above, (1) we will make a lump-sum payment to Mr. Hockema in an amount equal to two times the sum of his base salary and annual short-term incentive target, (2) his medical, dental, vision, life insurance and disability benefits, which we refer to as welfare benefits, will continue for two years commencing on the date of such termination, and (3) all of his outstanding equity awards will vest in accordance with their terms, subject to the provisions described above, and all of his vested but unexercised grants will remain exercisable through the second anniversary of such termination.

If there is a change in control of our company, all of Mr. Hockema s equity awards outstanding as of the date of such change in control will fully vest. If Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him with good reason within two years following a change in control, in addition to the payments of his accrued benefits as described above, (1) we will make a lump-sum payment to Mr. Hockema in an amount equal to three times the sum of his base salary and annual short-term incentive target, (2) his welfare benefits will continue for three years commencing on the date of such termination, and (3) all previously unvested equity grants will become exercisable and vested but unexercisable grants will remain exercisable through the second anniversary of such termination. If any payments to Mr. Hockema would be subject to federal excise tax by reason of being considered contingent on a change in control, we must pay to Mr. Hockema an additional amount such that, after satisfaction of all tax obligations imposed on such payments, Mr. Hockema retains an amount equal to such federal excise tax. Mr. Hockema will be subject to noncompetition, nonsolicitation and confidentiality restrictions following his termination of employment.

For quantitative disclosure regarding estimated payments and other benefits that would have been received by Mr. Hockema or his estate if his employment had terminated on December 29, 2006, the last business day of 2006, under various circumstances, see Potential payments and benefits upon termination of employment.

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 continued 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 us 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 under our 2006 Short-Term Incentive Plan 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. If Mr. Bellino s employment terminates other than on a date which is the last day of a fiscal year, then his annual short-term incentive target with respect to the fiscal year in which his employment terminates will be prorated for the actual number of days of employment during such fiscal year, and such amount will be paid to Mr. Bellino or his estate unless his employment was terminated by us for cause or was voluntarily terminated by him without good reason. Under the employment agreement, Mr. Bellino received an initial grant of 15,000 shares of restricted stock on July 6, 2006 under our Equity Incentive Plan; the restrictions on all such shares will lapse on July 6, 2009 or earlier if his employment is terminated as a result of his death, disability or retirement, his employment is terminated by us without cause or his employment is voluntarily terminated by him with good reason, or if there is a change in control. Starting in 2007, he will be entitled to receive annual equity awards (such as restricted stock, stock

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options or performance shares) with a target cash 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. 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 benefit plans for salaried employees.

Under Mr. Bellino s employment agreement, following any termination of his employment, we must pay or provide to Mr. Bellino or his estate:

- base salary earned through the date of such termination;
- except in the case of a termination by us for cause or by him other than for good reason, earned but unpaid incentive awards;
- accrued but unpaid vacation;
- benefits under our employment benefit plans to the extent vested and not forfeited on the date of such termination; and
- benefit continuation and conversion rights to the extent provided under our employment benefit plans.

In addition, if Mr. Bellino s employment is terminated as a result of his death or disability, all of his outstanding equity awards will vest in accordance with their terms, subject to the provisions described above, and all of his vested but unexercised grants will remain exercisable through the second anniversary of such termination. If Mr. Bellino s employment is terminated by us for cause or is voluntarily terminated by him without good reason, all of his unvested equity grants will be forfeited and all of his vested but unexercised equity grants will be forfeited on the date that is 90 days following such termination. If Mr. Bellino s employment is terminated by us without cause or is voluntarily terminated by him with good reason, in addition to the payment of his accrued benefits as described above, (1) we will make a lump-sum payment to Mr. Bellino in an amount equal to two times the sum of his base salary and annual short-term incentive target, (2) his welfare benefits will continue for two years commencing on the date of such termination, and (3) all of his outstanding equity awards will vest in accordance with their terms, subject to the provisions described above, and all of his vested but unexercised grants will remain exercisable through the second anniversary of such termination.

