BERG CHARLES
Form 4
April 03, 2019

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

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

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
BERG CHARLES

(Last) (First) (Middle)

C/O DAVITA INC., 2000 16TH STREET

(Street)

DENVER, CO 80202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
DAVITA INC. [DVA]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/01/2019		A		437	A	$ 0	7,349	D	
Common Stock								7,047	I	By Charles G. Berg 2016 Family Trust U/A DTD 02/05/2016

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form

SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BERG CHARLES C/O DAVITA INC. 2000 16TH STREET DENVER, CO 80202	X			

Signatures

/s/ James K. Hilger, Attorney-in-Fact	04/03/2019
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. > 15,806

Interest income

(1,670) (714) (593)

Unrealized losses (gains) on derivative financial instruments

18,648 (4,235) (284)

Other expense (income), net

1,643 498 43

Equity in net loss (earnings) of affiliates

1,560 267 (789)

Fees on receivables sale

843

Income (loss) before income taxes and minority interests

75,238 (16,139) (1,496)

Provision for (benefit from) income taxes

424 7,484 (1,244)

Income (loss) before minority interests

74,814 (23,623) (252)

Minority interests, net of provision for income taxes

466 214 560

Net income (loss)	$74,348	$(23,837)	$(812)
Net earnings (loss) per common share:			
Basic	$2.44	$(1.51)	$(0.06)
Diluted	$2.38	$(1.51)	$(0.06)
Weighted average shares outstanding:			
Basic	30,448	15,793	14,473
Diluted	31,252	15,793	14,473

See Notes to Consolidated Financial Statements.

ALERIS INTERNATIONAL INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the year ended December 31		
	2005	**2004**	**2003**
Operating activities:			
Net income (loss)	$ 74,348	$ (23,837)	$ (812)
Depreciation and amortization	54,952	30,627	29,687
(Benefit from) provision for deferred income taxes	(5,701)	223	(4,066)
Equity in net loss (earnings) of affiliates	1,560	267	(789)
Restructuring and other charges:			
Expenses	29,865	14,912	5,905
Payments	(5,898)	(5,070)	
Deferred compensation expense	3,455	2,248	841
Unrealized losses (gains) on derivative financial instruments	18,648	(4,235)	(284)
Other non-cash charges	4,546	8,754	3,259
Changes in operating assets and liabilities, excluding effects of acquired businesses:			
Accounts receivable	(23,372)	(2,931)	11,879
Accounts receivable sold			(61,300)
Inventories	(56,940)	(23,307)	(12,639)
Other assets	9,567	(3,244)	726
Accounts payable and accrued liabilities	(2,753)	7,696	19,341
Net cash provided by (used in) operating activities	**102,277**	**2,103**	**(8,252)**
Investing activities:			
Payments for property and equipment	(62,115)	(44,825)	(20,807)
Proceeds from sale of property and equipment	5,431	72	105
Purchase of businesses, net of cash acquired	(317,696)	6,050	14,488
Other	482	(186)	992
Net cash used in investing activities	**(373,898)**	**(38,889)**	**(5,222)**
Financing activities:			
Net proceeds from (payments on) long-term revolving credit facility	212,413	17,806	(61,009)
Proceeds from issuance of long-term debt	29,132	137,434	145,569
Payments on long-term debt	(1,170)	(125,000)	
Change in restricted cash	9,824	12,984	(24,846)
Settlement of VAW-IMCO redemption liability			(26,046)
Minority interests	(690)	(405)	(930)
Debt issuance costs	(1,844)	(10,374)	(11,553)
Proceeds from exercise of stock options	13,576	6,116	
Other	76	155	(474)
Net cash provided by financing activities	**261,317**	**38,716**	**20,711**
Effect of exchange rate differences on cash and cash equivalents	(702)	1,138	648

Net (decrease) increase in cash and cash equivalents	(11,006)	3,068	7,885
Cash and cash equivalents at beginning of period	17,828	14,760	6,875
Cash and cash equivalents at end of period	**$ 6,822**	**$ 17,828**	**$ 14,760**
Supplementary information:			
Cash payments for interest	$ 38,422	$ 25,110	$ 8,414
Cash payments for income taxes, net of refunds received	$ 10,691	$ 9,554	$ 4,168

See Notes to Consolidated Financial Statements.

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ALERIS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands)

	Common stock	Additional paid-in capital	Deferred compensation	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders equity
Balance at January 1, 2003	$ 1,714	$ 103,958	$ (3,099)	$ 46,218	$ (9,830)	$ (22,097)	$ 116,864
Comprehensive income:							
Net loss				(812)			(812)
Other comprehensive income (loss):							
Deferred hedging gain/(loss), net of tax of $868					1,418		1,418
Currency translation adjustments					3,587		3,587
Comprehensive income							4,193
Issuance of common stock for services	2	92					94
Exercise of stock options		(15)				33	18
Issuance of non-vested stock		(760)	(1,800)			2,560	
Deferred compensation expense		96	746				842
Stock issued in connection with ESPP		(107)				252	145
Other						(411)	(411)
Balance at December 31, 2003	$ 1,716	$ 103,264	$ (4,153)	$ 45,406	$ (4,825)	$ (19,663)	$ 121,745
Comprehensive loss:							
Net loss				(23,837)			(23,837)
Other comprehensive income (loss):							
Deferred hedging gain/(loss), net of tax of $828					(4,122)		(4,122)
Minimum pension liability adjustment, net of tax of $979					(1,532)		(1,532)
Currency translation adjustments					6,259		6,259
Comprehensive loss							(23,232)
Issuance of common stock for services		68					68
Exercise of stock options		(1,280)				7,396	6,116
Issuance of common stock for vested stock units		419				1,803	2,222
Forfeiture of non-vested stock		777	824			(1,601)	
Deferred compensation expense			3,511				3,511
Stock issued in connection with ESPP		(80)				218	138
Acquisition of Commonwealth Industries, Inc.	1,361	174,675	(3,934)				172,102
Balance at December 31, 2004	$ 3,077	$ 277,843	$ (3,752)	$ 21,569	$ (4,220)	$ (11,847)	$ 282,670
Comprehensive loss:							
Net income				74,348			74,348
Other comprehensive income (loss):							
Deferred hedging gain/(loss), net of tax of $9,172					17,736		17,736
Minimum pension liability adjustment, net of tax of $769					(1,634)		(1,634)
Currency translation adjustments					(6,601)		(6,601)
Comprehensive income							83,849
Issuance of common stock for services	1	146					147

Exercise of stock options, including tax benefits of $9,625	41	14,128				9,032	23,201
Deferred compensation expense			3,531				3,531
Stock issued in connection with ESPP	1	111				126	238
Unearned compensation related to issuance of non-vested common stock	7	3,498	(5,691)			2,186	
Purchase of common stock for treasury						(309)	(309)
Other	(3)	(58)				503	442
Balance at December 31, 2005	$ 3,124	$ 295,668	$ (5,912)	$ 95,917	$ 5,281	$ (309)	$ 393,769

See Notes to Consolidated Financial Statements.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)

A. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The principal business of Aleris International, Inc. (Aleris) involves the production of rolled aluminum products as well as the recycling of aluminum and production of specification alloys. We are also involved in the recycling of zinc and the manufacture of zinc oxide and zinc dust. Our aluminum sheet products are sold to distributors and customers serving the transportation, construction, and consumer durables end-use industry segments. Our aluminum and zinc recycling operations consist primarily of purchasing scrap metal on the open market, recycling the metal and selling it in molten or ingot form as well as recycling customer-owned aluminum scrap for a fee (tolling). Our recycling customers are some of the world s largest aluminum, steel and automotive companies.

Basis of Presentation and Use of Accounting Estimates

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our most significant estimates relate to the valuation of property and equipment and goodwill, assumptions and methodology for assessing hedge effectiveness regarding aluminum, zinc and natural gas futures contracts, forward contracts and options, assumptions for computing pension and postretirement benefits, workers compensation, medical and environmental liabilities as well as deferred tax valuation allowances and allowances for uncollectible accounts receivable.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aleris and our entire majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. Investments in affiliated companies, owned 50% or less, are accounted for using the equity method.

Reclassifications

In 2005, we changed the presentation of the unrealized gains and losses on derivative financial instruments to reflect these amounts as a separate line item within our consolidated statement of operations. Prior periods have been adjusted to conform to this presentation. We have also reclassified prior period asset impairment charges from depreciation and other (income) expense to restructuring and other charges in our consolidated statement of operations.

Certain other reclassifications have been made to prior years amounts to conform to the current year s presentation.

Business Combinations

All business combinations are accounted for using the purchase method. The purchase price paid, including direct expenses, is allocated to the assets acquired and liabilities assumed based on their estimated fair market values. Any excess purchase price over the fair value of the net assets acquired is recorded as goodwill.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition and Shipping and Handling Costs

Revenues are recognized when title transfers and risk of loss passes to the customer in accordance with the provisions of Staff Accounting Bulletin 104, Revenue Recognition. In the case of rolled aluminum product and certain zinc sales, title and risk of loss do not pass until the product reaches the customer. For material that is tolled, revenue is recognized upon the performance of the tolling services for customers. Shipping and handling costs are included within cost of sales in the consolidated statement of operations.

Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments.

Restricted Cash

Cash we have that is not free and clear of encumbrances is classified as restricted cash. As a result of our refinancing activities in the fourth quarter of 2003, we had $9,144 of restricted cash at December 31, 2004 in a custodial account held by the indenture trustee for the benefit of the holders of our Senior Secured Notes. See Note I for additional information. In addition, the proceeds from our 2004 variable rate Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds are restricted as to use and must be expended for capital improvements at our Morgantown recycling facility. At December 31, 2005 and 2004, $2,038 and $2,718, respectively, of these proceeds had not been expended and remain classified as restricted cash. We also have $4,145 of restricted cash at both December 31, 2005 and 2004 associated with our workers compensation programs.

Accounts Receivable Allowances and Credit Risk

We extend credit to our customers based on an evaluation of their financial condition; generally, collateral is not required. We maintain an allowance against our accounts receivable for the estimated probable losses on uncollectible accounts and sales returns and allowances. The valuation reserve is based upon our historical loss experience, current economic conditions within the industries we serve as well as our determination of the specific risk related to certain customers. Accounts receivable are charged off against the reserve when, in management s estimation, further collection efforts would not result in a reasonable likelihood of receipt. The movement of the accounts receivable allowances is as follows:

For the year ended December 31	2005	2004	2003

Balance at beginning of the year	$ 3,210	$ 1,228	$ 1,417
Expenses for uncollectible accounts	120	990	1,469
Expenses for sales returns and allowances	9,787	767	
Receivables written off against the valuation reserve, net of recoveries	(10,155)	(922)	(1,658)
Acquisitions	2,797	1,147	
Balance at end of year	$ 5,759	$ 3,210	$ 1,228

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers in various industry segments comprising our customer base. No single customer accounted for more than 10% of consolidated revenues in 2005, 2004 or 2003. However, our aluminum recycling and zinc segments

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sell product to and provide tolling services for customers in the U.S. automotive industry. In 2005, sales to these customers comprised approximately 13% of our consolidated revenues and, at December 31, 2005, approximately $41,300 of our trade accounts receivable was due from U.S. automotive producers or their direct suppliers. Although management currently believes that substantially all of the receivables due from these customers remain collectible, there can be no assurances that future results of operations and cash flows will not be negatively impacted if the current economic conditions facing the U.S. automotive industry do not improve.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined primarily on the average cost or specific identification method and includes material, labor and overhead related to the manufacturing process.

Property and Equipment

Property and equipment are stated at cost. The fair value of asset retirement obligations is capitalized to the related long-lived asset at the time the obligation is incurred and depreciated over the remaining useful life of the related asset. Major renewals and improvements are capitalized, while normal maintenance and repairs are expensed when incurred. Depreciation is primarily computed using the straight-line method over the estimated useful lives of the related assets, as follows:

Buildings and improvements	5-39 years
Production equipment and machinery	2-20 years
Office furniture, equipment and other	3-10 years

The construction costs of landfills used to store by-products of the recycling process are depreciated as space in the landfills is used based on the unit of production method. Additionally, used space in the landfill is determined periodically either by aerial photography or engineering estimates.

Interest is capitalized in connection with the construction of major facilities. Capitalized interest costs are as follows:

For the year ended December 31	**2005**	**2004**	**2003**
Capitalized interest	$ 1,301	$ 436	$ 152

Intangible Assets

Intangible assets are primarily related to trade names and customer relationships associated with our acquired businesses. Acquired intangible assets are recorded at their estimated fair value in the allocation of the purchase price paid and are amortized over their estimated useful lives, ranging from 5 to 30 years. See Note F for additional information.

Impairment of Long-Lived Assets

We review our long-lived assets, including amortizable intangible assets, for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of the assets exceeds the future undiscounted cash flows expected from the

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

asset. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset and are included in restructuring and other charges in the consolidated statement of operations. Fair value estimates of land and buildings are primarily made based on third party valuation assessments or quoted market prices while fair value estimates of machinery and equipment are based on the expected discounted cash flows of the impacted assets. See Note C for additional information.

Deferred Financing Costs

The costs related to the issuance of debt are capitalized and amortized over the lives of the related debt as interest expense using the effective interest method.

Goodwill

Goodwill is tested for impairment annually as of December 31 of each year and may be tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. We evaluate goodwill based upon eight reporting units. Reporting units are defined as operating segments or, in certain situations, one level below the operating segment. The goodwill impairment test is a two-step process. The first step consists of estimating the fair value of each reporting unit based on a discounted cash flow model and comparing those estimated fair values with the carrying values, which includes allocated goodwill. If the determined fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill, which requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is recognized. Discounted cash flow models are used to determine the current fair value of the reporting units. The development of these models requires management to make significant assumptions and estimates to forecast future operating cash flows. Future actual operating results could differ from the estimates currently used and may result in the impairment of goodwill in future periods. See Note F for additional information.

Stock-Based Compensation

We follow Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our employee stock options. Under APB No. 25 s intrinsic value method, if the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. For grants of non-vested shares and units, compensation expense is determined based upon the fair value of the underlying stock at the date of grant and is recognized over the vesting period using the straight-line method. We have adopted the pro forma disclosure features of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure.

The fair value of our outstanding stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004	2003
Expected option life in years	6.0	4.8	4.0
Risk-free interest rate	4.2%	3.4%	4.9%
Volatility factor	0.585	0.459	0.460
Dividend yield	0.0%	0.0%	0.0%

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The pro forma information below is presented as if we had applied the fair value recognition provisions of SFAS No. 123.

For the year ended December 31	2005	2004	2003
Net income (loss), as reported	$ 74,348	$ (23,837)	$ (812)
Add: stock-based compensation expense included in reported net income (loss), net of tax	3,448	5,867	522
Less: compensation cost determined under the fair value method, net of tax	(6,907)	(6,887)	(663)
Pro forma net income (loss)	$ 70,889	$ (24,857)	$ (953)
Basic earnings (loss) per share:			
As reported	$ 2.44	$ (1.51)	$ (0.06)
Pro forma	2.33	(1.57)	(0.07)
Diluted earnings (loss) per share:			
As reported	$ 2.38	$ (1.51)	$ (0.06)
Pro forma	2.27	(1.57)	(0.07)

Derivatives and Hedging

We are engaged in activities that expose us to various market risks, including the effects of natural gas price changes, future selling prices of aluminum and zinc, changes in interest rates and fluctuations in currencies. These financial exposures are managed as an integral part of our risk management program, which seeks to reduce the potentially adverse effects that the volatility of the markets may have on operating results. We do not hold or issue financial instruments for trading purposes. We maintain a natural gas pricing strategy to minimize significant fluctuations in earnings caused by the volatility of gas prices. We also maintain a metal pricing strategy to minimize significant, unanticipated fluctuations in cash flows and earnings caused by the volatility of aluminum and zinc prices. From time to time we will enter into interest rate swap agreements to manage exposure to fluctuations in interest rates on our long-term debt and currency contracts to hedge certain future purchases of metal to be made in other currencies. In December 2005, our German recycling subsidiary, VAW-IMCO, entered into four interest rate swaps to fix a portion of its variable rate debt and also held one currency exchange contract. The fair value of these cash flow hedges was not material at December 31, 2005.

