Aleris International, Inc.
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 30, 2006

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 1-7170

Aleris International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2008280

(I.R.S. Employer Identification No.)

25825 Science Park Drive, Suite 400

Beachwood, Ohio 44122

(Address of principal executive offices) (Zip Code)

(216) 910-3400

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the close of business on October 31, 2006.

Common Stock, $0.10 par value, 31,412,081

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALERIS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEET

(in millions, except share and per share data)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 107.6	$ 6.8
Accounts receivable (net of allowance of $12.7 and $5.8 at September 30, 2006 and December 31, 2005, respectively)	736.9	325.1
Inventories	874.4	404.8
Deferred income taxes	35.5	35.2
Prepaid expenses	17.1	8.7
Derivative financial instruments	56.0	28.0
Other current assets	42.6	2.2
Total Current Assets	1,870.1	810.8
Property, plant and equipment, net	1,051.9	537.8
Goodwill	266.4	152.8
Intangible assets, net	29.7	22.9
Derivative financial instruments	35.8	5.3
Restricted cash	6.2	6.2
Other assets	30.1	18.3
	$ 3,290.2	$ 1,554.1
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 545.4	$ 200.8
Accrued liabilities	324.6	135.4
Current maturities of long-term debt	22.4	20.8
Total Current Liabilities	892.4	357.0
Long-term debt	1,563.6	631.0
Deferred income taxes	93.8	51.8
Accrued pension benefits	165.3	41.7
Accrued postretirement benefits	57.4	48.6
Other long-term liabilities	64.9	30.2
Stockholders Equity		
Preferred stock; par value $.10; 8,000,000 shares authorized; none issued		
Common stock; par value $.10; 80,000,000 shares authorized 31,412,081 issued at September 30, 2006; 31,237,685 issued at December 31, 2005	3.1	3.1
Additional paid-in capital	302.2	295.7
Deferred stock compensation		(5.9)
Retained earnings	155.3	95.9
Accumulated other comprehensive (loss) income	(4.8)	5.3
Treasury stock, at cost; 71,297 shares at September 30, 2006 and 13,007 shares at December 31, 2005	(3.0)	(0.3)

Total Stockholders Equity		452.8		393.8
	$	3,290.2	$	1,554.1

See Notes to Consolidated Financial Statements.

ALERIS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(in millions, except share and per share data)

	For the three months ended September 30		For the nine months ended September 30	
	2006	**2005**	**2006**	**2005**
Revenues	$ 1,395.0	$ 554.9	$ 3,255.4	$ 1,803.5
Cost of sales	1,287.6	495.8	2,946.9	1,610.7
Gross profit	107.4	59.1	308.5	192.8
Selling, general and administrative expense	52.4	22.1	108.9	64.9
Restructuring and other charges	2.6	1.0	2.3	4.8
Unrealized losses (gains) on derivative financial instruments	24.3	(2.7)	7.1	10.4
Operating income	28.1	38.7	190.2	112.7
Interest expense	26.6	9.8	54.3	30.1
Interest income	(0.9)	(0.6)	(1.5)	(1.2)
Loss on early extinguishment of debt	53.7		53.7	
Other (income) expense, net	(12.6)	0.2	(11.3)	(0.1)
Equity in net loss of affiliates		0.1		0.3
(Loss) income before provision for income taxes and minority interests	(38.7)	29.2	95.0	83.6
(Benefit from) provision for income taxes	(14.7)	(2.4)	35.0	3.8
(Loss) income before minority interests	(24.0)	31.6	60.0	79.8
Minority interests, net of provision for income taxes	0.2	0.1	0.6	0.3
Net (loss) income	$ (24.2)	$ 31.5	$ 59.4	$ 79.5
(Loss) earnings per share:				
Basic	$ (0.78)	$ 1.03	$ 1.92	$ 2.62
Diluted	$ (0.78)	$ 1.01	$ 1.87	$ 2.55
Weighted average shares outstanding:				
Basic	31,026,840	30,494,578	30,914,240	30,367,299
Diluted	31,026,840	31,276,036	31,724,005	31,151,027

See Notes to Consolidated Financial Statements.

ALERIS INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(in millions)

	For the nine months ended September 30 2006	2005
Operating activities		
Net income	$ 59.4	$ 79.5
Depreciation and amortization	63.4	39.8
Benefit from deferred income taxes	(2.9)	(13.4)
Excess income tax benefits from exercise of stock options	(3.6)	
Restructuring and other charges:		
Charges	2.3	4.8
Payments	(5.9)	(3.9)
Non-cash loss on early extinguishment of debt	16.4	
Stock-based compensation expense	7.1	2.3
Equity in loss of affiliates		0.3
Unrealized losses on derivative financial instruments	7.1	10.4
Other non-cash charges	3.7	3.7
Changes in operating assets and liabilities:		
Accounts receivable	(119.2)	(31.6)
Inventories	14.7	18.7
Other assets	3.3	7.0
Accounts payable and accrued liabilities	105.0	(4.0)
Net cash provided by operating activities	150.8	113.6
Investing activities		
Purchase of business, net of cash acquired	(824.3)	(17.4)
Payments for property, plant and equipment	(53.5)	(38.9)
Proceeds from sale of property, plant and equipment	1.5	5.5
Other	(0.1)	(0.1)
Net cash used by investing activities	(876.4)	(50.9)
Financing activities		
Net payments on long-term revolving credit facilities	36.2	(50.8)
Proceeds from issuance of long-term debt	1,154.7	14.3
Payments on long-term debt	(327.6)	(1.1)
Debt issuance costs	(29.9)	(0.7)
(Increase) decrease in restricted cash	(9.2)	9.8
Proceeds from exercise of stock options	1.5	12.5
Excess income tax benefits from exercise of stock options	3.6	
Repurchase of common stock for treasury	(2.6)	
Other	(0.7)	0.3
Net cash used by financing activities	826.0	(15.7)
Effect of exchange rate differences on cash and cash equivalents	0.4	(0.4)
Net increase in cash and cash equivalents	100.8	46.6
Cash and cash equivalents at beginning of period	6.8	17.8