If there is a change in control of our company, all of Mr. Bellino s equity awards outstanding as of the date of such change in control will fully vest. If Mr. Bellino s employment is terminated by us without cause or is voluntarily terminated by him with good reason within two years following a change in control, in addition to the payments of his accrued benefits as described above, (1) we will make a lump-sum payment to Mr. Bellino in an amount equal to three times the sum of his base salary and annual short-term incentive target, (2) his welfare benefits will continue for three years commencing on the date of such termination, and (3) all previously unvested equity grants will become exercisable and vested but unexercisable grants will remain exercisable through the second anniversary of such termination. If any payments to Mr. Bellino would be subject to federal excise tax by reason of being considered contingent on a change in control, we must pay to Mr. Bellino an additional amount such that, after satisfaction of all tax obligations imposed on such payments, Mr. Bellino retains an amount equal to such federal excise tax.

Mr. Bellino will be subject to noncompetition, nonsolicitation and confidentiality restrictions following his termination of employment.

For quantitative disclosure regarding estimated payments and other benefits that would have been received by Mr. Bellino or his estate if his employment had terminated on December 29, 2006, the last

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business day of 2006, under various circumstances, see Potential payments and benefits upon termination of employment.

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 continued 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 under our 2006 Short-Term Incentive Plan is equal to $75,000, subject to being 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 grant of 11,334 shares of restricted stock on July 6, 2006 under our Equity Incentive Plan; the terms of the restricted stock grant to Mr. Maddox are similar to the terms of restricted stock grants made to other senior executives on July 6, 2006. The term of his employment agreement continues until the earlier of a mutually agreed upon termination date and March 31, 2007. If Mr. Maddox s employment is terminated (other than by death or disability or by us for cause) 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. In addition, if Mr. Maddox s employment is terminated (other than by us for cause) upon the conclusion of this agreement, the restrictions on his 11,334 shares of restricted stock will lapse. Mr. Maddox also participates in the various retirement and benefit plans for salaried employees.

For quantitative disclosure regarding payments and other benefits that would have been received by Mr. Maddox or his estate if his employment had terminated on December 29, 2006, the last business day of 2006, under various circumstances, see Potential payments and benefits upon termination of employment.

Severance Plan

Effective September 3, 2002, in connection with the commencement of our chapter 11 bankruptcy and the implementation of the Chapter 11 KERP, we adopted our Severance Plan to provide selected executive officers, including Messrs. Hockema, Barneson, Donnan, Maddox and Shiba, 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 above replaces his participation in the Severance Plan and supersedes his severance agreement. Mr. Shiba s resignation effective January 23, 2006 did not trigger rights under the Severance Plan or his severance agreement. The Severance Plan and related severance agreements terminate on July 6, 2007.

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

- the participant receives severance compensation or welfare benefit continuation pursuant to a Change in Control Agreement (described below);
- the participant s employment is terminated other than by us without cause or by the participant for good reason; or
- the participant declines to sign, or subsequently revokes, a designated form of release.

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In consideration for the severance payment and continuation of welfare 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) their base salaries. In addition, welfare benefits are continued for a period of two years (for Mr. Barneson) or one year (for Messrs. Donnan and Maddox) following termination of employment.

For quantitative disclosure regarding estimated payments and other benefits that would have been received by each of Messrs. Barneson, Donnan and Maddox or his estate if his employment had terminated on December 29, 2006, the last business day of 2006, under various circumstances, see Potential payments and benefits upon termination of employment.

Change in control severance agreements

In 2002, in connection with the commencement of our chapter 11 bankruptcy and the implementation of the Chapter 11 KERP, we also entered into Change in Control Agreements with certain key executives, including Messrs. Hockema, Barneson, Donnan, Maddox and Shiba, 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 otherwise provided, a significant restructuring. Mr. Hockema s employment agreement discussed above supersedes his Change in Control Agreement. Mr. Shiba s resignation effective January 23, 2006 did not trigger rights under 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 welfare benefits upon termination of employment in certain circumstances. The participants are eligible for severance benefits if their employment is terminated by us without cause or by the participant with good reason 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 (including Messrs. Donnan and Maddox but excluding Mr. Barneson) also are eligible for severance benefits if their employment is terminated by us due to a significant restructuring even when there has been no change in control. These benefits are not available if:

- the participant receives severance compensation or welfare benefit continuation pursuant to the Severance Plan or any other prior agreement;
- the participant s employment is terminated other than by us 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, each of 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

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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, welfare 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.