All derivative financial instruments are recorded at fair value. We measure the effectiveness of these hedges by formally assessing, at least quarterly, the historical and probable future high correlation of changes in the expected cash flows of the hedged items. For contracts qualifying as cash flow hedges, the effective portions of the changes in fair value are recorded on the consolidated balance sheet in other comprehensive income and are reclassified to cost of sales at the time the underlying transaction impacts income while the ineffective portions of the changes in fair value are recorded on the statement of operations in unrealized losses (gains) on derivative financial instruments until settlement, at which time realized losses (gains) are recognized in cost of sales and previously recorded unrealized (gains) losses are reversed. For contracts qualifying as fair value hedges, the changes in fair value are recorded in unrealized (gains) losses on derivative financial instruments along with the changes in the effective portions of underlying hedged item. All realized gains and losses are included within cash flows provided by (used in) operating activities in the consolidated statement of cash flows. See Note P for additional information.

Our company is exposed to losses in the event of non-performance by counter-parties to derivative contracts. Although non-performance by counter-parties is possible, we do not currently anticipate any

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

non-performance by any of these parties. Counter-parties are evaluated for creditworthiness and risk assessment prior to our initiating contract activities. The counter-parties creditworthiness is then monitored on an ongoing basis, and credit levels are reviewed to ensure that there is not an inappropriate concentration of credit outstanding to any particular counter-party.

Currency Translation

Our international subsidiaries use the local currency as their functional currency. Adjustments resulting from the translation of the assets and liabilities of our international operations into U.S. Dollars at the fiscal year end exchange rates are reflected as a separate component of stockholders equity, except for current intercompany accounts, which along with currency transaction gains and losses are reflected in the consolidated statement of operations. Currency translation adjustments accumulate in consolidated equity until the disposition or liquidation of the international entities. (Losses) gains related to the translation of current intercompany accounts (decreased) increased other income by $(82), $123 and $1,880 in 2005, 2004 and 2003, respectively.

Self Insurance

We are substantially self-insured for losses related to workers compensation and health care claims. Losses are accrued based upon estimates of the aggregate liability for claims incurred based on experience and certain actuarial assumptions. Under the terms of certain of the workers compensation programs, we are required to maintain pre-determined amounts of cash security, restricted as to use. At December 31, 2005 and 2004, we had $4,145 of restricted cash related to these programs.

Income Taxes

We account for income taxes using the liability method, whereby deferred income taxes reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In valuing deferred tax assets, we use judgment in determining if it is more likely than not that some portion or all of a deferred tax asset will not be realized and the amount of the required valuation allowance.

Environmental and Asset Retirement Obligations

Environmental obligations that are not legal or contractual asset retirement obligations and that relate to existing conditions caused by past operations with no benefit to future operations are expensed while expenditures that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent future environmental contamination are capitalized in property and equipment. Obligations are recorded when their incurrence is probable and the associated costs can be reasonably estimated in accordance with the American Institute of Certified

Public Accountants (AICPA) Statement of Position 96-1, Environmental Remediation Liabilities. While our accruals are based on management s current best estimate of the future costs of remedial action, these liabilities can change substantially due to factors such as the nature and extent of contamination, changes in the required remedial actions and technological advancements. Our existing environmental liabilities are not discounted to their present values as the amount and timing of the expenditures are not fixed or reliably determinable.

In contrast to environmental remediation liabilities which result from the improper operation of a long-lived asset (for example, ground water contamination or pollution arising from a past act), asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets. Asset retirement obligations recorded by Aleris relate primarily to the requirement to cap our two landfills as well as costs to

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

remove underground storage tanks. The costs associated with such legal obligations are accounted for under the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and capitalized as part of the carrying amount of the long-lived asset. The fair value of such obligations is based upon the present value of the future cash flows expected to be incurred to satisfy the obligation. Estimates of future cash flows are obtained primarily from independent engineering consulting firms. The present value of the obligations is accreted over time while the capitalized cost is depreciated over the useful life of the related asset.

Retirement and Postemployment Benefits

Our defined benefit pension plans are accounted for in accordance with SFAS No. 87, Employers Accounting for Pensions. Other post-retirement benefits, such as retiree medical benefits, are accounted for in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. Pension and post-retirement benefit obligations are actuarially calculated using management s best estimates of assumptions which include the expected return on plan assets, the rate at which plan liabilities may be effectively settled (discount rate), health care cost trend rates and rates of compensation increases.

Benefits provided to employees after employment but prior to retirement are accounted for under SFAS No. 112, Employers Accounting for Postemployment Benefits. Postemployment benefits include severance and medical continuation benefits that are offered pursuant to an ongoing benefit arrangement and do not represent a one-time benefit termination arrangement. Under SFAS No. 112, liabilities for postemployment benefits are recorded at the time the obligations are probable of being incurred and can be reasonably estimated. This is typically at the time a triggering event occurs, such as the decision by management to close a facility. Substantially all severance benefits recognized by us during 2005 were pursuant to existing benefit arrangements and, therefore, have been accounted for under SFAS No. 112. Benefits related to the relocation of employees and certain other termination benefits have been accounted for under SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, and have been expensed as incurred.

General Guarantees and Indemnifications

It is common in long-term processing agreements for us to agree to indemnify customers for tort liabilities that arise out of, or relate to, the processing of their material. Additionally, we typically indemnify such parties for certain environmental liabilities that arise out of or relate to the processing of their material.

In our equipment financing agreements, we typically indemnify the financing parties, trustees acting on their behalf and other related parties against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the equipment and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or willful misconduct.

We expect that we would be covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to equipment we lease and material we process.

In financing transactions that include loans from banks in which the interest rate is based on LIBOR, we typically agree to reimburse the lenders for certain increased costs that they incur in carrying these loans as a result of any change in law and for any reduced returns with respect to these loans due to any change in capital requirements. We had $303,108 of floating rate debt outstanding at December 31, 2005.

Although we cannot estimate the potential amount of future payments under the foregoing indemnities and agreements, amounts paid under these guarantees and indemnifications have not been significant.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payments, that, upon implementation, will impact our net income and earnings per share, and change the classification of certain elements of the statement of cash flows. The provisions of SFAS No. 123(R) are similar to those of SFAS No. 123, however, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements as compensation cost based on their fair value on the date of grant. Fair value of share-based awards will be determined using option-pricing models (e.g. Black-Scholes or binomial models) and assumptions that appropriately reflect the specific circumstances of the awards. Compensation cost will be recognized over the vesting period based on the fair value of awards that actually vest.

In April 2005, the Securities and Exchange Commission adopted a rule which amended the compliance dates for SFAS No. 123(R) such that public companies are required to implement SFAS No. 123 (R) by their first fiscal year beginning after June 15, 2005. Consistent with the provisions of the new standard, we adopted SFAS No.123(R) on January 1, 2006 and are implementing it under the modified-prospective basis. Under the modified-prospective basis, awards that are granted, modified, repurchased or cancelled after the date of adoption will be measured and accounted for in accordance with SFAS No. 123(R). Awards granted prior to January 1, 2006 will be accounted for using the assumptions previously used to value the awards for the pro forma footnote disclosures required by SFAS Nos. 123 and 148 with the resulting fair value associated with the unvested portion of these awards recognized in the statement of operations.

We anticipate utilizing the Black-Scholes option pricing model to value options granted in 2006 and are evaluating the assumptions to be used in the model. We currently anticipate that the impact of the adoption of SFAS No. 123(R) on a full year basis for 2006 will result in compensation expense related to the fair value of equity awards of approximately $3,134, or $0.10 per share, however, results will be impacted by the value of additional stock option grants.

In May 2005, the FASB issued SFAS No. 154, Accounting for Changes and Error Corrections, which replaces APB No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 is effective for accounting changes and corrections made in fiscal years beginning after December 15, 2005 and requires retrospective application of voluntary changes in accounting principles to prior period financial statements, unless it is impractical to determine either the period-specific or the cumulative effect of the change. Any future changes in accounting principles or error corrections will be accounted for in this manner.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, Accounting for Conditional Asset Retirement Obligations. FIN No. 47 requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. The Interpretation was effective for the year ended December 31, 2005. The Company adopted FIN 47 during the fourth quarter of 2005. The effect of adoption was not material to our consolidated financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current-period charges and require the allocation of fixed production overhead to inventory to be based on the normal capacity of the underlying production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2004. We adopted the provisions of this statement effective January 1, 2006.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2004, the FASB issued FASB Staff Position (FSP) No. 109-1, Application of FASB Statement No. 109 (SFAS No. 109), Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2005. FSP No. 109-1 provides that the manufacturer s deduction created in the American Jobs Creation Act of 2004 (the Act) should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax rate reduction. The manufacturer s deduction had no effect on our 2005 results since the company had no taxable income in the US.

In December 2004, the FASB issued FSP No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004. The Act introduced a temporary incentive for U.S. multinationals to repatriate earnings accumulated outside the U.S. by providing a one time tax deduction of 85 percent for certain international earnings from controlled international corporations. FSP No. 109-2 provides accounting and disclosure guidance for the repatriation provision. We did not elect to apply this provision in 2004 or 2005.

B. ACQUISITIONS

2005 Acquisitions

On October 3, 2005, we acquired all of the issued and outstanding stock of ALSCO Holdings, Inc. (ALSCO), the parent company of ALSCO Metals Corporation. ALSCO Metals Corporation is headquartered in Raleigh, North Carolina and is one of North America s largest suppliers of aluminum building products with an aluminum rolling facility in Richmond, Virginia and coating and fabrication facilities located in Roxboro, North Carolina, Ashville, Ohio and Beloit, Wisconsin. The acquisition of the ALSCO facilities, which have been included in the rolled products segment, broadens the spectrum of products offered by that segment. As part of the integration of the ALSCO facilities, we have announced plans to close the Carson, California rolled products facility. See Note C for additional information.

The aggregate preliminary purchase price was approximately $145,008, which consisted of $100,000 of additional borrowings under our senior credit facility, $44,438 of cash paid, and various acquisition costs of $570. The determination of the purchase price is subject to adjustment based upon the working capital delivered.

The consolidated financial statements include the results of ALSCO from the date of acquisition. Pro forma financial information for the acquisition of ALSCO and Commonwealth has been provided below. The purchase price has been allocated based on estimated fair values as of the acquisition date. The purchase price allocation is preliminary and a final determination of required purchase accounting adjustments will be made upon the completion of an independent appraisal of the fair value of acquired long-lived assets, the determination of the fair value of certain other acquired assets and liabilities, the completion of our integration plans and the final determination of the acquired deferred tax assets and liabilities. The resulting goodwill will not be deductible for tax purposes. The following presents the preliminary allocation of the purchase price:

Current assets	$ 89,018
Property and equipment	49,066
Intangible assets	23,340
Goodwill	53,472
Current liabilities	(31,639)
Long-term debt	(1,341)
Accrued pension and post-retirement benefits	(12,730)
Other long-term liabilities	(24,178)
Cash paid	$ 145,008
Less: Cash acquired	1,164
Cash paid, net of cash acquired	$ 143,844

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 23, 2005, we acquired Tomra Latasa Reciclagem (Tomra Latasa), an aluminum recycler located in Sao Paulo, Brazil. The acquisition is expected to provide greater access to aluminum scrap, complementary manufacturing operations and stronger customer relationships. The purchase price paid, net of acquired cash, totaled $17,377. The preliminary purchase price allocation resulted in goodwill of $8,171. This goodwill has been attributed to our international reporting segment and will not be deductible for tax purposes. The purchase price is subject to the finalization of the working capital delivered and the purchase price allocation is subject to the completion of an appraisal of the acquired long-lived assets and deferred income tax assets and liabilities. Pro forma financial information has not been provided as the results of operations of Tomra Latasa would not materially impact our consolidated results of operations.

On December 12, 2005, we acquired Alumitech, Inc., an aluminum recycler and processor of salt cake, a by-product of the recycling process which contains additional aluminum concentrates. The acquisition of Alumitech provides us access to additional recycling capacity for the processing of the saltcake generated by our recycling and rolled products operations as well as additional aluminum recycling capacity. The purchase price paid, net of acquired cash, totaled $29,664. The preliminary purchase price allocation resulted in goodwill of $13,682, which will not be deductible for tax purposes, recorded in the aluminum recycling reportable operating segment. The purchase price is subject to the finalization of the working capital delivered and the purchase price allocation is subject to the completion of an appraisal of the acquired long-lived assets and our integration plans as well as the determination of the acquired deferred tax assets and liabilities. Pro forma financial information has not been provided as the results of operations of Alumitech would not materially impact our consolidated results of operations.

On December 20, 2005, we acquired certain assets of Ormet Corporation. The acquired assets included the inventory, accounts receivable and certain long-lived assets of Ormet s closed aluminum rolling operations in Hannibal, Ohio, an aluminum blanking operation in Terre Haute, Indiana and an aluminum recycling facility in Friendly, West Virginia. The purchase price totaled $126,811 and is subject to adjustment based on the finalization of the value of the accounts receivable and inventory delivered. The preliminary purchase price allocation resulted in goodwill of $13,811 which has been recorded in the rolled products operating segment and is expected to be deductible for tax purposes. The purchase price allocation is subject to the completion of an appraisal of the acquired long-lived assets and the fair value determination of acquired inventories. Pro forma financial information has not been provided as the results of operations would not materially impact our consolidated results of operations.

2004 Acquisition

On December 9, 2004, we acquired all of the shares of outstanding common stock of Commonwealth Industries, Inc. (Commonwealth). The aggregate purchase price was approximately $183,911, which consisted of $170,855 of our common stock, $1,247 in net fair value of our stock options and $11,809 of transaction costs, which primarily consisted of fees paid for financial advisory, legal and accounting services. We issued approximately 13.6 million shares of our common stock in exchange for the shares of Commonwealth then outstanding using an exchange ratio of 0.815 share of our common stock for each Commonwealth share. The fair value of the shares issued was based on a five-day average of the closing price two days before and two days after the terms of the acquisition were agreed to and publicly announced on June 17, 2004. We also assumed the outstanding stock options of Commonwealth using the above exchange ratio, which evidenced options to purchase up to 940,257 shares of our common stock. The fair value of the stock options assumed was estimated using a Black-Scholes option pricing model. The intrinsic value allocated to the unvested options and non-vested stock assumed in the transaction that had yet to be earned as of the transaction date was approximately $3,934 and was recorded as deferred compensation, a component of stockholders equity.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The consolidated financial statements include the results of Commonwealth from the date of acquisition. The purchase price has been allocated based on the estimated fair values as of the acquisition date. The following represents the allocation of the purchase price:

Current assets	$ 289,394
Property and equipment	214,805
Other long-term assets	4,703
Current liabilities	(113,148)
Long-term debt	(125,000)
Other long-term liabilities	(86,843)
Total purchase price	$ 183,911

In connection with the acquisition of Commonwealth, we developed a plan to relocate our corporate headquarters and consolidate the customer service functions of the rolled products segment which resulted in the involuntary termination or relocation of certain Commonwealth employees. We recorded a $7,796 liability for involuntary termination and relocation benefits in the preliminary allocation of the purchase price and an additional $1,057 in 2005 as our integration plans, primarily the restructuring of the rolled products segment s customer service function, were finalized. The liability for involuntary termination benefits covered 69 rolled products employees, primarily in general and administrative functions. As of December 31, 2005, 56 employees had left their positions with the remaining employees to be severed by March 31, 2006. A movement of these restructuring liabilities recorded in the allocation of purchase price is presented in Note C.

Unaudited Pro Forma Information

The following table summarizes unaudited pro forma financial information assuming the ALSCO and Commonwealth acquisitions had occurred as of the beginning of 2004 and does not give effect to the other businesses acquired in 2005. The unaudited pro forma information is not necessarily indicative of the operating results that would have occurred had the acquisitions been made at the beginning of the periods presented nor are they necessarily indicative of any future operating results.

	Unaudited pro forma year ended December 31	
	2005	**2004**
Revenues	$ 2,646,681	$ 2,502,580
Gross profits	279,591	171,188
Net income (loss)	$ 76,720	$ (20,623)
Net earnings (loss) per common share	$ 2.52	$ (0.73)

The pro forma operating results include $25,195 of restructuring and other charges recorded by Commonwealth in 2004 related to their efforts to improve profitability by eliminating under-performing operations and streamlining overhead, as well as costs associated with the merger.