In general, if any payments would be subject to federal excise tax or any similar state or local tax by reason of being considered contingent on a change in control, the participant will be entitled to receive an additional amount such that, after satisfaction of all tax obligations imposed on such payments, the participant retains an amount equal to the federal excise tax or similar state or local tax imposed on such payments. However, if no such federal excise tax or similar state or local tax would apply if the aggregate payments were reduced by 5%, then the aggregate payments to the participant will be reduced by the amount necessary to avoid application of such federal excise tax or similar state or local tax.

For quantitative disclosure regarding estimated payments and other benefits that would have been received by each of Messrs. Barneson, Donnan and Maddox or his estate if his employment had terminated on December 29, 2006, the last business day of 2006, under various circumstances, see Potential payments and benefits upon termination of employment.

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 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 $687,157 in the aggregate, including payments of his earned awards under our Chapter 11 Long-Term Incentive Plan, his earned short-term incentive award for 2005 and his accrued unpaid vacation, payments of COBRA premiums for his medical and dental coverage and payments in respect of certain perquisites. The release also provides for a mutual release and subjects Mr. Shiba to certain noncompetition, nondisclosure and nonsolicitation obligations.

Equity Incentive Plan

On July 6, 2006, upon our emergence from chapter 11 bankruptcy and the implementation of our plan of reorganization, our Equity Incentive Plan became effective. The Equity Incentive Plan is an omnibus plan that facilitates the issuance of future long-term incentive awards as part of our comprehensive compensation structure and is administered by a committee of non-employee directors of our board of directors, currently the compensation committee.

Our officers and other key employees, as selected by the compensation committee are eligible to participate in the Equity Incentive Plan. As of December 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 shares have been issued to our directors, officers and key employees and were outstanding as of December 31, 2006.

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

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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.

Our board of directors may, in its discretion, terminate the Equity Incentive Plan at any time. The termination of the Equity Incentive Plan would 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 or appreciation right to reduce the exercise price or base price. Furthermore, no option will be cancelled and replaced with awards having a lower exercise price without further approval of the stockholders.

During 2006, we granted restricted stock awards to various officers (including our named executive officers), key employees and directors under our Equity Incentive Plan. Under these awards, each participant received shares of our common stock that are subject to certain transfer restrictions and risk of forfeiture. Prior to the restrictions thereon lapsing, the participant may not sell, transfer, pledge, assign or take any similar action with respect to the shares of restricted stock which the participant owns. Once the restrictions lapse with respect to shares of restricted stock, the participant owning such shares will hold freely-transferable shares, subject only to any restrictions on transfer contained in our certificate of incorporation, bylaws and insider trading policies, as well as any applicable federal or state securities laws. Despite the restrictions, each participant will have full voting rights and will receive any dividends or other distributions, if any, with respect to the shares of restricted stock which the participant owns.

The restrictions on the restricted stock granted to our named executive officers and non-employee directors will lapse on July 6, 2009 and August 1, 2007, respectively. However, the restrictions will lapse immediately upon a change in control, upon the participant s death or disability if the participant was still employed by us or serving as one of our directors at such time or, in the case of Messrs. Hockema and Bellino, upon his retirement. Further, the restrictions on the restricted stock granted to our employees will lapse if the participant s employment is terminated by us without cause or by the participant for good reason. If the participant s employment or service as a director should terminate for any reason other than those described above, the participant will forfeit his or her restricted stock award, unless the board of directors determines all or any portion of the restricted stock grant held by the participant will vest. In addition, under Mr. Maddox s employment agreement, the restrictions on his restricted stock will lapse upon the termination of his employment (other than by us for cause) at the conclusion of his employment agreement.

Chapter 11 Long-Term Incentive Plan

During 2002, in connection with the commencement of our chapter 11 bankruptcy and the implementation of the Chapter 11 KERP, we adopted our Chapter 11 Long-Term Incentive Plan, pursuant to which key management employees, including Messrs. Hockema, Barneson, Donnan, Maddox and Shiba, became eligible to receive an annual cash award based on our attainment of sustained cost reductions above $80 million annually for the period 2002 through our emergence from chapter 11 bankruptcy on July 6, 2006. Under the Chapter 11 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. Annual awards during this period ranged between approximately (16%) to 81% of target, with an average award of approximately 55% of target over the four and one-half year period. In general, approximately one-half of the award payable under the Chapter 11 Long-Term Incentive Plan was paid to participants in August 2006 and the remaining portion of the award will be paid to participants on July 6, 2007, unless the participant s employment is terminated by us for cause or is voluntarily terminated by such participant (other than at normal retirement) prior to that date. The July 6, 2007 payments are subject to adjustment up or down to the extent that there are fewer participants at such time or there is a change in the size of the cost reduction pool prior to such time. Pursuant to the terms of a release entered into between Mr. Shiba and us in connection with his resignation, all amounts earned by Mr. Shiba under the Chapter 11 Long-Term Incentive Plan were paid to him in early 2006.

2006 Short-Term Incentive Plan

On July 6, 2006, upon our emergence from chapter 11 bankruptcy, our compensation committee approved our 2006 Short-Term Incentive Plan for key managers. Incentive awards under the 2006 Short-Term Incentive Plan are based upon:

- the fabricated products business unit s EBITDA;
- the fabricated products business unit s safety performance as measured by total case incident rate;
- performance of the particular business to which a participant is assigned; and
- individual performance objectives.

Under the 2006 Short-Term Incentive Plan, a participant may receive an incentive award between zero to three times the individual s target amount.

Under the 2006 Short-Term Incentive Plan, in general, any participant who voluntarily terminated his or her employment (other than for good reason) or who was terminated by us for cause prior to December 31, 2006 forfeited his or her award. A participant will be entitled to a pro-rated award under the 2006 Short-Term Incentive Plan if his or her employment terminated during 2006 but prior to December 31, 2006 and his or her employment was terminated as a result of death, disability, normal retirement or full early retirement (position elimination), was involuntarily terminated by us other than for cause or was terminated by the participant for good reason. A participant will be entitled to the full payment of his or her award if his or her employment terminated on or after December 31, 2006, unless such termination was by us for cause, in which case he or she would forfeit the award.

Savings Plan

We sponsor a tax-qualified profit sharing and 401(k) plan, our Savings Plan, in which eligible salaried employees may participate. Pursuant to the Savings Plan, employees may elect to reduce their current annual compensation up to the lesser of 75% or the statutorily prescribed limit of $15,500 in calendar year 2007 (plus up to an additional $5,000 in the form of catch-up contributions for participants near retirement age), and have the amount of any reduction contributed to the 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 the Savings Plan and income earned on contributions are not taxable to employees until withdrawn from the Savings Plan and so that contributions will be deductible by us when made. We match 100% of the amount an employee contributes to the Savings Plan, subject to a 4% maximum based on the employee s compensation as defined in the Savings Plan.

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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

For our employees who were first 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 the 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 $45,000 in 2007 (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 independent trustee of the Savings Plan invests the assets of the Savings Plan as directed by participants.

Chapter 11 Retention Plan

Effective September 3, 2002, in connection with the commencement of our chapter 11 bankruptcy and the implementation of the Chapter 11 KERP, we adopted the Chapter 11 Retention Plan and entered into retention agreements with selected key employees, including Messrs. Hockema, Barneson, Donnan, Maddox and Shiba. In general, awards payable under the Chapter 11 Retention Plan vested, as applicable, on September 30, 2002, March 31, 2003, September 30, 2003 and March 31, 2004. The Chapter 11 Retention Plan was not extended beyond March 2004. Except with respect to payments of the withheld amounts (as described below) to Messrs. Hockema and Barneson, no payments were made after March 31, 2004 and no further payments are payable under the Chapter 11 Retention Plan. For Messrs. Hockema and Barneson, $730,000 and $250,000, respectively, of accrued awards payable under the Chapter 11 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 unless the named executive officer s employment is terminated by us for cause or is voluntarily terminated by such named executive officer prior to that date.

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Outstanding equity awards at December 31, 2006

The table below sets for the information regarding restricted stock awards held by our named executive officers as of December 31, 2006.