C. RESTRUCTURING AND OTHER CHARGES

2005 Restructuring Activities

During the fourth quarter of 2005, we announced the closure of our rolled products facility located in Carson, California as the first phase of our plan to integrate ALSCO. Charges related to the closure included the

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

following: $16,323 for impairments of machinery and equipment; $5,443 for employee severance, health care continuation and outplacement costs associated with approximately 180 hourly and salaried employees; and $2,529 for exit costs related to environmental remediation. All employees are expected to leave their positions by June 30, 2006. We based the determination of the impairment of the machinery and equipment on the discounted cash flows expected to be realized from the assets to be scrapped. No impairment charge was recorded for assets that will be moved to other Aleris facilities as the expected undiscounted cash flows of those assets are sufficient to recover their carrying value.

In the first quarter of 2005, management determined that certain idled assets at our Wendover, Utah recycling facility would not be relocated and utilized at another Aleris recycling facility. As a result, we determined that the book value of these assets was not supportable by the estimated future cash flows and we recorded an $804 non-cash impairment charge to reduce the assets to their estimated fair values.

As a result of the acquisition of Tomra Latasa, we incurred restructuring charges of $445 related to employee severance costs. All affected employees have left their positions as of December 31, 2005.

The activity and reserve balances for the 2005 restructuring programs for the year ended December 31, 2005 is as follows:

For the year ended December 31	Employee severance and benefit costs	Asset impairments	Exit costs	Total
Initial Provision	$ 5,888	$ 17,127	$ 2,529	$ 25,544
Cash payments	(298)			(298)
Non-cash charges		(17,127)		(17,127)
Balance at December 31, 2005	$ 5,590	$	$ 2,529	$ 8,119

2004 Restructuring Activities

As a result of the acquisition of Commonwealth, we relocated our corporate headquarters from Irving, Texas to Beachwood, Ohio in 2004 to restructure and consolidate certain duplicative administrative functions. The charges related to these restructuring initiatives, including the termination of certain executives of Aleris concurrent with the acquisition, totaled $10,754 in 2004 for severance and medical continuation benefits as well as the acceleration of the vesting of outstanding non-vested shares and share units. The charges cover the reduction of 47 corporate personnel, including our former interim chief executive officer and former chief financial officer. Of those 47 individuals, approximately 35 have left their positions as of December 31, 2005 with the remaining individuals expected leave their positions by March 31, 2006. In 2005, we incurred additional charges related to the resignation of the former president of our aluminum recycling business, the relocation of certain Aleris personnel incidental to the acquisition and severance costs which were not accruable at December 31, 2004. During the third quarter of 2005, we terminated the operating lease agreement at our former Irving, Texas headquarters and incurred lease termination and asset impairment charges totaling $1,566.

Due to the continuing operating losses experienced by our Shelbyville, Tennessee facility, we performed an impairment evaluation of the related assets in the fourth quarter of 2004. As a result, we recorded a $3,717 impairment charge to write down the assets to their estimated fair values at December 31, 2004. We based fair value on appraisals of the land and buildings and a discounted cash flow analysis of the machinery and equipment. Also during the fourth quarter of 2004, we decided to permanently close our Rockwood, Tennessee facility, which had been idled since August 2003. We recorded a $441 impairment charge to write down the affected assets to their estimated fair values.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activity and reserve balances for the 2004 restructuring programs, including those established in the allocation of the purchase price of Commonwealth as described in Note B, for the years ended December 31, 2004 and 2005 is as follows:

Year ended December 31, 2004	Employee severance and benefit costs	Accelerated vesting of non-vested shares and units	Asset impairments	Lease termination costs	Total
Charges recorded in the statement of operations	$ 7,135	$ 3,619	$ 4,158	$	$ 14,912
Charges recorded in the allocation of the Commonwealth purchase price	7,796				7,796
Cash payments	(9,159)				(9,159)
Non-cash charges		(3,619)	(4,158)		(7,777)
Balance at December 31, 2004	$ 5,772	$	$	$	$ 5,772

Year ended December 31, 2005	Employee severance and benefit costs	Accelerated vesting of non-vested shares and units	Asset impairments	Lease termination costs	Total
Balance at December 31, 2004	$ 5,772	$	$	$	$ 5,772
Charges recorded in the statement of operations	2,755		341	1,225	4,321
Charges recorded in the allocation of the Commonwealth purchase price	1,057				1,057
Cash payments	(8,206)			(1,225)	(9,431)
Non-cash charges			(341)		(341)
Balance at December 31, 2005	$ 1,378	$	$	$	$ 1,378

2003 Restructuring Activities

During the fourth quarter of 2003, we decided to permanently close our Wendover, Utah facility due to the continued shutdown of primary smelter capacity in the Pacific Northwest. As a result we evaluated the assets associated with this facility for impairment. We recorded a $3,061 non-cash impairment charge to write-down the Wendover, Utah assets to fair value. We based fair value upon the fact that certain assets would be relocated to other aluminum recycling operations.

Due to adverse market conditions in the domestic aluminum segment, in the fourth quarter of 2003 management commenced a review of our assets held for sale. Based upon the net book value of certain of the assets reviewed exceeding their estimated fair value, we recorded non-cash impairment charges of $2,844 the fourth quarter of 2003.

None of the restructuring charges have been considered in the determination of segment income as management does not base its evaluation of segment performance inclusive of such charges.

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

D. INVENTORIES

The components of our consolidated inventories are:

December 31	2005	2004
Finished goods	$ 126,701	$ 88,328
Raw materials	145,589	89,790
Work in process	113,806	63,170
Supplies	18,684	22,167
	$ 404,780	$ 263,455

E. PROPERTY AND EQUIPMENT

The components of our consolidated property and equipment are:

December 31	2005	2004
Land	$ 74,330	$ 64,719
Buildings and improvements	171,069	138,308
Production equipment and machinery	541,803	429,868
Office furniture, equipment and other	31,243	33,210
	$ 818,445	$ 666,105
Accumulated depreciation	(280,648)	(233,326)
	$ 537,797	$ 432,779

Our depreciation, including amortization of capital leases, and repair and maintenance expense was as follows:

For the year ended December 31	2005	2004	2003

Depreciation expense	$ 54,543	$ 30,627	$ 29,687
Repair and maintenance expense	$ 56,067	34,815	26,992

F. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table details the changes in the carrying amount of goodwill:

	Aluminum recycling	International recycling	Zinc	Rolled products	Total
Goodwill balance at January 1, 2004	$ 28,514	$ 13,177	$ 21,926	$	$ 63,617
Translation and other adjustments	(44)	367			323
Balance at December 31, 2004	$ 28,470	$ 13,544	$ 21,926	$	$ 63,940
Acquisitions	13,682	8,171		67,283	89,136
Translation and other adjustments		(231)			(231)
Balance at December 31, 2005	$ 42,152	$ 21,484	$ 21,926	$ 67,283	$ 152,845

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table details other intangible assets as of December 31, 2005:

	Gross carrying amount	Accumulated amortization	Total	Average life
Trade name and trademarks	$ 7,900	$ (66)	$ 7,834	30 years
Technology	440	(5)	435	20 years
Customer contracts	1,600	(80)	1,520	5 years
Customer relationships	13,400	(258)	13,142	13 years
	$ 23,340	$ (409)	$ 22,931	

Our intangible assets were acquired with the purchase of ALSCO. The fair value of these assets is subject to the completion of a third party appraisal and may differ from the amounts shown herein. Amortization expense for the next five years will total approximately $1,600 per year.

G. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2005 and 2004 consisted of the following:

December 31	2005	2004
Employee related costs	$ 38,820	$ 29,119
Current portion of accrued pension benefits	14,928	2,986
Current portion of accrued post-retirement benefits	4,042	3,719
Derivative financial instruments	11,345	928
Restructuring accruals	6,968	6,352
Accrued taxes	8,698	11,825
Accrued interest	7,170	6,792
Other liabilities	43,477	26,684
	$ 135,448	$ 88,405

H. ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2003, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations. This Statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. Under the provisions of this Statement, we recorded the estimated fair value of liabilities for existing asset retirement obligations, as well as associated asset retirement costs, which were capitalized as increases to the carrying amounts of related long-lived assets. The amounts recorded are primarily for legal obligations associated with the closure of our active landfills and also include costs to remove underground storage tanks and other legal or contractual obligations associated with the ultimate closure of our manufacturing facilities. During 2005, we revised the estimated costs to close our landfills and increased the liability for these obligations by $4,596. In addition, we recorded liabilities of $1,672 for asset retirement obligations related to businesses acquired.

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The changes in the carrying amount of asset retirement obligations are as follows:

For the year ended December 31	2005	2004	2003
Balance at beginning of year	$ 5,699	$ 5,285	$ 5,195
Revisions and liabilities incurred	7,444		
Accretion expense	601	470	431
Payments	(953)	(56)	(341)
Balance at end of year	12,791	5,699	5,285

I. LONG-TERM DEBT

Our long-term debt is summarized as follows:

December 31	2005	2004
Amended and restated senior secured credit facility, expiring in December 2009	$ 263,325	$ 50,798
9% Senior Notes, due November 15, 2014	125,000	125,000
10 $^{3}/8$% Senior Secured Notes, due October 6, 2010, net	207,853	208,872
VAW-IMCO credit facilities	34,811	8,140
7.65% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1996 Series, due May 1, 2016	5,710	5,707
7.45% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1997 Series, due May 1, 2022	4,600	4,600
6% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1998 Series, due May 1, 2023	4,100	4,100
Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-2004 Series, due May 1, 2027 bearing interest at 3.76% at December 31, 2005	4,972	4,970
Other	1,466	212
Subtotal	651,837	412,399
Less current maturities	20,813	61
Total	$ 631,024	$ 412,338

Amended and Restated Senior Credit Facility

In conjunction with the acquisition of certain assets of Ormet, we amended and restated our Senior Credit Facility to increase the borrowing capacity from $325,000 to $425,000, reduce the margin spread for borrowings under the federal funds rate and to extend the term of the facility to December 2009. Under the amended terms of the Senior Credit Facility, we pay interest, at our option, at rates per annum equal to: (1) the greater of (a) the prime rate or (b) a federal funds rate plus $^{1}/2$%, in each case plus an applicable margin spread; or (2) a LIBOR-based rate plus an applicable margin spread. The applicable margin spread will range for base rate and federal funds rate loans, from 25 to 100 basis points, for LIBOR-based loans, from 125 to 200 basis points, and for letters of credit, from 125 to 200 basis points. At December 31, 2005, the weighted average interest rate was 6.33%.

We are also subject to a borrowing base limitation based on eligible domestic inventory and receivables. As of December 31, 2005, we estimated that our borrowing base would have supported additional borrowings of $89,563 after giving effect to outstanding borrowings of $263,325 and outstanding letters of credit of $16,705. As of December 31, 2005, our total borrowing base was approximately $369,593.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fees and expenses associated with amending the terms of the Senior Credit Facility totaled $1,453 and $5,380 in 2005 and 2004, respectively, and are being amortized to interest expense over the amended term.

The amended terms of our Senior Credit Facility include, among other covenants, (i) prohibitions against incurring certain indebtedness and granting liens, (ii) limitations on dividends and repurchases of shares of capital stock, and (iii) limitations on capital expenditures, investments and acquisitions. Under the amended terms of the Senior Credit Facility, we are permitted to pay dividends of up to $5,000 per year. The indebtedness under the senior secured credit facility is secured by the Company s and its co-borrowers inventories, receivables, general intangibles and the proceeds thereof. If at any time during specified periods, our undrawn availability under this facility is less than $50,000, we will also be required to maintain a minimum fixed coverage ratio of 1.1 to 1.0, calculated based on our parent entity and wholly-owned domestic subsidiaries.

Borrowings under the facility must be repaid at the termination date of the facility in 2009. However, upon the occurrence of certain events, including a continuing event of default , as defined, and a reduction of our undrawn availability under the revolver to $65,000 for five consecutive days or $60,000 on any day, all of our cash receipts would be deposited into a lockbox that would be applied against outstanding borrowings.

9% Senior Notes

In November 2004, we issued $125,000 of 9% senior unsecured notes (Senior Notes) in anticipation of the acquisition of Commonwealth. The proceeds from the offering were used to repay an equivalent amount of senior secured notes of Commonwealth, as required under the change of control provisions of that indenture, upon the consummation of the acquisition on December 9, 2004. Interest is payable semi-annually, on November 15 and May 15 of each year. Fees and expenses of the senior notes were $391 and $4,994 in 2005 and 2004, respectively, and are being amortized as additional interest expense over the term of the senior notes.

The Senior Notes are guaranteed, jointly and severally, by certain of our existing and future domestic subsidiaries on a senior unsecured basis. The Senior Notes are not guaranteed by our international subsidiaries. The Senior Notes and the guarantees are effectively subordinated to our existing 10 $^{3}/8$% Senior Secured Notes and will be subordinated to our and our guarantor subsidiaries future secured debt and rank equal in right of payment with all of our other senior indebtedness.

We cannot redeem the Senior Notes until November 15, 2009. Thereafter, we may redeem some or all of the Senior Notes at any time, and from time to time, on or after November 15, 2009 at redemption prices ranging from 104.5% in 2009 to 100% in 2012 and thereafter plus accrued interest. On or before November 15, 2007, up to 35% of the Senior Notes may be redeemed with the proceeds of one or more equity offerings of our common shares at a redemption price of 109% of the principal amount plus accrued interest.

Upon the occurrence of a change of control (as defined under the indenture governing the Senior Notes), we are required to offer to purchase the Senior Notes at a price equal to 101% of the principal amount of the outstanding Senior Notes plus accrued interest.

The indenture governing the Senior Notes, among other things, contains covenants limiting our ability and the ability of our restricted subsidiaries to incur additional debt or grant preferred stock; grant liens; make restricted payments, including paying dividends or making investments; sell or otherwise dispose of assets, including capital stock of subsidiaries; and consolidate merge or transfer all of our or our subsidiaries assets.

10 ^{3}/8% Senior Secured Notes

In October 2003, we issued $210,000 principal amount of 10 ^{3}/8% Senior Secured Notes (Senior Secured Notes) as part of a refinancing of our debt facilities. The issue was priced at 99.383% to yield 10.50% and

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provided $208,704 of gross proceeds, after offering discount. Interest is payable semi-annually, on April 15 and October 15 of each year. In addition, in October 2004 we established a new four-year $120,000 senior secured revolving credit facility (Senior Credit Facility). Our former senior credit facility and former receivables sale facility, which were both scheduled to expire by their terms in the fourth quarter of 2004, were replaced by the senior secured notes and the new Senior Credit Facility.

The proceeds from the Senior Secured Note offering and initial borrowings under the new Senior Credit Facility were used as follows: repayment of the former credit facility, $122,500; repurchase of receivables outstanding under the receivables sales facility and termination of such facility, $46,300; repayment of certain Brazilian loans, $7,541. Additionally, approximately $51,400 in proceeds were applied toward outstanding loans and obligations owed by VAW-IMCO to commercial banks and to Hydro Aluminium Deutschland GmbH (Hydro), our former joint venture partner, with regard to VAW-IMCO s redemption liability.

Of the approximately $51,400 in proceeds referred to above, $27,376 was used to pay all amounts owed under the VAW-IMCO redemption liability. We paid 23,750 Euros (approximately $28,300) to Hydro for the share redemption liability and an aluminum recycling furnace and related assets and real estate located at, and adjacent to, a VAW-IMCO facility.

Fees and expenses of the Senior Secured Note offering and the establishment of the new Senior Credit Facility were $11,553. The fees are being amortized as additional interest expense over the terms of the Senior Secured Notes and the amended term of the Senior Credit Facility. During the fourth quarter of 2004, we wrote-off $753 of unamortized deferred financing costs related to our former senior credit facility.

The Senior Secured Notes are redeemable at our option, in whole or in part, at any time after October 15, 2007. At any time prior to October 15, 2006, we may redeem up to 35% of the aggregate principal amount of the Senior Secured Notes with the proceeds of one or more equity offerings of our common shares at a redemption price of 110.375% of the principal amount of the Senior Secured Notes, together with accrued and unpaid interest, if any, to the date of the redemption.

The Senior Secured Notes are jointly and severally, unconditionally guaranteed on a senior basis by all of our existing 100% owned domestic subsidiaries that are co-borrowers under the Senior Credit Facility and by any future domestic restricted subsidiaries. The Senior Secured Notes are not guaranteed by any of our current international subsidiaries. See Note R for additional information. The Senior Secured Notes and guarantees are secured by first-priority liens, subject to permitted liens, on the real property, fixtures and equipment relating to our wholly-owned domestic operating plants and on the fixtures and equipment relating to substantially all of our leased domestic operating plants. The liens securing the senior secured notes do not extend to any of our inventory, accounts receivable and related property (which secure the senior credit facility) or to any of our international real or personal property.

Upon the occurrence of a change of control (as defined under the indenture governing the Senior Secured Notes), we are required to offer to purchase the Senior Secured Notes at a price equal to 101% of the principal amount of the outstanding Senior Secured Notes plus accrued interest.

The indenture governing the Senior Secured Notes, among other things, contains covenants limiting our ability and the ability of our restricted subsidiaries to incur additional debt; grant liens; make restricted payments, including paying dividends or making investments; sell or otherwise dispose of assets, including capital stock of subsidiaries; engage in sale-leaseback transactions; create liens on our or our subsidiaries assets; receive distributions; engage in transactions with affiliates; and merge or sell substantially all of our or our subsidiaries assets.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VAW-IMCO Credit Facilities

VAW-lMCO, has two lines of credit available for its working capital needs and four additional term loan facilities for the recently completed manufacturing facility in Deizisau, Germany. The total amount of credit available under these facilities is 20,000 Euros for working capital and 16,000 Euros for capital needs. The working capital lines of credit expire in March and April 2006. The term loan facilities expire in April 2009, December 2009, October 2010 and November 2010. They require quarterly payments totaling 951 Euros beginning in 2006, decreasing in the third quarter of 2009 to 594 Euros. All of these facilities bear interest based on EURIBOR pricing plus a margin of 1.15%. As of December 31, 2005, 13,681 Euros (approximately $16,198) were outstanding under the working capital lines of credit and 15,706 Euros (approximately $18,613) were outstanding under the term loans, bearing interest at an average rate of 3.46%.

Other

As a result of the significant increase in the LME price of aluminum during the fourth quarter of 2005, VAW-IMCO recorded unrealized losses on its derivative financial instruments totaling 7,628 Euros. This resulted in VAW-IMCO failing to meet the required interest coverage calculations related to each of its credit facilities. The lenders have waived the violation and we believe that we will be in compliance with the covenants for all of 2006. The debt remains classified as long-term, with the exception of the amounts due within one year based on the terms of the agreements. We are in compliance with the terms and conditions of our remaining debt obligations.

In February 2004, VAW-IMCO paid Aleris approximately 20,000 Euros ($24,846, including interest), repaying in full its indebtedness owed to Aleris under an intercompany note that Aleris had pledged in October 2004 as part of the collateral security for the Senior Secured Notes. The prepayment of this intercompany note, which was denominated in U.S. Dollars, resulted in a recognized gain of $278 for the first quarter of 2004. The funds were deposited in a collateral account held by the trustee under the indenture governing the Senior Secured Notes, which permitted us to use these funds through January 2005 for acquisitions and construction of assets and properties to be used in our domestic business, which were added to the collateral security for the Senior Secured Notes. Because the funds were designated for additional property and equipment, the funds were classified as non-current restricted cash on our balance sheet as of December 31, 2004. During 2004, we utilized approximately $15,702 of these restricted funds to acquire property and equipment. In February 2005, we made an offer to repurchase outstanding Senior Secured Notes in an amount of up to $5,500, the extent of the amount of the unused funds remaining in the collateral account. This offer resulted in our repurchase of $1,170 in Senior Secured Notes. The remaining unused funds were freed of restriction and were used for our general corporate purposes.

Scheduled maturities of our long-term debt subsequent to December 31, 2005 are as follows:

2006	$ 20,813
2007	4,966
2008	4,819
2009	267,331
2010	209,527
After 2010	144,381

Total	$ 651,837

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

J. EMPLOYEE BENEFIT PLANS

Defined Contribution Pension Plans

We sponsor a profit-sharing retirement plan covering most of our employees in the aluminum recycling and zinc segments as well as certain corporate employees who meet defined service requirements. Contributions are determined annually by the Board of Directors and may be as much as 15% of covered salaries. Our profit sharing contributions are as follows:

For the year ended December 31	2005	2004	2003
Company profit sharing contributions	$ 2,238	$ 1,888	$ 937

Subject to certain dollar limits, our employees may contribute a percentage of their salaries to this plan, and we match a portion of the employees contributions. Our match of employee s contributions was as follows:

For the year ended December 31	2005	2004	2003
Company match of employee contributions	$ 1,392	$ 1,619	$ 1,562

In addition, as part of the acquisitions of Commonwealth, ALSCO and Alumitech, we sponsor defined contribution plans covering certain employees of the rolled products and aluminum recycling segments as well as certain corporate employees. Our match of employees contributions under these was approximately $1,070 for the year ended December 31, 2005 and $100 for the period from acquisition to December 31, 2004.

Employee Stock Purchase Plan

Effective July 1, 1999, we adopted a qualified, non-compensatory employee stock purchase plan, which allows employees to acquire shares of common stock through payroll deductions over a six-month period. The purchase price is equal to 85% of the fair market value of the common stock on either the first or last day of the offering period, whichever is lower. Purchases under the plan are limited to 15% of an employee s eligible compensation. A total of 800,000 shares are available for purchase under the plan. We issued 16,826, 20,431 and 23,547 shares under the plan in 2005, 2004 and 2003, respectively. The plan was suspended effective January 1, 2006.

Defined Benefit Pension Plans

Our non-contributory defined benefit pension plans cover substantially all salaried and non-salaried employees formerly employed by Commonwealth and ALSCO. The plan benefits are based primarily on years of service and employees compensation during employment for all employees not covered under a collective bargaining agreement and on stated amounts based on job grade and years of service prior to retirement for non-salaried employees covered under a collective bargaining agreement.

VAW-IMCO maintains a defined benefit pension plan for its employees. This plan is based on final pay and service, but some VAW-IMCO senior officers are entitled to receive enhanced pension benefits. The plan is a book reserve plan, i.e. no plan assets are provided and the employer sets up a book reserve (pension accrual) for payment of the benefits. Under SFAS No. 87, Employers Accounting for Pensions, a book reserve plan under German law is an unfunded plan and a liability has to be recognized as an unfunded accrued pension cost. This amount is covered by a German pension insurance association under German law if VAW-IMCO is unable to fulfill its obligations. Benefit payments are financed, in part, by contributions to a relief fund which establishes a life insurance contract to secure future pension payments.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of the net periodic benefit expense were as follows:

	U.S. pension benefits		European pension benefits		
For the year ended December 31	**2005**	**2004**	**2005**	**2004**	**2003**
Service cost	$ 3,023	$ 257	$ 600	$ 502	$ 361
Interest cost	6,824	574	917	862	578
Amortization of net (gain) loss	(31)		246	144	
Expected return on plan assets	(7,199)	(626)	(14)	(4)	
Net periodic benefit cost	$ 2,617	$ 205	$ 1,749	$ 1,504	$ 939

The changes in projected benefit obligation and plan assets during the year, using December 31 and September 30 measurement dates for the U.S. and European pension plans, respectively, are as follows.

	U.S. pension benefits		European pension benefits	
	2005	**2004**	**2005**	**2004**
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	$ 125,718	$	$ 20,289	$ 16,043
Acquisitions	3,619	125,707		
Service cost	3,023	257	600	502
Interest cost	6,824	574	917	862
Actuarial loss	1,921		2,735	1,606
Benefits paid	(9,779)	(820)	(385)	(335)
Translation and other			(2,867)	1,611
Projected benefit obligation at end of year	$ 131,326	$ 125,718	$ 21,289	$ 20,289
Change in plan assets				
Fair value of plan assets at beginning of year	$ 89,609	$	$ 225	$
Acquisitions	2,100	88,809		
Employer contributions	3,094		706	531
Actual return on plan assets	5,503	1,620	(27)	29
Benefits paid	(9,779)	(820)	(385)	(335)
Translation and other			(26)	
Fair value of plan assets at end of year	$ 90,527	$ 89,609	$ 493	$ 225

Funded status				
Fair value of plan assets less than projected benefit obligation	$ (40,799)	$ (36,109)	$ (20,796)	$ (20,064)
Unrecognized net actuarial loss (gain)	2,655	(994)	7,212	5,519
Net amount recognized	$ (38,144)	$ (37,103)	$ (13,584)	$ (14,545)
Amounts recognized in the consolidated balance sheet consist of:				
Accrued benefit liability	$ (39,041)	$ (37,103)	$ (17,600)	$ (17,056)
Accumulated other comprehensive loss	583		2,582	1,532
Deferred income tax asset	314		1,434	979
Net amount recognized	$ (38,144)	$ (37,103)	$ (13,584)	$ (14,545)

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The accumulated benefit obligation of the U.S. and European pension plans was $128,597 and $17,600, respectively, at December 31, 2005.

Assumptions

We are required to make assumptions regarding such variables as the expected long-term rate of return on plan assets and the discount rate applied to determine service cost and interest cost. For our domestic pension plans, we base the discount rate used on Moody s Aa bond index. This rate is adjusted for the underlying duration of the plans liabilities. The rates of return on assets used are determined based upon an analysis of the plans historical performance relative to the overall markets and mix of assets. The Company assesses the expected long-term rate of return on plan assets assumptions for each plan based on relevant market conditions and makes adjustments to the assumptions as appropriate.

The weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	U.S. pension benefits		European pension benefits	
December 31	**2005**	**2004**	**2005**	**2004**
Discount rate	5.50%	5.50%	4.50%	5.00%
Rate of compensation increase, if applicable	3.75%	3.75%	3.00%	3.00%
Cost-of-living increases for pensions			2.00%	2.00%

The weighted average assumptions used to determine the net periodic benefit cost for the years ended December 31 are as follows:

	U.S. pension benefits		European pension benefits		
For the year ended December 31	**2005**	**2004**	**2005**	**2004**	**2003**
Discount rate	5.49%	5.50%	5.00%	5.50%	5.5%
Expected return on plan assets	8.23%	8.50%	3.50%	3.50%	
Rate of compensation increase	3.75%	3.75%	3.00%	3.00%	3.0%

The U.S. pension plans assets consist primarily of equity securities, guaranteed investment contracts and fixed income pooled accounts. The Company s plan asset allocation at December 31, 2005 and 2004 and the target allocations are as follows:

Percentage of plan assets

	2005	2004	Target Allocation
Asset Category:			
Equity securities	57%	57%	50%
Debt securities	43%	43%	50%
Total	100%	100%	100%

Cash Flows

The Company s policy for the U.S. pension plans is to make contributions equal to or greater than the requirements prescribed by the Employee Retirement Income Security Act of 1974. We expect to make $14,928 of contributions in the year ending December 31, 2006. This amount has been classified as a current accrued liability in the consolidated balance sheet.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following benefit payments for the U.S. pension plans, which reflect expected future service, as appropriate, are expected to be paid for the periods indicated:

2006	$ 7,224
2007	6,652
2008	8,146
2009	8,253
2010	10,141
2011-2015	52,597

Other Postretirement Benefit Plans

As a result of the acquisitions of Commonwealth and ALSCO, we maintain health care and life insurance benefit plans covering certain employees hired by Commonwealth on or before September 1, 1998 and certain employees hired by ALSCO. The Company accrues the cost of postretirement benefits within the covered employees active service periods. The financial status of the plan at December 31, using a December 31 measurement date for the Commonwealth and ALSCO plans, respectively, is as follows:

December 31	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	$ 42,100	$
Acquisitions	11,211	42,165
Service cost	540	33
Interest cost	2,448	193
Actuarial loss	742	114
Benefits paid	(3,502)	(405)
Benefit obligation at end of year	$ 53,539	$ 42,100
Change in plan assets		
Fair value of plan assets at beginning of year	$	$
Actual return on plan assets		
Employer contribution	3,502	405
Benefits paid	(3,502)	(405)
Fair value of plan assets, end of year	$	$
Funded status	$ (53,539)	$ (42,100)
Unrecognized net actuarial loss	898	114
Net amount recognized	$ (52,641)	$ (41,986)

The components of net postretirement benefit expense are as follows:

For the year ended December 31	2005	2004
Service cost	$ 540	$ 33
Interest cost	2,448	193
Amortization of net actuarial gain	(41)	
Net postretirement benefit expense	$ 2,947	$ 226

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We are required to make an assumption regarding the discount rate applied to determine service cost and interest cost. We base our discount rate used on Moody s Aa bond index. This rate is adjusted for the underlying duration of the plans liabilities.

The weighted average assumptions used to determine net postretirement benefit expense and benefit obligations are as follows:

	2005	2004
Discount rate used to determine fiscal year expense	5.50%	5.50%
Discount rate used to determine December 31 benefit obligations	5.50%	5.50%
Health care cost trend rate assumed for next year:		
Retirees under age 65	8.40%	8.50%
Retirees 65 and older	9.90%	10.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate:		
Retirees under age 65	2008-2011	2011
Retirees 65 and older	2010-2014	2014

For measurement purposes, there is an employer cap on the amount paid for retiree medical benefits. At December 31, 2005, the employer cap had not yet been reached for salary employees but had been reached for hourly employees.

Assumed health care cost trend rates have an effect on the amounts reported for postretirement benefit plans. A one-percentage change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest components	$ 1,454	$ (1,231)
Effect on postretirement benefit obligations	39	(39)

Cash flows

Our policy for the plan is to make contributions equal to the benefits paid during the year. Expected contributions for the succeeding twelve months have been included in other current liabilities in the consolidated balance sheet.

The following benefit payments, net of the annual average Medicare Part D subsidy of approximately $214 beginning in 2006, are expected to be paid for the periods indicated:

2006	$ 4,042
2007	4,137
2008	4,232
2009	4,307
2010	4,436
2011-2015	21,955

Multi-Employer Plan

As a result of the acquisition of Commonwealth, we also contribute to a union sponsored defined benefit multi-employer pension plan for certain of Commonwealth s non-salaried employees. The Employee Retirement

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income Security Act of 1974, as amended by the Multi-Employers Pension Plan Amendment Act of 1980, imposes certain liabilities upon employers who are contributors to multi-employer plans in the event of the employers withdrawal from such a plan or upon a termination of such a plan. Management does not intend to take any action that would subject the Company to any such liabilities. Our expense relating to the multi-employer pension plan was approximately $2,653 and $200 for the years ended December 31, 2005 and 2004, respectively.

K. STOCKHOLDERS EQUITY

On December 8, 2004, an amendment to our Certificate of Incorporation was approved by our stockholders that increased the number of our authorized shares from 40 million to 80 million shares.

In December 2004, our stockholders approved the 2004 Equity Incentive Plan, as amended, (2004 Plan). The 2004 Plan provides for the grant of stock options and other stock awards to eligible employees, officers, consultants and non-employee directors. There are 1,100,000 shares of common stock reserved for issuance pursuant to awards granted under this plan. No awards may be granted under this plan after September 22, 2014. All options granted under this plan, once vested, are exercisable for a period of up to 10 years from the date of grant, although options may expire earlier because of termination of employment or service.

We granted 90,000 and 243,700 stock options to purchase our common stock to certain employees in 2005 and 2004, respectively, under the 2004 Plan. These options vest in one-third increments over a three year period from the date of grant.

We granted 126,086 and 52,400 non-vested shares of our common stock subject to vesting restrictions to certain employees and our non-employee directors in 2005 and 2004, respectively, under the 2004 Plan. One-half of the restricted shares of common stock granted in 2004 and up through September 2005 will vest three years from the date of grant; the remaining restricted shares of common stock will vest in five years but may vest in three years if certain goals are attained. The restricted shares of common stock granted in December 2005 will cliff vest three years from the date of grant.