	Stock Awards	
Name	Number of shares or units of stock that have not vested(1) (#)	Market value of shares or units of stock that have not vested(2) ($)
Jack A. Hockema	185,000	$ 10,356,300
Joseph P. Bellino	15,000	$ 839,700
John Barneson	48,000	$ 2,687,040
John M. Donnan	45,000	$ 2,519,100
Daniel D. Maddox	11,334	$ 634,477
Kerry A. Shiba		

(1) *Reflects the number of shares of restricted stock received by our named executive officers pursuant to awards granted under our Equity Incentive Plan on July 6, 2006 in connection with our emergence from chapter 11 bankruptcy. The restrictions on all such shares will lapse on July 6, 2009 or earlier if the named executive officer s employment terminates as a result of death or disability (or, in the case of Messrs. Hockema and Bellino, retirement), the named executive officer s employment is terminated by us without cause, the named executive officer s employment is voluntarily terminated by him for good reason or if there is a change in control or, in the case of Mr. Maddox, his employment is terminated (other than by us for cause) upon the conclusion of his employment agreement. Mr. Shiba, who resigned effective January 23, 2006, did not receive a restricted stock award.*

(2) *Reflects the aggregate market value of the shares of restricted stock determined based on a per share price of $55.98, the reported closing price for our common stock on the Nasdaq Global Market on December 29, 2006, which was the last trading day of 2006.*

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Pension benefits as of December 31, 2006

The table below sets forth information regarding the present value as of December 31, 2006 of the accumulated benefits of our named executive officers (other than Mr. Bellino) under our Old Pension Plan. As discussed further below, our Old Pension Plan was terminated on December 17, 2003, at which time the number of years of credited service for participants was frozen. Mr. Bellino joined us in May 2006 and did not participate in the Old Pension Plan prior to its termination.

Name	Plan name	Number of years credited service (#)		Present value of accumulated benefit[1] ($)
Jack A. Hockema	Kaiser Aluminum Salaried Employees Retirement Plan	11.92	$	293,262
John Barneson	Kaiser Aluminum Salaried Employees Retirement Plan	28.83	$	269,372
John M. Donnan	Kaiser Aluminum Salaried Employees Retirement Plan	10.25	$	129,390
Daniel D. Maddox	Kaiser Aluminum Salaried Employees Retirement Plan	7.58	$	94,867
Kerry A. Shiba	Kaiser Aluminum Salaried Employees Retirement Plan	5.58	$	91,016

(1) *Reflects the actuarial present value of the named executive officer s accumulated benefit under our Old Pension Plan at December 31, 2006 determined (a) assuming mortality according to the RP-2000 Combined Health mortality table published by the Society of Actuaries and (b) applying a discount rate of 5.75% per annum.*

The Old Pension Plan previously maintained by us was a qualified, defined-benefit retirement plan for our salaried employees who met certain eligibility requirements. Effective December 17, 2003, the PBGC terminated and effectively assumed responsibility for making benefit payments in respect of the Old Pension Plan. As a result of the termination, all benefit accruals under the Old Pension 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. 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.

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Nonqualified deferred compensation for 2006

The table below sets forth, for each of our named executive officers, information regarding his participation in our New Restoration Plan during 2006.

Name	Registrant contributions in last FY(1)	Aggregate earnings in last FY(2)	Aggregate balance at last FYE(3)
Jack A. Hockema	$ 105,037	$ 26,051	$ 1,095,806
Joseph P. Bellino			
John Barneson	$ 27,873	$ 19,102	$ 934,341
John M. Donnan	$ 9,809	$ 7,359	$ 72,018
Daniel D. Maddox	$ 5,579	$ 1,144	$ 48,140
Kerry A. Shiba			

(1) In each case, 100% of such amount is included in the All Other Compensation column of the summary compensation table above. See Summary Compensation table for 2006.

(2) Amounts included in this column do not include above-market or preferential earnings (of which there were none) and, accordingly, such amount is not included in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the summary compensation table above. See Summary Compensation table for 2006.

(3) Includes amounts accrued under the Old Restoration Plan and transferred to accounts under the New Restoration Plan upon its adoption in connection with our emergence from chapter 11 bankruptcy, as follows: Mr. Hockema, $964,718; Mr. Barneson, $887,366; Mr. Donnan, $54,851; and Mr. Maddox, $41,416. Mr. Shiba, who resigned effective January 23, 2006, did not participate in the New Restoration Plan and, accordingly, the amount of benefits accrued to him under the Old Restoration Plan was not transferred to the New Restoration Plan. Mr. Bellino, who joined us in May 2006, did not participate in the New Restoration Plan in 2006.