We granted 155,500 performance share units in 2005 under the 2004 Plan. These performance share units are payable in common stock. A portion will vest to the extent of the attainment of target levels of merger synergies achieved as a result of the acquisition of Commonwealth that are attained through December 31, 2008. another portion will vest to the extent of the attainment of certain return on capital targets through December 31, 2008.

We also granted performance units in 2005 under the 2004 Plan. These performance units are payable in cash and up to 29,448 shares of common stock. These performance units will vest to the extent of the attainment of specific levels of annualized synergies in each of 2006 and 2007 attributable to the acquisitions made in 2005. The grant date fair value is being amortized over the vesting period.

In connection with the acquisition of Commonwealth, we have assumed the historical stock option plans of Commonwealth. These plans, as amended and restated, cover certain officers, key employees and directors. The plans provide for the grant of options to purchase common stock, the award of non-vested shares and, in the case of non-employee directors, the award of shares of common stock. The total number of shares authorized under the plans is 2,404,250. We granted 8,800 stock options and 2,200 non-vested shares of our common stock subject to vesting restrictions in 2005 under these plans. The 1995 Stock Incentive Plan expired on March 27, 2005 and no further grants of options or non-vested shares may be made under this plan. In December 2004, we granted 565,700 stock options and 115,200 non-vested shares of our common stock to certain employees under these plans. 13,603 shares under the 1997 Stock Incentive Plan were available for grants and awards at December 31, 2005. This plan will also expire in April 2007 and no further grants of options or non-vested shares may be made.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 1990, we adopted an Amended and Restated Stock Option Plan. This plan expired in 1997 and no further grants of options may be made under the plan. This plan provided for the granting of nonqualified and incentive stock options. The number of shares of common stock authorized for issuance under the plan was 1,200,000 shares. Options granted under the plan had various vesting periods and are exercisable for a period of 10 years from the date of grant, although options may expire earlier because of termination of employment.

In 1992, we adopted the 1992 Stock Option Plan, which provides for the granting of nonqualified and incentive stock options to employees, officers, consultants and non-employee members of the Board of Directors. This plan expired in December 2002 and no further grants of options may be made under the plan.

In 1996, we adopted our Annual Incentive Program, which provided certain of our key employees with annual incentive compensation tied to the achievement of pre-established and objective performance goals. This plan, as amended, also provides for the granting of stock options to key management employees on a discretionary basis. Nonqualified and incentive stock options may be granted. Options granted to employees under this plan have various vesting periods. All options granted under this plan, once vested, are exercisable for a period of up to 10 years from the date of grant, although options may expire earlier because of termination of employment or service.

The 1992 Stock Option Plan, as amended, and the 1996 Annual Incentive Program, as amended, allow for the payment of all or a portion of the exercise price and tax withholding obligations in shares of our common stock delivered and/or withheld. Such payment or withholding will be valued at fair market value as of the date of exercise. Participants making use of this feature will automatically be granted a reload stock option to purchase a number of shares equal to the number of shares delivered and/or withheld. When a reload stock option is granted, a portion of the shares issued to the participant will be designated as restricted stock for a period of five years, although the restrictions may lapse earlier under certain circumstances. Reload stock options have an exercise price equal to the fair market value of the underlying stock as of the date of grant (i.e., the date of exercise of the original options) and will expire on the same date as the original options.

Transactions under these plans are as follows:

	2005		2004		2003	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Stock Options						
Outstanding at beginning of the year	2,960,520	$ 11.80	2,133,177	$ 10.26	2,319,500	$ 10.45
Assumed Commonwealth options			940,527	10.19		
Granted	98,800	21.49	905,080	13.85	4,000	7.50
Exercised	(1,257,635)	10.77	(691,228)	8.52	(3,001)	5.33
Cancelled	(85,921)	12.34	(327,036)	12.68	(187,322)	12.63
Outstanding at end of the year	1,715,764	$ 13.07	2,960,520	$ 11.80	2,133,177	$ 10.26

Exercisable end of the year	850,705	$ 11.35	1,671,194	$ 10.43	1,571,682	$ 11.27

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2005	2004	2003
Non-vested Shares and Performance Units			
Awarded and not vested at beginning of year	439,100	930,000	850,000
Assumed Commonwealth non-vested shares		212,100	
Awarded	313,234	363,000	80,000
Vested	(35,348)	(859,000)	
Forfeited	(38,900)	(207,000)	
Awarded and not vested at end of year	678,086	439,100	930,000

The weighted average grant date fair value per share of all stock option awards granted in 2005, 2004, and 2003 was $12.56, $6.48, and $3.13, respectively.

The weighted average grant date fair value of all non-vested stock and performance unit awards granted in 2005, 2004 and 2003 was $30.89, $14.51 and $7.50, respectively. Compensation expense is recognized over the vesting periods for these awards. Total compensation expense recognized in selling, general and administrative expense was $3,455, $2,248 and $841 in 2005, 2004 and 2003, respectively. In addition, $3,619 of compensation expense was recognized during 2004 related to the accelerated vesting of non-vested shares and share units held by certain executives whose employment terminated upon the consummation of the merger. This amount has been classified in restructuring and other charges in the consolidated statement of operations.

Information related to options outstanding at December 31, 2005, is summarized below:

		Options Outstanding			Options Exercisable	
Range of Exercise Prices		Options	Weighted average remaining contractual life	Weighted average exercise price	Options	Weighted average exercise price
$ 2.55	$ 5.10	9,966	5.1	$ 4.39	9,966	$ 4.39
$ 5.10	$ 7.66	111,843	5.7	$ 6.12	111,843	$ 6.12
$ 7.66	$10.21	221,233	6.9	$ 8.38	192,177	$ 8.31
$10.21	$12.76	477,470	8.1	$ 11.44	237,539	$ 11.49
$12.76	$15.31	25,100	2.4	$ 13.22	25,100	$ 13.22
$15.31	$17.86	781,656	8.6	$ 15.46	267,784	$ 15.47
$17.86	$20.42	30,652	8.6	$ 18.89	2,852	$ 18.91
$20.12	$22.97	11,244	6.5	$ 20.89	3,444	$ 21.19
$22.97	$25.52	46,600	9.3	$ 24.81		$

1,715,764	850,705

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common stock share activity

	Outstanding Shares	Treasury Shares
Balance at January 1, 2003	17,142,404	(2,049,941)
Issuance of common stock for services	12,807	
Exercise of stock options		3,001
Issuance of non-vested stock		240,000
Stock issued in connection with ESPP		23,547
Other		(60,010)
Balance at December 31, 2003	17,155,211	(1,843,403)
Issuance of common stock for services	5,938	
Exercise of stock options		693,349
Issuance of common stock for vested stock units		169,000
Forfeiture of non-vested stock		(150,000)
Stock issued in connection with ESPP		20,431
Acquisition of Commonwealth Industries, Inc.	13,608,274	
Balance at December 31, 2004	30,769,423	(1,110,623)
Issuance of common stock for services	5,924	12,315
Exercise of stock options	410,880	846,755
Stock issued in connection with ESPP	5,000	11,826
Issuance of non-vested stock	78,650	204,736
Purchase of common stock for treasury		(13,007)
Other	(32,192)	34,991
Balance at December 31, 2005	**31,237,685**	**(13,007)**

L. INCOME TAXES

The income (loss) before income taxes and minority interests was as follows:

For the year ended December 31	2005	2004	2003
U.S.	$ 75,382	$ (38,289)	$ (17,845)
International	(144)	22,150	16,349
Total	$ 75,238	$ (16,139)	$ (1,496)

The provision for (benefit from) income taxes, including income taxes on minority interests, was as follows:

For the year ended December 31	**2005**	**2004**	**2003**
Current:			
Federal	$ 1,939	$ (568)	$ (1,771)
State	2,363	191	(57)
International	1,823	7,638	4,650
	6,125	7,261	2,822
Deferred:			
Federal	(3,677)	(3,827)	(4,508)
State	(284)	3,329	(1,568)
International	(1,740)	721	2,010
	(5,701)	223	(4,066)
Provision for (benefit from) income taxes	$ 424	$ 7,484	$ (1,244)

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The income tax expense, computed by applying the federal statutory tax rate to earnings before income taxes, differed from the provision for (benefit from) income taxes as follows:

For the year ended December 31	2005	2004	2003
Income tax expense (benefit) at the federal statutory rate	$ 26,334	$ (5,648)	$ (524)
International income tax rate differences	135	659	(524)
State income taxes, net	1,351	(2,827)	(1,124)
International tax credit	702	(1,054)	
Other, net	(231)	(46)	(714)
Change in valuation allowance	(27,867)	16,400	1,642
Provision for (benefit from) income taxes	$ 424	$ 7,484	$ (1,244)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of our deferred tax liabilities and assets are as follows:

December 31	2005	2004
Deferred Tax Liabilities:		
Accelerated depreciation and amortization	$ 84,093	$ 54,878
State income taxes	4,517	328
Deferred hedging gain	9,534	5,044
Total deferred tax liabilities	98,144	60,250
Deferred Tax Assets:		
Net operating loss carryforwards	24,140	44,524
Tax credit carryforwards	32,380	16,952
Expenses not currently deductible	19,047	7,184
Accrued pension	13,905	12,986
Accrued post retirement	15,579	14,696
Other	7,121	5,118
Total deferred tax assets	112,172	101,460
Valuation allowance	(30,660)	(48,604)
Net deferred tax assets	81,512	52,856

Net deferred tax liabilities	$ 16,632	$ 7,394

At December 31, 2005 and 2004 we had valuation allowances of $30,660 and $48,604, respectively, to reduce certain deferred tax assets to amounts that are more likely than not to be realized. The valuation allowance in 2005 relates primarily to state tax credits and state net operating losses as well as net operating losses in Brazil. An opening balance sheet adjustment of $25,200, with a full valuation allowance, was made during 2005 for Kentucky state recycling credits related to the acquisition of Commonwealth. The federal valuation allowance that existed at the beginning of the year has all been reversed except for $900 based upon management s determination that it is more likely than not that our future taxable income, including the reversal of taxable temporary differences, will be substantial enough to realize our net U.S. federal deferred tax assets. The valuation

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

allowance in 2004 related to our potential inability to utilize U.S. federal and state net operating loss and tax credit carry forwards and certain international net operating loss carry forwards due to recent cumulative losses. Based on the available evidence, except for the deferred tax assets related to a portion of the foreign tax credit that can be carried back to prior years, a full valuation allowance was established in 2004 for all other deferred tax assets related to domestic operations. The acquisition of Commonwealth resulted in $21,356 of additional net deferred tax assets in 2004. We recorded a full valuation allowance against these net deferred tax assets in purchase accounting.

At December 31, 2005, we had approximately $26,351 of unused net operating loss carry forwards for international tax purposes, which do not expire, $547 of international net operating loss carry forwards that expire starting in 2013 and $24,069 in U.S. federal income tax net operating loss carry forwards that expire starting in 2006, of which $17,195 is subject to a limitation as to its use in any given year under U.S. income tax regulations regarding change in ownership. The company also has net operating losses for state purposes, all of which have been provided a full valuation allowance.

At December 31, 2005, we had $14,358 of unused U.S. federal tax credit carry forwards, of which $10,322 are subject to a limitation as to use in any given year under U.S. income tax regulations regarding change in ownership. We also had $27,726 of unused state tax credit carry forwards, substantially all of which have been provided a full valuation allowance.

Undistributed earnings of $31,505 for all non-U.S. investments are considered permanently reinvested and, accordingly, no additional U.S. income taxes or non-U.S. withholding taxes have been provided. It is not practicable to calculate the deferred taxes associated with the remittance of these earnings.

M. NET EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except share and per share data):

For the year ended December 31	2005	2004	2003
Numerator for basic and diluted earnings (loss) per share:			
Net income (loss)	$ 74,348	$ (23,837)	$ (812)
Denominator:			
Weighted-average of outstanding shares basic	30,448,299	15,793,182	14,472,884
Effect of dilutive stock options, non-vested shares and non-vested share units	803,533		
Adjusted weighted-average of outstanding shares- diluted	31,251,832	15,793,182	14,472,884
Net earnings (loss) per share:			

Basic earnings (loss) per share	$	2.44	$	(1.51)	$	(0.06)
Dilutive earnings (loss) per share	$	2.38	$	(1.51)	$	(0.06)

The following stock options and non-vested shares and units were excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive:

	2005	2004	2003
Anti-dilutive stock options and non-vested shares and units		3,417,211	2,973,177

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

N. COMMITMENTS AND CONTINGENCIES

Operating leases

We lease various types of equipment and property, primarily the equipment utilized in our operations at our various plant locations and at our headquarters facility. The future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2005, are as follows:

	Operating Leases
2006	$ 7,952
2007	4,778
2008	3,729
2009	1,645
2010	1,002
Thereafter	264
	$ 19,370

Rental expense under cancelable and non-cancelable operating leases for 2005, 2004 and 2003 was $9,091, $7,310 and $6,021, respectively.

Purchase Obligations

Our non-cancelable purchase obligations are principally for natural gas and materials, such as metals and fluxes used in our manufacturing operations. At December 31, 2005, amounts due under non-cancelable purchase obligations are as follows:

	Cash payments due by period				
	Total	2006	2007-2008	2009-2010	After 2010
Purchase obligations	$ 1,535,706	$ 496,935	$ 263,236	$ 258,600	$ 516,935

Amounts recognized in cost of sales related to these purchase obligations totaled $226,297, $65,667 and $67,023 in 2005, 2004 and 2003, respectively.

Environmental Proceedings

Our operations are subject to environmental laws and regulations governing air emissions, wastewater discharges, the handling, disposal and remediation of hazardous substances and wastes and employee health and safety. These laws can impose joint and several liabilities for releases or threatened releases of hazardous substances upon statutorily defined parties, including us, regardless of fault or the lawfulness of the original activity or disposal. Given the changing nature of environmental legal requirements, we may be required, from time to time, to take environmental control measures at some of our facilities to meet future requirements.

We have been named as a potentially responsible party in certain proceedings initiated pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act and similar stated statutes and may be named a potentially responsible party in other similar proceedings in the future. It is not anticipated that the costs incurred in connection with the presently pending proceedings will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We are performing operations and maintenance at two Superfund sites for matters arising out of past waste disposal activity associated with closed facilities. We are also under orders by agencies in four states for environmental remediation at five sites, two of which are located at our operating facilities.

Our reserves for environmental remediation liabilities totaled $12,641 and $6,396 at December 31, 2005 and 2004, respectively, and have been classified as other long-term liabilities in the consolidated balance sheet. These amounts are in addition to our asset retirement obligations discussed in Note H and represent the most probable costs of remedial actions. We estimate the costs related to currently identified remedial actions will be paid out primarily over the next ten years.

The changes in our accruals for environmental liabilities are as follows:

For the year ended December 31	**2005**	**2004**	**2003**
Balance at beginning of year	$ 6,396	$ 1,036	$ 896
Revisions and liabilities incurred	2,754	501	140
Payments	(868)	(300)	
Environmental liabilities of acquired businesses	4,359	5,159	
Balance at end of year	$ 12,641	$ 6,396	$ 1,036

Legal Proceedings

We are a party from time to time to what we believe are routine litigation and proceedings considered part of the ordinary course of our business. We believe that the outcome of such existing proceedings would not have a material adverse effect on our financial position or results of operations.

O. SEGMENT INFORMATION

The following presents selected information by operating segment. Our segments are business units that offer different types of metal products and services and include the following: rolled products, aluminum recycling, specification alloy, zinc, Europe, Brazil, and Mexico. Our rolled products segment produces aluminum sheet for distributors and customers serving the building and construction, transportation, and consumer durables end-use markets. For financial reporting purposes, the aluminum recycling and specification alloy operating segments have been aggregated into the aluminum recycling reportable operating segment and our international recycling operations have been aggregated into the international reportable operating segment. The aluminum recycling segment represents all of our aluminum melting, processing, alloying, trading and salt cake recovery activities within the United States while the international segment represents these same activities outside of the

United States. We have aggregated these businesses because the products produced are identical (except for minor differences in chemical composition), are delivered in the same manner (either molten or in bars), the raw materials used are very similar, the production processes and equipment used are identical and the long-term gross margins are expected to be similar. Our zinc segment represents all of our zinc melting, processing and trading activities.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Our measure of the profitability of our operating segments is referred to as segment income. Segment income excludes provisions for income taxes, restructuring and other charges, interest, unrealized losses (gains) on derivative financial instruments, corporate general and administrative costs,

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

including depreciation of corporate assets and amortization of capitalized debt costs. Beginning in 2005, management does not consider impairment charges and unrealized losses (gains) on derivative financial instruments within segment income. This change (decreased) increased the rolled products segment income by $(2,592) in 2004, the aluminum recycling segment s income by $4,588 and $5,905 in 2004 and 2003, respectively, and the international segment s income by $(2,073) and $(284) in 2004 and 2003, respectively. Intersegment sales and transfers are recorded at market value. Consolidated cash, long-term debt, net capitalized debt costs, net current deferred tax assets and assets located at our headquarters office are not allocated to the reportable segments.

Reportable Segment Information

Selected reportable segment disclosures for the three years ended December 31, 2005 are as follows:

	Rolled products	Aluminum recycling	International	Zinc	Intersegment revenues	Totals
2005						
Revenues	$ 1,246,639	$ 551,398	$ 416,523	$ 244,083	$ (29,669)	$ 2,428,974
Segment income	160,604	28,589	13,253	20,986		223,432
Depreciation and amortization expense	28,301	14,308	8,125	2,541		53,275
Equity in losses of affiliates		(1,560)				(1,560)
Segment assets	818,974	302,802	272,415	124,526		1,518,717
Equity investments in joint ventures		(950)				(950)
Payments for plant and equipment	11,056	14,191	30,549	1,817		57,613
2004						
Revenues	$ 95,104	$ 554,849	$ 371,679	$ 206,849	$ (1,884)	$ 1,226,597
Segment income (loss)	(3,115)	26,405	19,704	11,954		54,948
Depreciation and amortization expense	2,204	15,689	6,731	3,598		28,222
Equity in losses of affiliates		(267)				(267)
Segment assets	490,932	248,673	214,437	108,922		1,062,964
Equity investments in joint ventures		610				610
Payments for plant and equipment	1,930	16,231	24,198	2,030		44,389
2003						
Revenues	$	$ 479,585	$ 256,386	$ 156,044	$	$ 892,015
Segment income		18,526	17,026	4,895		40,447
Depreciation and amortization expense		18,524	5,387	3,329		27,240
Equity in earnings of affiliates		55	734			789
Segment assets		232,209	175,345	109,815		517,369
Equity investments in joint ventures		876		100		976
Payments for plant and equipment		7,233	10,201	2,773		20,207

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reconciliations of total reportable segment disclosures to our consolidated financial statements are as follows:

	2005	2004	2003
Profits			
Segment income	$ 223,432	$ 54,948	$ 40,447
Unallocated amounts:			
General and administrative expense	(58,181)	(32,205)	(20,919)
Restructuring and other charges	(29,865)	(14,912)	(5,905)
Interest expense	(41,886)	(28,790)	(15,806)
Unrealized (losses) gains from derivative financial instruments	(18,648)	4,235	284
Fees on receivables sale			(843)
Interest and other income	386	585	1,246
Income (loss) before provision for income taxes and minority interests	$ 75,238	$ (16,139)	$ (1,496)
Depreciation and amortization expense			
Total depreciation and amortization expense for reportable segments	$ 53,275	$ 28,222	$ 27,240
Unallocated depreciation and amortization expense	1,677	2,405	2,447
Total consolidated depreciation and amortization expense	$ 54,952	$ 30,627	$ 29,687
Assets			
Total assets for reportable segments	$ 1,518,717	$ 1,062,964	$ 517,369
Unallocated assets	35,413	18,185	33,365
Total consolidated assets	$ 1,554,130	$ 1,081,149	$ 550,734
Payments for property and equipment			
Total payments for property and equipment for reportable segments	$ 57,613	$ 44,389	$ 20,207
Other payments for property and equipment	4,502	436	600
Total consolidated payments for property and equipment	$ 62,115	$ 44,825	$ 20,807

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Geographic Information

The following table sets forth the geographic breakout of our revenues (based on customer location) and long-lived assets (net of accumulated depreciation and amortization):

	2005	2004	2003
Revenues			
United States	$ 1,878,587	$ 792,977	$ 585,777
International:			
Asia	13,846	6,843	6,846
Europe	359,775	353,464	244,716
South America	39,852	37,816	18,563
North America	136,736	33,530	34,624
Other	178	1,967	1,489
Total international revenues	$ 550,387	$ 433,620	$ 306,238
Consolidated total	$ 2,428,974	$ 1,226,597	$ 892,015
Long-lived assets, including intangible assets			
United States, net	$ 580,434	$ 391,930	$ 201,642
International, net:			
Germany	89,542	76,863	55,680
Brazil	21,062	6,590	5,761
United Kingdom	8,195	9,863	9,432
Mexico	11,575	11,473	10,770
Netherlands	2,765		
Total international long-lived assets, net	$ 133,139	$ 104,789	$ 81,643
Consolidated total	$ 713,573	$ 496,719	$ 283,285

P. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

We enter into derivatives to hedge the cost of energy and the sale and purchase prices of certain aluminum and zinc products. The fair value gains (losses) of outstanding derivative contracts are included in the consolidated balance sheet as derivative financial instruments, other long-term assets and other current liabilities. Our outstanding derivatives are cash flow hedges. The amounts deferred in other comprehensive income at December 31, 2005 and 2004 were as follows:

December 31	2005		2004	
	Fair value	Deferred gains, net of tax	Fair value	Deferred gains (losses), net of tax
Natural gas	$ 28,088	$ 15,335	$ 4,960	$ (1,875)
Aluminum	(6,500)		11,449	(291)
Zinc	351	218	(27)	(17)

The changes in the fair value of certain of our cash flow hedges accumulate on our balance sheet (in other comprehensive income (loss)) until the maturity of the respective hedging agreements. As of December 31, 2005, over the next twelve months, we estimate that we will recognize in earnings deferred gains from the settlement of

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

our hedging instruments of $22,761 and $328 for natural gas and zinc, respectively. Actual amounts realized will inevitably differ from our estimates. We further emphasize that our deferred hedging activities reduce, but do not eliminate, the effect of volatile aluminum, zinc and natural gas prices on our operations.

Realized gains and (losses) on our derivative financial instruments are included within cost of sales in the consolidated statement of operations and totaled the following:

Year ended December 31	2005	2004	2003
Natural gas	$ 22,121	$ 3,735	$ 3,401
Aluminum	9,275	4,753	(1,948)
Zinc	(377)	725	(343)

Natural Gas Hedging

In order to manage our price exposure for natural gas purchases, we have fixed the future price of a portion of our natural gas requirements by entering into financial hedge agreements. Under these agreements, payments are made or received based on the differential between the monthly closing price on the New York Mercantile Exchange (NYMEX) and the contractual hedge price. These contracts are accounted for as cash flow hedges, with all gains and losses recognized in cost of sales when the gas is consumed. In addition, we have cost escalators included in some of our long-term supply contracts with customers, which limit our exposure to natural gas price risk.

At December 31, 2005, we had outstanding swap agreements to hedge our anticipated domestic natural gas requirements for approximately 54% and 12% of our expected 2006 and 2007 natural gas fuel needs, respectively.

Aluminum Hedging

The selling prices of the majority of the rolled products segment s customer orders are established at the time of order entry. As the related raw materials used to produce these orders are purchased several months after the selling prices are fixed, the rolled products segment is subject to the risk of changes in the purchase price of the raw material it purchases. In order to manage this exposure, London Metal Exchange (LME) future purchase contracts are entered into at the time the selling prices are fixed. We have designated these futures contracts as cash flow hedges of anticipated aluminum raw material purchases. These contracts do not meet certain effectiveness requirements set forth in SFAS No. 133, as amended. Accordingly, the changes in the fair value of the contracts are recorded in earnings as unrealized losses (gains) on derivative financial instruments rather than being deferred in other comprehensive income (loss). Upon settlement, the gain or loss recognized is included within cost of sales and the previously recorded unrealized gain or loss is reversed.

The aluminum recycling segment enters into LME high-grade aluminum forward sales and purchase contracts to mitigate the risk associated with changes in metal prices. At December 31, 2005, the aluminum recycling segment did not hold any forward sale or purchase contracts.

VAW-IMCO also enters into LME high-grade and alloy aluminum forward sales and purchase contracts. The functional currency of VAW-IMCO is the Euro; however, certain of VAW-IMCO s sales and purchases are denominated in U.S. Dollars. As a result, VAW-IMCO enters into Euro as well as U.S. Dollar denominated forward and futures contracts. The unrealized gains and losses on VAW-IMCO s derivative contracts do not qualify for deferred treatment under SFAS No. 133, as amended.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Zinc Hedging

In the normal course of business, the zinc segment enters into fixed-price sales and purchase contracts with a number of its customers and suppliers. In order to hedge the risk of changing LME zinc prices, we enter into LME forward sale and future purchase contracts. The effective portions of these hedges are included within other comprehensive income (loss) while the ineffective portions are included within unrealized (gains) losses on derivative financial instruments.

Credit Risk

We are exposed to losses in the event of non-performance by the counter-parties to the financial hedge agreements and futures contracts discussed above; however, we do not anticipate any non-performance by the counter-parties. The counter-parties are evaluated for creditworthiness and risk assessment prior to initiating trading activities with the brokers. We do not require collateral to support broker transactions.

Other Financial Instruments

The carrying amount and fair value of our other financial instruments at December 31 are as follows:

	2005		**2004**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and Cash equivalents	$ 6,822	$ 6,822	$ 17,828	$ 17,828
Long-term debt:				
9% Senior Notes	125,000	128,750	125,000	130,000
$10\,^{3}/8$% Senior Secured Notes	207,853	229,425	208,872	238,350
VAW-IMCO credit facilities	34,811	34,811	8,140	8,140
Fixed Rate Revenue Bonds	14,410	17,758	14,407	17,517

The fair value of our outstanding indebtedness under the Amended and Restated Senior Credit Facility, the 2004 Morgantown industrial revenue bonds and the VAW-IMCO term loans approximates carrying value due to their floating interest rates. The current fair value of our Senior Notes, Senior Secured Notes and fixed rate revenue bonds were based on market quotations, discounted cash flows and incremental borrowing rates. The fair value of accounts receivable, accounts payable and accrued liabilities approximate carrying value.

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Q. OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income (loss), which are items that change equity during the reporting period, but are not included in earnings:

	Total	Unrealized gain (loss) on derivative financial instruments	Currency translation, unrealized gain (loss)	Minimum pension adjustment
Balance at December 31, 2002	$ (9,830)	$ 521	$ (10,351)	$
Current year net change	3,587		3,587	
Change in fair value of derivative financial instruments	(1,643)	(1,643)		
Reclassification of derivative financial instruments into earnings	3,929	3,929		
Income tax effect	(868)	(868)		
Balance at December 31, 2003	$ (4,825)	$ 1,939	$ (6,764)	$
Current year net change	6,259		6,259	
Minimum pension liability adjustment	(2,511)			(2,511)
Deferred tax on minimum pension liability adjustment	979			979
Change in fair value of derivative financial instruments	(157)	(157)		
Reclassification of derivative financial instruments into earnings	(4,793)	(4,793)		
Income tax effect	828	828		
Balance at December 31, 2004	$ (4,220)	$ (2,183)	$ (505)	$ (1,532)
Current year net change	(9,004)		(6,601)	(2,403)
Change in fair value of derivative financial instruments	46,671	46,671		
Deferred tax on minimum pension liability adjustment	769			769
Reclassification of derivative financial instruments into earnings	(19,763)	(19,763)		
Income tax effect	(9,172)	(9,172)		
Balance at December 31, 2005	$ 5,281	$ 15,553	$ (7,106)	$ (3,166)

We translate the balance sheets of our international subsidiaries using fiscal period-end exchange rates. Operating results are translated using the average exchange rates for the period. The cumulative effect of such translations is included in stockholders equity, other than for current intercompany accounts, as a component of other comprehensive income (loss), as shown above.

R. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Certain of the subsidiaries (the Guarantor Subsidiaries) of Aleris International, Inc. are guarantors of the indebtedness of Aleris International, Inc. under its senior secured notes due 2010 and senior notes due 2014. For purposes of complying with the reporting requirements of the Guarantor Subsidiaries, presented below are condensed consolidating financial statements of Aleris International, Inc., the Guarantor Subsidiaries, and those subsidiaries of Aleris International, Inc. that are not guaranteeing the indebtedness under the senior secured notes or the senior notes (the Non-Guarantor Subsidiaries). The condensed consolidating balance sheets are

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

presented as of December 31, 2005 and 2004, the condensed consolidating statements of operations are presented for the years ended December 31, 2005, 2004 and 2003 and the condensed consolidating statements of cash flows are presented for the years ended December 31, 2005, 2004 and 2003.

	As of December 31, 2005				
	Aleris International, Inc.	Combined guarantor subsidiaries	Combined non-guarantor subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 400	$ (334)	$ 6,756	$	$ 6,822
Accounts receivable, net	7,926	262,110	56,237	(1,162)	325,111
Inventories	3,688	340,499	60,593		404,780
Deferred income taxes	2,259	31,659	1,287		35,205
Prepaid expenses	777	6,272	1,693		8,742
Derivative financial instruments	7,796	18,413	1,749		27,958
Other current assets	1,240	659	291		2,190
Total Current Assets	24,086	659,278	128,606	(1,162)	810,808
Property and equipment, net	44,068	379,307	116,279	(1,857)	537,797
Goodwill	4,161	130,095	18,589		152,845
Intangible assets, net		22,931			22,931
Restricted cash	2,038	4,145			6,183
Other assets	18,001	5,750	765		24,516
Investments in subsidiaries/ intercompany receivable (payable), net	963,933	(347,143)	35,445	(653,185)	(950)
	$ 1,056,287	$ 854,363	$ 299,684	$ (656,204)	$ 1,554,130
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Accounts payable	$ 20,652	$ 133,997	$ 47,286	$ (1,162)	$ 200,773
Accrued liabilities	10,032	87,378	34,505	3,533	135,448
Current maturities of long-term debt		88	20,725		20,813
Total Current Liabilities	30,684	221,463	102,516	2,371	357,034
Long-term debt	615,560	1,374	14,090		631,024
Deferred income taxes	6,331	40,846	4,660		51,837
Accrued pension benefits		24,113	17,600		41,713
Accrued post-retirement benefits		48,599			48,599
Other long-term liabilities	9,943	19,668	4,076	(3,533)	30,154
Stockholders Equity	393,769	498,300	156,742	(655,042)	393,769
	$ 1,056,287	$ 854,363	$ 299,684	$ (656,204)	$ 1,554,130

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31, 2004				
	Aleris International, Inc.	**Combined guarantor subsidiaries**	**Combined non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
ASSETS					
Current Assets					
Cash and cash equivalents	$ 2,061	$ 46	$ 15,721	$	$ 17,828
Accounts receivable, net	7,130	180,218	42,458	(788)	229,018
Inventories	4,865	219,786	38,804		263,455
Deferred income taxes		3,031	3,598	(2,743)	3,886
Prepaid expenses	2,274	7,810	1,452		11,536
Derivative financial instruments	1,195	13,936	2,193		17,324
Other current assets	65		122		187
Total Current Assets	17,590	424,827	104,348	(3,531)	543,234
Property and equipment, net	37,281	301,361	95,994	(1,857)	432,779
Goodwill	4,160	49,131	10,649		63,940
Restricted cash	11,862	4,145			16,007
Other assets	19,969	4,485	735		25,189
Deferred income taxes	6,785			(6,785)	
Investments in subsidiaries/ intercompany receivable (payable), net	626,984	(193,352)	(24,107)	(409,525)	
	$ 724,631	$ 590,597	$ 187,619	$ (421,698)	$ 1,081,149
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Accounts payable	$ 18,603	$ 120,774	$ 40,355	$ (789)	$ 178,943
Accrued liabilities	13,612	57,179	17,614		88,405
Current maturities of long-term debt		57	4		61
Total Current Liabilities	32,215	178,010	57,973	(789)	267,409
Long-term debt	404,048	147	8,143		412,338
Deferred income taxes		9,777	11,031	(9,528)	11,280
Accrued pension benefits		34,103	17,070		51,173
Accrued post-retirement benefits		38,267			38,267
Other long-term liabilities	5,698	8,281	4,033		18,012
Stockholders Equity	282,670	322,012	89,369	(411,381)	282,670
	$ 724,631	$ 590,597	$ 187,619	$ (421,698)	$ 1,081,149