The New Restoration Plan is a plan we sponsor in which a select group of our management and highly compensated employees may participate. Eligibility to participate in our New Restoration Plan is determined by the compensation committee, which currently administers the New Restoration Plan. The purpose of our New 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 the New Restoration Plan and contributions to a participant s New Restoration Plan account to restore benefits under the Savings Plan are made generally in the manner described below:

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

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the matching contributions that we could have made to that participant s account under the 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 the Savings Plan in light of the limitations imposed by the Internal Revenue Code.

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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 New Restoration Plan for that year. However, matching contributions under the New Restoration Plan are calculated as though the participant elected to make the maximum permissible elective contributions under the Savings Plan sufficient to receive the maximum matching contribution from us under the Savings Plan, without regard for the participant s actual elective contributions. Participants are immediately vested 100% in our matching contributions to the New Restoration Plan.

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

A participant is entitled to distributions six months following his or her termination of service, except that any participant who is terminated for cause will forfeit the entire amount of matching and fixed-rate contributions made by us to that participant s account under the New Restoration Plan.

The Restoration Plan was deemed effective as of May 1, 2005, the date on which the accrual of benefits under the Old Restoration Plan was terminated. The lump-sum actuarial equivalent amount of the benefit accrued to a participant under the Old Restoration Plan has been transferred to such participant s account under the New Restoration Plan.

We may amend or terminate these matching and fixed-rate contributions at any time by an appropriate amendment to our New Restoration Plan. The value of each participant s account under our New Restoration Plan changes based upon the performance of the funds designated by the participant from a menu of various money market and investment funds.

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Potential payments and benefits upon termination of employment

This section sets forth for each named executive officer (other than Mr. Shiba) quantitative disclosure regarding estimated payments and other benefits that would have been received by the named executive officer or his estate if his employment had terminated on December 29, 2006, the last business day of 2006, under the following circumstances:

- voluntary termination by the named executive officer;
- termination by us for cause;
- termination by us without cause or by the named executive officer with good reason;
- termination by us without cause or by the named executive officer with good reason following a change in control;
- termination at normal retirement;
- termination as a result of disability; or
- termination as a result of death.

Mr. Shiba, who resigned effective January 23, 2006, was not serving as one of our executive officers at the end of 2006 and, in lieu of all benefits to which Mr. Shiba might otherwise have been entitled and in consideration of his satisfaction of certain post-termination obligations, Mr. Shiba received payments in accordance with the terms of the release entered into by him and us in connection with his resignation. See Employment-related agreements and certain employee benefit plans Release with Kerry A. Shiba for a more detailed discussion of such payments.

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JACK A. HOCKEMA

Circumstances of Termination

Payments and benefits	Voluntary termination by named executive officer	Termination by us for cause	Termination by us without cause or by the named executive officer with good reason	Termination by us without cause or by the named executive officer with good reason following a change in control	Normal retirement	Disability	Death
Payment of earned but unpaid:							
Base salary(1)							
Long-term incentive(2)			$ 1,649,440	$ 1,649,440	$ 1,649,440	$ 1,649,440	$ 1,649,440
Short-term incentive(3)			$ 497,310	$ 497,310	$ 497,310	$ 497,310	$ 497,310
Retention payment(4)			$ 365,000	$ 365,000	$ 365,000	$ 365,000	$ 365,000
Vacation(5)	$ 56,154	$ 56,154	$ 56,154	$ 56,154	$ 56,154	$ 56,154	$ 56,154
Other benefits:							
Lump-sum payment			$ 2,460,100(6)	$ 3,690,150(7)			
Healthcare benefits			$ 29,880(8)	$ 45,474(8)			
Disability benefits			$ 13,450(9)	$ 18,212(9)		$ 710,856(10)	
Life insurance			(11)	(11)			(12)
Perquisites and other personal benefits							
Tax gross-up(13)				$ 4,393,426			
Acceleration of stock awards:							
Market value of stock			$ 10,356,300	$ 10,356,300	$ 10,356,300	$ 10,356,300	$ 10,356,300

vesting on termination(14)							
Distribution of New Restoration Plan balance:							
Amount of distribution (15)	$ 1,095,806	$	$ 1,095,806	$ 1,095,806	$ 1,095,806	$ 1, 095,806	$ 1,095,806
Total	$ 1,151,960	$ 56,154	$ 16,523,440	$ 22,167,272	$ 14,020,010	$ 14,730,866	$ 14,020,010

(1) *Assumes that there is no earned but unpaid base salary at the time of termination.*

(2) *Under our Chapter 11 Long-Term Incentive Plan, we must pay Mr. Hockema or his estate the remaining portion of the total amount accrued by Mr. Hockema thereunder on July 6, 2007 unless he is terminated by us for cause or he voluntarily terminates his employment (other than at normal retirement) prior to that date. The $1,649,440 amount reflected in the table is based on computations made in connection with the 2006 payments under the Chapter 11 Long-Term Incentive Plan and assumes no decrease in the number of plan participants or adjustment to the cost reduction pool prior to July 6, 2007.*

(3) *Under our 2006 Short-Term Incentive Plan, Mr. Hockema s target award for 2006 is $500,050, but his award can range from a threshold of $250,000 to a maximum of $1,500,150, or could be zero if the threshold performance is not achieved. The exact amount of Mr. Hockema s award under our 2006 Short-Term Incentive Plan cannot be determined at this time. Pursuant to*

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Mr. Hockema s employment agreement, we must pay Mr. Hockema or his estate any earned but unpaid amounts under our 2006 Short-Term Incentive Plan unless he is terminated by us for cause or he voluntarily terminates his employment other than for good reason. Under Mr. Hockema s employment agreement, if his employment had terminated during 2006 but prior to December 31, 2006 Mr. Hockema s target award for 2006 under our 2006 Short-Term Incentive Plan would have been prorated for the actual number of days of Mr. Hockema s employment in 2006 and Mr. Hockema would have been entitled to payment of such amount, without any increase or reduction that would normally be considered with his award, unless his employment had been terminated by us for cause or had been voluntarily terminated by him other than for good reason; accordingly, assuming his employment had terminated on December 29, 2006, the last business day of 2006, we would have been obligated to pay Mr. Hockema $497,310 unless his employment had been terminated by us for cause or had been voluntarily terminated by him other than for good reason. Under Mr. Hockema s employment agreement, if his employment had terminated on December 31, 2006, the last day of our 2006 fiscal year, Mr. Hockema would have been entitled to full payment of his award under the 2006 Short-Term Incentive Plan unless his employment had been terminated by us for cause or had been voluntarily terminated by him other than for good reason. Solely for purposes of this note, we estimate that Mr. Hockema s award under our 2006 Short-Term Incentive Plan will be between $750,075 and $1,250,125 (with a midpoint of $1,000,000), before taking into account any adjustments for individual performance or applicable modifiers. We believe this is a reasonable estimate of the potential range of Mr. Hockema s award based on our results through the third quarter of 2006.

(4) Under our Chapter 11 Retention Plan, we must pay Mr. Hockema or his estate $365,000 on July 6, 2007 unless his employment is terminated by us for cause or is voluntarily terminated by him (other than at normal retirement) prior to that date.

(5) Assumes that Mr. Hockema used all of his 2006 vacation and that he has four weeks of accrued vacation for 2007.

(6) Under Mr. Hockema s employment agreement, if Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him for good reason, we must make a lump-sum payment to Mr. Hockema in an amount equal to two times the sum of his base salary and target annual bonus opportunity for the fiscal year in which such termination occurs.

(7) Under Mr. Hockema s employment agreement, if Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him for good reason within two years following a change in control, we must make a lump-sum payment to Mr. Hockema in an amount equal to three times the sum of his base salary and target annual bonus.