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31, 2005				
	Aleris International, Inc.	Combined guarantor subsidiaries	Combined non-guarantor subsidiaries	Eliminations	Consolidated
Revenues	$ 117,924	$ 1,936,058	$ 438,406	$ (63,414)	$ 2,428,974
Cost of sales	109,650	1,713,898	410,581	(63,414)	2,170,715
Gross profit	8,274	222,160	27,825		258,259
Selling, general and administrative expense	7,490	71,820	11,779		91,089
Restructuring and other charges	82	29,338	445		29,865
Interest expense	40,972	409	637	(132)	41,886
Unrealized losses on derivative financial instruments		6,825	11,823		18,648
Other (income) expense, net	(2,337)	1,525	653	132	(27)
Equity in net (earnings) loss of affiliates	(112,281)	1,560		112,281	1,560
Earnings (loss) before income taxes and minority interests	74,348	110,683	2,488	(112,281)	75,238
Provision for (benefit from) income taxes		55	369		424
Earnings (loss) before minority interests	74,348	110,628	2,119	(112,281)	74,814
Minority interests, net of provision for income taxes			466		466
Net income (loss)	$ 74,348	$ 110,628	$ 1,653	$ (112,281)	$ 74,348

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31, 2004				
	Aleris International, Inc.	Combined guarantor subsidiaries	Combined non-guarantor subsidiaries	Eliminations	Consolidated
Revenues	$ 99,970	$ 781,648	$ 391,242	$ (46,263)	$ 1,226,597
Cost of sales	90,960	746,700	357,314	(46,263)	1,148,711
Gross profit	9,010	34,948	33,928		77,886
Selling, general and administrative expense	2,341	39,425	12,741		54,507
Restructuring and other charges	1,059	13,853			14,912
Interest expense	28,408	26,664	273	(26,555)	28,790
Unrealized gains on derivative financial instruments		(2,162)	(2,073)		(4,235)
Other (income) expense, net	(11,824)	(14,578)	(340)	26,526	(216)
Equity in net (earnings) loss of affiliates	15,337	267		(15,337)	267
Earnings (loss) before income taxes and minority interests	(26,311)	(28,521)	23,327	15,366	(16,139)
Provision for (benefit from) income taxes	(2,474)	1,468	8,490		7,484
Earnings (loss) before minority interests	(23,837)	(29,989)	14,837	15,366	(23,623)
Minority interests, net of provision for income taxes			214		214
Net income (loss)	$ (23,837)	$ (29,989)	$ 14,623	$ 15,366	$ (23,837)

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31, 2003				
	Aleris International, Inc.	**Combined guarantor subsidiaries**	**Combined non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
Revenues	$ 92,775	$ 554,692	$ 272,038	$ (27,490)	$ 892,015
Cost of sales	84,116	532,560	244,586	(27,490)	833,772
Gross profit	8,659	22,132	27,452		58,243
Selling, general and administrative expense	1,841	28,723	8,244		38,808
Restructuring and other charges		5,905			5,905
Interest expense	12,540	9,419	3,269	(9,422)	15,806
Unrealized gains on derivative financial instruments			(284)		(284)
Other (income) expense, net	2,505	(10,252)	(2,037)	9,234	(550)
Equity in net (earnings) loss of affiliates	2,552	(55)	(734)	(2,552)	(789)
Fees on receivables sale		843			843
Earnings (loss) before provision for income taxes and minority interest	(10,779)	(12,451)	18,994	2,740	(1,496)
Provision for (benefit from) income taxes	(9,967)	2,648	6,075		(1,244)
Earnings (loss) before minority interests	(812)	(15,099)	12,919	2,740	(252)
Minority interests, net of provision for income taxes			560		560
Net income (loss)	$ (812)	$ (15,099)	$ 12,359	$ 2,740	$ (812)

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31, 2005				
	Aleris International, Inc.	**Combined guarantor subsidiaries**	**Combined non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
Net cash provided by (used in) operating activities	**$ (7,878)**	**$ 112,676**	**$ (2,521)**	**$**	**$ 102,277**
Investing activities:					
Payments for property and equipment	(9,359)	(21,938)	(30,818)		(62,115)
Proceeds from sale of property and equipment		5,431			5,431
Purchase of business, net of cash acquired		(300,320)	(17,376)		(317,696)
Net investment in subsidiaries	(318,128)	300,606	17,522		
Other	440	(23)	65		482
Net cash used in investing activities	**(327,047)**	**(16,244)**	**(30,607)**		**(373,898)**
Financing activities:					
Net proceeds from long-term revolving credit facility	212,413				212,413
Proceeds from issuance of long-term debt			29,132		29,132
Payments of long-term debt	(1,170)				(1,170)
Change in restricted cash	9,824				9,824
Minority interests			(690)		(690)
Debt issuance costs	(1,844)				(1,844)
Proceeds from exercise of stock options	13,576				13,576
Net transfers with subsidiaries	120,435	(116,858)	(3,577)		
Other	(19,970)	20,046			76
Net cash provided by (used in) financing activities	333,264	(96,812)	24,865		261,317
Effect of exchange rate changes on cash			(702)		(702)
Net decrease in cash and cash equivalents	(1,661)	(380)	(8,965)		(11,006)
Cash and cash equivalents at beginning of period	2,061	46	15,721		17,828
Cash and cash equivalents at end of period	**$ 400**	**$ (334)**	**$ 6,756**	**$**	**$ 6,822**

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31, 2004				
	Aleris International, Inc.	**Combined guarantor subsidiaries**	**Combined non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
Net cash provided by (used in) operating activities	**$ 11,912**	**$ (34,771)**	**$ (35,348)**	**$ 60,310**	**$ 2,103**
Investing activities:					
Payments for property and equipment	(6,213)	(14,262)	(24,350)		(44,825)
Proceeds from sale of property and equipment		72			72
Purchase of business, net of cash acquired		6,050			6,050
Net investment in subsidiaries	(161,809)	161,809			
Other	(637)	278	173		(186)
Net cash provided by (used in) investing activities	**(168,659)**	**153,947**	**(24,177)**		**(38,889)**
Financing activities:					
Net proceeds from long-term revolving credit facility	17,806				17,806
Proceeds from issuance of long-term debt	129,970		7,464		137,434
Payments of long-term debt		(125,000)			(125,000)
Change in restricted cash	(11,863)		24,847		12,984
Settlement of VAW-IMCO redemption liability	24,847		(24,847)		
Minority interests		(405)			(405)
Debt issuance costs	(10,933)	559			(10,374)
Proceeds from exercise of stock options	6,116				6,116
Net transfers with subsidiaries	2,104	4,232	53,974	(60,310)	
Other	258	1,350	(1,453)		155
Net cash provided by (used in) financing activities	**158,305**	**(119,264)**	**59,985**	**(60,310)**	**38,716**
Effect of exchange rate changes on cash			1,138		1,138
Net increase (decrease) in cash and cash equivalents	1,558	(88)	1,598		3,068
Cash and cash equivalents at beginning of period	503	134	14,123		14,760
Cash and cash equivalents at end of period	**$ 2,061**	**$ 46**	**$ 15,721**	**$**	**$ 17,828**

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ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31, 2003				
	Aleris International, Inc.	Combined guarantor subsidiaries	Combined non-guarantor subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	**$ (42,158)**	**$ (51,627)**	**$ 89,118**	**$ (3,585)**	**$ (8,252)**
Investing activities:					
Payments for property and equipment	(1,557)	(8,793)	(10,457)		(20,807)
Proceeds from sale of property and equipment		105			105
Net cash acquired in consolidation of the remaining 50% of VAW-IMCO		(1,181)	15,669		14,488
Other		67	925		992
Net cash provided by (used in) investing activities	**(1,557)**	**(9,802)**	**6,137**		**(5,222)**
Financing activities:					
Net (payments of) long-term revolving credit facility	(61,009)				(61,009)
Net (payments of) proceeds from issuance of long-term debt	154,569		(9,000)		145,569
Debt issuance costs	(11,553)				(11,553)
Settlement of VAW-IMCO redemption liability			(26,046)		(26,046)
Increase in restricted cash			(24,846)		(24,846)
Net transfers with subsidiaries	(40,463)	60,176	(23,298)	3,585	
Other	256	1,204	(2,864)		(1,404)
Net cash provided by (used in) financing activities	**41,800**	**61,380**	**(86,054)**	**3,585**	**20,711**
Effect of exchange rate changes on cash			648		648
Net increase in cash and cash equivalents	(1,915)	(49)	9,849		7,885
Cash and cash equivalents at beginning of period	2,418	183	4,274		6,875
Cash and cash equivalents at end of period	**$ 503**	**$ 134**	**$ 14,123**	**$**	**$ 14,760**

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

S. QUARTERLY FINANCIAL DATA (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
2005					
Revenues	$ 644,981	$ 603,607	$ 554,919	$ 625,467	$ 2,428,974
Gross profits	$ 72,136	$ 61,521	$ 59,162	$ 65,440	$ 258,259
Net income (loss)	$ 29,088	$ 18,914	$ 31,525	$ (5,179)	$ 74,348
Net earnings (loss) per common share:					
Basic	$ 0.97	$ 0.62	$ 1.03	$ (0.17)	$ 2.44
Diluted	$ 0.94	$ 0.60	$ 1.01	$ (0.17)	$ 2.38
2004					
Revenues	$ 278,508	$ 292,439	$ 283,044	$ 372,606	$ 1,226,597
Gross profits	$ 21,203	$ 22,861	$ 18,764	$ 15,058	$ 77,886
Net income (loss)	$ 2,711	$ 288	$ (314)	$ (26,522)	$ (23,837)
Net earnings (loss) per common share:					
Basic	$ 0.19	$ 0.02	$ (0.02)	$ (1.42)	$ (1.51)
Diluted	$ 0.18	$ 0.02	$ (0.02)	$ (1.42)	$ (1.51)

Special items relating to our 2005 financial statements and operations

During the fourth quarter of 2005, we recorded asset impairment, employee severance and other exit costs totaling $24,295 related to the announced closure of the Carson, California rolling mill. See Note C.

During the first quarter we recorded severance costs related to the acquisition of Commonwealth totaling $1,987 and asset impairments totaling $804. During the second and third quarters, we recorded additional severance and impairment charges totaling $1,006 and $1,024, respectively, related to the acquisition of Commonwealth. See Note C.

Special items relating to our 2004 financial statements and operations

During the fourth quarter of 2004, we recorded non-cash asset impairment charges totaling $4,158. See Note C.

Also during the fourth quarter we recorded restructuring and merger related costs totaling $10,754 related to the initial phases of our plans to integrate the operations of Commonwealth. These charges have not been allocated to a particular segment. See Note C.

As a result of INTERMET Corporation s bankruptcy filing in the third quarter, we did not recognize approximately $3,200 in revenues from shipments to this customer.

During the second quarter of 2004, we recorded $4,512 related to the merger as well as the departure of our chairman of the board, president and chief executive officer.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation, as of December 31, 2005, of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Our disclosure controls and procedures have been designed to ensure that information we are required to disclose in our reports that we file with the SEC under the Exchange Act is recorded, processed and reported on a timely basis.

Based upon this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2005.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined under Rule 13a-15(f) promulgated under the Exchange Act.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with appropriate authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an assessment of the Company s internal control over financial reporting as of December 31, 2005, using the framework specified in *Internal Control Integrated Framework,* published by the Committee of Sponsoring Organizations of the Treadway Commission. Management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include an assessment of certain elements of the internal control over financial reporting of Tomra Latasa Reciclagem, ALSCO Holdings Inc., certain operations of Ormet Corporation and Alumitech Inc., all of which were acquired during the year ended December 31, 2005, and which are included in the consolidated financial statements of the Company for the year ended December 31, 2005. We did not assess the effectiveness of internal control over financial reporting at these entities because we did not believe we had adequate time to conduct an assessment of the internal control over financial reporting in the period between each of the consummation dates of the acquisitions and the date of management s assessment. The excluded elements constituted, in the aggregate, approximately $297.5 million and $218.6 million of the Company s total and net assets, respectively, as of December 31, 2005 and approximately $97.0 million and $2.5 million of the Company s revenues and net income, respectively, for the year then ended. Based on such assessment, management has concluded that the Company s internal control over financial reporting was effective as of December 31, 2005.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is presented below.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarterly period ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Aleris International, Inc.

We have audited management s assessment, included in accompanying Management s Report on Internal Control Over Financial Reporting that Aleris International, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aleris International, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

As indicated in the accompanying Management s Report on Internal Control over Financial Reporting , management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Tomra Latasa Reciclagem, ALSCO Holdings, Inc., certain of the assets of Ormet Corporation and Alumitech, Inc. (the acquired companies), which are included in the 2005 consolidated financial statements of Aleris International, Inc. and constituted in the aggregate $297.5 million and $218.6 million of total and net assets, respectively, as of December 31, 2005 and approximately $97.0 million and $2.5 million of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting at these entities because management does not believe they had adequate time to conduct an assessment of their internal control over financial reporting in the period between each of the consummation dates of the acquisitions and the date of management s assessment. Our audit of internal control over financial reporting of Aleris International, Inc. also did not include an evaluation of the internal control over financial reporting of the acquired companies.

In our opinion, management s assessment that Aleris International, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Aleris International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aleris International, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005 of Aleris International, Inc. and our report dated March 7, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 7, 2006

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item with respect to directors and nominees for director of our company appears under the captions Election of Directors, Executive Officers and Compliance with Section 16(a) in our definitive Proxy Statement relating to our 2006 Annual Meeting of Stockholders, to be filed with the SEC under Regulation 14A of the Securities Exchange Act of 1934, which information is incorporated herein by reference. We anticipate that the definitive Proxy Statement will be filed with the SEC and mailed to stockholders in April 2006.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Regulation S-K Item 402 under this item appears under the caption Executive Officers in our definitive Proxy Statement, which information is incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by this item appears under the caption Voting and Principal Stockholders in the definitive Proxy Statement, which information is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2005, as to our shares of common stock that may be issued under our equity compensation plans, including our 1990 Amended and Restated Stock Option Plan, the 1992 Stock Option Plan, the Annual Incentive Program, the Employee Stock Purchase Plan (ESPP), the Commonwealth Industries, Inc. 1995 Stock Incentive Plan (as amended), the Commonwealth Industries, Inc. 1997 Stock Incentive Plan (as amended), the Amended and Restated 2000 Restricted Stock Plan and the Aleris International, Inc. 2005 Equity Incentive Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plans			
Approved by Stockholders (1)	2,918,163(2)	$ 11.86	2,477,898(4)(5)
Not Approved by Stockholders	24,000(3)	$ 6.37	369,333(6)
Total	2,942,163	$ 11.81	2,847,231

(1) Represents shares under the 1990 Amended and Restated Stock Option Plan, the 1992 Stock Option Plan, the ESPP, the Commonwealth Industries, Inc. 1995 Stock Incentive Plan (as amended), the Commonwealth Industries, Inc. 1997 Stock Incentive Plan (as amended), the Aleris International, Inc. 2005 Equity Incentive Plan and the Annual Incentive Program (except as described in note (2) below).

(2) Includes 1,506,227 shares of Aleris common stock that may be issued upon exercise of options granted under the Commonwealth Industries, Inc. 1995 Stock Incentive Plan and the Commonwealth Industries, Inc. 1997 Stock Incentive Plan that were assumed by Aleris in connection with the business combination with Commonwealth in December 2005. The weighted average exercise price per share of these outstanding options as of December 31, 2005 under those two assumed plans was $12.23 per share.

(3) Consists of 24,000 shares under options granted under the Annual Incentive Program, as described below.

(4) Includes shares available for future issuance under the ESPP. As of December 31, 2005, an aggregate of 575,885 shares of common stock were available for issuance under the ESPP.

(5) The term of the 1992 Stock Option Plan expired on December 15, 2002. As of December 31, 2005, a total of 651,855 shares of common stock were issuable upon the exercise of outstanding options under this expired plan and are included under column (a).