(8) Under Mr. Hockema s employment agreement, if Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him for good reason, we must continue his medical and dental benefits for two years, or, if such termination occurs within two years following a change in control, three years, commencing on the date of such termination. The table reflects the present value of such medical and dental benefits at December 29, 2006 determined (a) assuming family coverage in a point of service medical plan and a basic dental plan, (b) based on current COBRA coverage rates for 2007 and assuming a 9% increase in the cost of medical coverage for 2008 as compared to 2007, an 8.5% increase in the cost of medical coverage for 2009 as compared to 2008 and a 6% increase in the cost of dental coverage for 2008 as compared to 2007 and for 2009 as compared to 2008, (c) assuming Mr. Hockema pays premiums for such coverage throughout the

applicable benefit continuation period in the same manner as if he were an active employee, and (d) applying a discount rate of 5.75% per annum.

(9) Under Mr. Hockema s employment agreement, if Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him for good reason, we must continue his disability benefits for two years, or, if such termination occurs within two years following a change in control, three years, commencing on the date of such termination. The table reflects

(footnotes continued on following page)

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the present value of such disability benefits at December 29, 2006 determined (a) based on our current costs of providing such benefits and assuming such costs do not increase during the applicable benefit continuation period, (b) assuming we pay such costs throughout the applicable benefit continuation period in the same manner as we currently pay such costs, (c) assuming mortality according to the RP-2000 Combined Health mortality table published by the Society of Actuaries, and (d) applying a discount rate of 5.75% per annum.

(10) Reflects the actuarial present value of Mr. Hockema s disability benefits at December 29, 2006 determined (a) assuming full disability at December 29, 2006, (b) assuming mortality according to the RP-2000 Disabled Retiree mortality table published by the Society of Actuaries, and (c) applying a discount rate of 5.75% per annum.

(11) Under Mr. Hockema s employment agreement, if Mr. Hockema s employment is terminated by us without cause or is voluntarily terminated by him for good reason, we must continue his life insurance benefits for two years, or, if such termination occurs within two years following a change in control, three years, commencing on the date of such termination. Mr. Hockema has declined life insurance coverage. Accordingly, we would not be obligated to provide Mr. Hockema with life insurance benefits for the applicable benefit continuation period.

(12) No life insurance benefit would have been payable assuming Mr. Hockema s death occurred on December 29, 2006 other than while traveling on company-related business. However, we maintain a travel and accidental death policy for certain employees, including Mr. Hockema, that would provide a $1,000,000 death benefit payable to Mr. Hockema s estate if his death had occurred during company-related travel.

(13) Under Mr. Hockema s employment agreement, if any payments to Mr. Hockema would be subject to federal excise tax by reason of being considered contingent on a change in control, we must pay to Mr. Hockema an additional amount such that, after satisfaction of all tax obligations imposed on such payments, Mr. Hockema retains an amount equal to such federal excise tax. The table reflects an estimate of the additional amount that we would have been obligated to pay Mr. Hockema if his employment had been terminated on December 29, 2006 by us without cause or by him with good reason following a change in control on such date.

(14) Reflects the aggregate market value of the shares of restricted stock for which restrictions would lapse early due to Mr. Hockema s termination, determined based on a per share price of $55.98, the reported closing price for our common stock on the Nasdaq Global Market on December 29, 2006, which was the last trading day of 2006. The restrictions on all shares of restricted stock currently held by Mr. Hockema will lapse on July 6, 2009 or earlier if his employment terminates as a result of his death, disability or retirement, his employment is terminated by us without cause or his employment is voluntarily terminated by him for good reason, or if there is a change in control.

(15) Under our New Restoration Plan, Mr. Hockema is entitled to a distribution of his account balance six months following his termination, except that he will forfeit the entire amount of matching and fixed rate contributions made by us to his account if he is terminated for cause.

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JOSEPH P. BELLINO

Circumstances of Termination

Payments and benefits	Voluntary termination by named executive officer	Termination by us for cause	Termination by us without cause or by the named executive officer with good reason	Termination by us without cause or by the named executive officer with good reason following a change in control	Normal retirement	Disability	Death
Payment of earned but unpaid:							
Base salary(1)							
Long-term incentive(2)							
Short-term incentive(3)			$ 174,041	$ 174,041	$ 174,041	$ 174,041	$ 174,041
Retention payment(4)							
Vacation(5)	$ 26,923	$ 26,923	$ 26,923	$ 26,923	$ 26,923	$ 26,923	$ 26,923
Other benefits:							&