(6) Includes 209,333 shares issuable under the Annual Incentive Program and 160,000 shares of common stock reserved for issuance under the Amended and Restated 2000 Restricted Stock Plan.

Amended and Restated 2000 Restricted Stock Plan. During 2000 our Board of Directors approved the IMCO Recycling Inc. 2000 Restricted Stock Plan. This plan granted our Compensation Committee the authority to make awards of restricted stock of up to 300,000 shares, in order to attract and retain key employees of the Company and its subsidiaries. In February 2004, our Board of Directors amended and restated the plan, granting the Compensation Committee the authority to grant restricted stock units as well as restricted stock out of the 300,000 available shares under the plan. In February and May 2004, we awarded a total of 197,000 restricted stock units to 14 employees of which 57,000 have since been forfeited by two employees who have left the company. Any delivery or issuance of shares under this plan must be from treasury shares or repurchased shares.

Under the terms of this plan, we will enter into individual award agreements with participants designated by the Compensation Committee specifying the number of shares of common stock (or restricted stock units) granted under the award, the price (if any) to be paid by the grantee for the restricted stock, the restriction period during which the award is subject to forfeiture, and any performance objectives specified by the Compensation Committee. Participants will not be permitted to sell, transfer or pledge their restricted stock during their restriction period.

Upon termination of a participant s employment with our company for any reason other than death, disability or retirement, all nonvested shares of restricted stock and nonvested restricted stock units will be forfeited. In addition, in the event of a change in control of our company (as defined in the plan), all restricted stock and restricted stock units will become fully vested. Unless sooner terminated, the Amended and Restated 2000 Restricted Stock Plan will terminate on December 13, 2010.

Annual Incentive Program. Our Annual Incentive Program was first adopted by our Board and approved by our stockholders in 1996. In 1998, the Board and stockholders approved an amendment to the Annual Incentive Program that increased the total number of shares of common stock reserved for issuance under the plan to 900,000 shares. During 2000, the Board again amended the Annual Incentive Program, authorizing an additional 300,000 shares reserved under the plan. However, this plan amendment provided that only treasury shares or shares repurchased by us could be used for options granted out of the additional 300,000 shares reserved. At December 31, 2005, options had been granted and were outstanding to purchase up to 209,333 shares from this additional 300,000 share reserve under the Annual Incentive Program. As of December 31, 2005, options to purchase a total of 24,000 shares of common stock had been granted and were outstanding under the Annual Incentive Program. The Annual Incentive Program has expired.

Eligible participants under the Annual Incentive Program are our key employees, consultants, officers and directors selected by the Compensation Committee from time to time.

The Annual Incentive Program has expired.

The exercise price of options granted under our Annual Incentive Program may be paid in cash or in shares of common stock valued at their fair market value on the date of exercise (or in any combination of cash and shares). In the event that shares are delivered by a participant in payment of all of a portion of the exercise price, or shares are delivered to or withheld by us in payment of our tax withholding obligations upon exercise, the exercising participant will automatically be granted a reload stock option to purchase the number of shares delivered to or withheld by us. The exercise price for a reload stock option will be equal to the fair market value per share of common stock on the date of exercise of the primary option. The option period for a reload stock option will commence on the date of grant and expire on the expiration date of the original stock option.

In the event that a participant exercises a stock option and receives a reload stock option, the participant will be restricted from transferring or pledging a number of shares received by the participant upon exercise of the original stock option, equal to one-half of the total number of shares delivered to and withheld by us upon the exercise of the stock option. These restrictions will continue to be in effect for up to five years, but may expire earlier upon the participant s retirement, death or disability, or upon a change of control of our company. In addition, the Compensation Committee may in its discretion waive these restrictions.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item appears under the caption Executive Officers in the definitive Proxy Statement, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item appears under the caption Principal Accountant Fees and Services in our definitive Proxy Statement, which information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Consolidated Financial Statements: See Index to Consolidated Financial Statements and Financial Statement Schedules in Item 8 Financial Statements And Supplementary Data .

(2) Consolidated Financial Statement Schedules: See Index to Consolidated Financial Statements and Financial Statement Schedules in Item 8 Financial Statements And Supplementary Data .

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EXHIBIT INDEX

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2.1	Agreement and Plan of Merger dated as of June 16, 2004, by and among the Company (formerly IMCO Recycling Inc.), Silver Fox Acquisition Company and Commonwealth Industries, Inc., filed as Exhibit 2.1 to the Company s Current Report on Form 8-K dated June 18, 2004 and incorporated herein by reference.
2.2	Agreement and Plan of Merger dated as of September 7, 2005, by and among the Company and ALSCO Holdings, Inc., Sun ALSCO, LLC and ALSCO Acquisition Corp. filed as Exhibit 99.1 to the Company s Current Report on Form 8-K dated September 7, 2005 and incorporated herein by reference.
2.3	Asset Purchase Agreement dated November 7, 2005, by and among the Company and Ormet Corporation, Ormet Aluminum Mill Products Corporation and Specialty Blanks, Inc., filed as Exhibit 99.1 to the Company s Current Report on Form 8-K dated November 7, 2005 and incorporated herein by reference.
3.1	Certificate of Incorporation of Aleris International, Inc., as amended, filed as Exhibit 3.1 to the Company s Registration Statement on Form S-4 dated February 4, 2005 and incorporated herein by reference.
3.2	Bylaws of Aleris International, Inc., as amended, filed as Exhibit 3.2 to the Company s Registration Statement on Form S-4 dated February 4, 2005 and incorporated herein by reference.
4.1	Registration Rights Agreement dated as of October 6, 2003, by and among the Company (formerly IMCO Recycling Inc.), certain subsidiary guarantors, and J.P. Morgan Securities Inc., as representative of the initial purchasers, filed as Exhibit 10.2 to the Company s Current Report on Form 8-K dated October 7, 2003 and incorporated herein by reference.
4.2	Indenture dated as of October 6, 2003, by and among the Company (formerly IMCO Recycling Inc.), certain subsidiary guarantors under the Indenture and JPMorgan Chase Bank, as Trustee, filed as Exhibit 4.1 to the Company s Current Report on Form 8-K dated October 7, 2003 and incorporated herein by reference.
4.3	Indenture Supplement to Add Subsidiary Guarantors, dated as of January 20, 2005, among Silver Fox Holding Company, Commonwealth Industries, Inc., CA Lewisport, LLC, CI Holdings, LLC, Commonwealth Aluminum, LLC, Commonwealth Aluminum Concast, Inc., Commonwealth Aluminum Lewisport, LLC, Commonwealth Aluminum Metals, LLC, Commonwealth Aluminum Sales Corporation, Commonwealth Aluminum Tube Enterprises, LLC, Aleris International, Inc., each other currently existing subsidiary guarantors under the Indenture, and JPMorgan Chase Bank, N.A., as Trustee under the Indenture, filed as Exhibit 4.1 to the Company s Current Report on Form 8-K dated January 25, 2005, and incorporated herein by reference.
4.4	Form of 10 $^{3}/8$% Senior Secured Notes, Series A, due 2010 and Form of 10 $^{3}/8$% Senior Secured Notes, Series B, due 2010, filed as Exhibit 4.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.

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4.5	Indenture dated as of November 4, 2004, between IMCO Recycling Escrow Inc. and LaSalle Bank National Association, as Trustee, filed as Exhibit 4.1 to the Company s Current Report on Form 8-K dated November 8, 2004 and incorporated herein by reference.
4.6	Supplemental Indenture dated December 9, 2004 between the Company (formerly IMCO Recycling Inc.), Commonwealth Industries, Inc., certain subsidiary guarantors under the Indenture and LaSalle Bank National Association, filed as Exhibit 4.1 to the Company s Current Report on Form 8-K dated December 14, 2004 and incorporated herein by reference.
4.7	Form of 9% Senior Note due 2014, filed as Exhibit 4.4. To the Company s Annual Report on From 10-K for the year ended December 31, 2004 and incorporated herein by reference.
4.8	Registration Rights Agreement dated as of November 4, 2004, among the Company (formerly IMCO Recycling Inc.) and Deutsche Bank Securities Inc., Citigroup Global Markets Inc., PNC Capital Markets, Inc., McDonald Investments Inc., NatCity Investments, Inc., Wachovia Capital Markets, LLC and ABN AMRO Incorporated as initial purchasers, filed as Exhibit 4.3 to the Company s Current Report on Form 8-K dated November 8, 2004 and incorporated herein by reference.
**10.1	IMCO Recycling Inc. Amended and Restated Stock Option Plan, filed as Exhibit 10.4 to the Company s Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.
10.2	First Amended and Restated Revolving Credit and Security Agreement dated as of December 9, 2004 among IMCO Recycling Inc. and PNC Bank, National Association among others, filed as Exhibit 10.3 to the Company s Current Report on Form 8-K dated December 14, 2004 and incorporated herein by reference.
10.3	First Amendment to First Amended and Restated Revolving Credit and Security Agreement dated December 9, 2004, by and among the Company (formerly IMCO Recycling Inc.) and certain of its subsidiaries and PNC, National Association among others, filed as Exhibit 10.4 to the Company s Current Report on Form 8-K dated December 14, 2004 and incorporated herein by reference.
10.4	Second Amendment to First Amended and Restated Revolving Credit and Security Agreement dated February 9, 2005, by and among the Company and certain of its subsidiaries and PNC, National Association among others, filed as Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.
♦10.5	Third Amendment to First Amended and Restated Revolving Credit and Security Agreement dated October 8, 2005, by and among the Company and certain of its subsidiaries and PNC, National Association among others, filed herewith.
10.6	Fourth Amendment to First Amended and Restated Revolving Credit and Security Agreement dated December 19, 2005 by and among the Company and certain of its subsidiaries and PNC, National Association among others, filed as Exhibit 99.1 to the Company s Current Report on Form 8-K dated December 21, 2005 and incorporated herein by reference.
10.7	Agreement dated March 14, 2003 by and among IMCO Recycling Holding B.V., VAW-IMCO Guss and Recycling GmbH and Hydro Aluminium Deutschland GmbH, filed as Exhibit 2.1 to the Company s Current Report on Form 8-K/A-2 dated January 29, 2004 and incorporated herein by reference. (Confidential treatment has been requested with respect to certain portions of this agreement. Such portions have been redacted and marked with an asterisk. The non-redacted version of this agreement was sent to the Securities and Exchange Commission pursuant to an application for confidential treatment.)

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EXHIBIT NUMBER	DESCRIPTION
**10.8	IMCO Recycling Inc. Annual Incentive Program as amended February 27, 1997, April 1, 1997, May 13, 1997, May 13, 1998, October 20, 1999, May 10, 2000 and February 12, 2001, filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 and incorporated herein by reference.
*10.9	IMCO Recycling Inc. Annual Incentive Compensation Plan effective as of January 1, 1999, filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 and incorporated herein by reference.
10.10	IMCO Recycling Inc. Employee Stock Purchase Plan dated June 29, 1999, filed as Exhibit 4.4 to the Company s Form S-8 dated June 30, 1999 and incorporated herein by reference.
**10.11	IMCO Recycling Inc. Performance Share Unit Plan dated December 15, 1999, filed as Exhibit 10.18 to the Company s Annual Report on Form 10-K for the year ended December 31, 1999, and filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 and incorporated herein by reference.
**10.12	IMCO Recycling Inc. Amended and Restated 2000 Restricted Stock Plan, effective as of February 25, 2004, filed as Exhibit 10.10 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference.
**10.13	Aleris International, Inc. 2004 Equity Incentive Plan, as amended, dated November 4, 2004, filed as Annex F to the Prospectus contained in the Company s Registration Statement on Form S-4/A dated November 4, 2004 and incorporated herein by reference.
**10.14	Aleris International, Inc. 2004 Annual Incentive Compensation Plan dated November 4, 2004, filed as Annex G to the Prospectus contained in the Company s Registration Statement on Form S-4/A dated November 4, 2004 and incorporated herein by reference.
10.15	Commonwealth Industries, Inc. 1995 Stock Incentive Plan, as amended and restated on April 23, 1999, filed as Exhibit 10.1 to the Commonwealth Industries, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
10.16	Commonwealth Industries, Inc. 1997 Stock Incentive Plan, as amended and restated on April 23, 1999, filed as Exhibit 10.2 to the Commonwealth Industries, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
10.17	Amendment to Commonwealth Industries, Inc. 1997 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.7.1 to the Commonwealth Industries, Inc. Annual Report on Form 10-K for its fiscal year ended December 31, 2000 and incorporated herein by reference.
10.18	Amendment to Commonwealth Industries, Inc. 1997 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.2 to the Commonwealth Industries, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, and incorporated herein by reference.
10.19	Commonwealth Industries, Inc. 401(k) Plan, as amended and restated effective as of January 1, 1997, filed as Exhibit 10.4 to the Commonwealth Industries, Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated herein by reference.
10.20	Commonwealth Aluminum Lewisport, LLC Hourly 401(k) Plan, as amended and restated, effective as of January 1, 1997, filed as Exhibit 4.4 to the Company s Registration Statement on Form S-8 dated December 9, 2004 and incorporated herein by reference.
10.21	Commonwealth Industries, Inc. Cash Balance Plan as amended and restated, effective as of January 1, 1997, filed as Exhibit 10.3 to Commonwealth Industries, Inc. Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 and incorporated herein by reference.

EXHIBIT NUMBER	DESCRIPTION
♦**10.22	Aleris International, Inc. Retirement Benefit Restoration Plan effective as of January 1, 2005, filed herewith.
♦**10.23	Aleris International, Inc. Deferred Compensation Plan effective as of June 15, 2005, filed herewith.
**10.24	Form of Severance Agreement between the Company and entered into on August 30, 2005 by each of Steven J. Demetriou, Michael D. Friday, John J. Wasz, Christopher R. Clegg, Sean M. Stack and Robert R. Holian, said form filed as Exhibit 99.1 to the Company s Current Report on Form 8-K dated August 30, 2005 and incorporated herein by reference.
**10.25	Form of Performance Unit Award Agreement for 2005 Acquisition Incentive Awards by the Company and entered into each of Steven J. Demetriou, Michael D. Friday, John J. Wasz, Christopher R. Clegg, Sean M. Stack and Robert R. Holian, said form filed as Exhibit 99.1 to the Company s Current Report on Form 8-K dated December 20, 2005 and incorporated herein by reference.
**10.26	Form of Performance Unit Award Agreement for 2005 equity incentive grants of Performance Units by the Company and entered into by each of Steven J. Demetriou, Michael D. Friday, John J. Wasz, Christopher R. Clegg, Sean M. Stack and Robert R. Holian, said form filed as Exhibit 99.2 to the Company s Current Report on Form 8-K dated December 20, 2005 and incorporated herein by reference.
♦12.1	Statement of Computation of Ratio of Earnings to Fixed Charges.
♦21.1	Subsidiaries of Aleris International, Inc. as of March 15, 2006.
♦23.1	Consent of Ernst & Young LLP.
♦31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)
♦31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)
♦32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. §1350.

♦ Filed herewith.
** Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 15, 2006

Aleris International, Inc.

By: /s/ Robert R. Holian
Robert R. Holian, Senior Vice President and Controller

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

Signature	Title	Date
/s/ Steven J. Demetriou **Steven J. Demetriou**	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2006
/s/ Michael D. Friday **Michael D. Friday**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2006
/s/ Robert R. Holian **Robert R. Holian**	Senior Vice President, Controller and Assistant Secretary	March 15, 2006
/s/ John E. Balkcom **John E. Balkcom**	Director	March 15, 2006
/s/ C. Frederick Fetterolf **C. Frederick Fetterolf**	Director	March 15, 2006
/s/ John E. Grimes **John E. Grimes**	Director	March 15, 2006
/s/ Dale V. Kesler **Dale V. Kesler**	Director	March 15, 2006

/s/ Larry E. Kittelberger **Larry E. Kittelberger**	Director	March 15, 2006
/s/ Paul E. Lego **Paul E. Lego**	Director	March 15, 2006
/s/ John E. Merow **John E. Merow**	Director	March 15, 2006
/s/ Hugh G. Robinson **Hugh G. Robinson**	Director	March 15, 2006

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♦ Filed herewith.
** Management contract or compensatory plan or arrangement.

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