Cash and cash equivalents at end of period	$ 107.6	$ 64.4

See Notes to Consolidated Financial Statements.

ALERIS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2006

(amounts in millions, except share and per share data)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The accompanying financial statements include the accounts of Aleris International, Inc. and all of its subsidiaries (collectively, except where the context otherwise requires, referred to as we, us, our or similar terms). All intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE B - INVENTORIES

The components of inventories are:

	September 30, 2006	December 31, 2005
Finished goods	$ 437.8	$ 126.7
Raw materials	218.3	145.6
Work in process	190.5	113.8
Supplies	27.8	18.7
	$ 874.4	$ 404.8

NOTE C ACQUISITION OF CORUS ALUMINUM

On August 1, 2006, we acquired the downstream aluminum business of Corus Group plc (Corus Aluminum) for a cash purchase price of 695.5 (approximately $885.7), subject to adjustment based on the finalization of working capital delivered and net debt assumed. We currently estimate that the purchase price adjustment will be in the range of approximately $65.0 (approximately 51.3) and have included this amount in our determination of the preliminary purchase price allocation presented below and as a current accrued liability in our consolidated balance sheet. We also paid acquisition related costs of $12.4. The acquisition included Corus Group plc s (Corus) aluminum rolling and extrusions business but did not include Corus s primary aluminum smelters. Corus Aluminum generated revenues of approximately $1,850.0 in 2005. The acquisition of Corus Aluminum significantly expands our operational and geographic scale and scope, diversifies our customer mix and product breadth and provides us with industry-leading and proprietary manufacturing capabilities.

The consolidated financial statements include the results of Corus Aluminum from the date of acquisition. 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 finalization of the purchase price, the completion of an independent appraisal of the fair value of related long-lived tangible and intangible 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 related 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	$ 929.5

Property, plant and equipment	526.9
Goodwill	93.2
Other assets	57.7
Current liabilities	(397.8)
Long-term debt	(20.9)
Accrued pension and post-retirement benefits	(130.2)
Other long-term liabilities	(95.3)
Cash paid, including estimated purchase price adjustment	963.1
Less: cash acquired	(73.0)
Cash paid, including estimated purchase price adjustment, net of cash acquired	$ 890.1

The following unaudited pro forma financial information for the nine months ended September 30, 2006 and 2005 presents our combined results of operations as if the acquisition of Corus Aluminum and the acquisitions of Tomra Latasa Reciclagem, ALSCO Holdings, Inc., and Alumitech, Inc. had occurred on January 1, 2005. The unaudited pro forma information is not necessarily indicative of the consolidated results of operations that would have occurred had the acquisitions been made at the beginning of the period presented or the future results of combined operations.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues	$ 1,579.3	$ 1,117.9	$ 4,534.3	$ 3,522.9
Gross profit	122.9	110.9	454.4	364.0
Net (loss) income	(33.6)	36.6	73.6	52.8
(Loss) Earnings per share:				
Basic	$ (1.08)	$ 1.20	$ 2.38	$ 1.74
Diluted	(1.08)	1.17	2.32	1.69
Weighted average shares outstanding:				
Basic	31,026,840	30,494,578	30,914,240	30,367,299
Diluted	31,026,840	31,276,036	31,724,005	31,151,027

NOTE D GOODWILL

In prior years, we performed our annual impairment test as of the last day of our fourth quarter. For 2006, we have changed the measurement date to October 1, the first day of our fourth quarter, in order to provide additional time to quantify the fair value of our reporting units and to evaluate the results of the impairment testing. This change did not have an effect on our financial performance or results of operations, nor was there any impact on prior period financial statements under the requirements of Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. Retrospective application, as required under SFAS No. 154, was not necessary as no impairment charges had been recorded in any previous financial statements (with the exception of a charge recorded in 2002 upon the initial adoption of SFAS No. 142, Goodwill and Other Intangible Assets) nor did the change in measurement date cause any impairments.

The following table details the changes in the carrying amount of goodwill for each of our reportable segments:

	Global rolled and extruded products	Global recycling	Global zinc	Total
Balance at December 31, 2005	$ 67.3	$ 63.6	$ 21.9	$ 152.8
Acquisition of Corus Aluminum (See Note C)	93.2			93.2
Reclassification resulting from change in reporting structure (See Note I)	7.7	(7.7)		
Purchase price allocation adjustments for 2005 acquisitions	25.3	(8.6)		16.7
Translation and other adjustments	(0.1)	3.8		3.7
Balance at September 30, 2006	$ 193.4	$ 51.1	$ 21.9	$ 266.4

During the first nine months of 2006, we recorded adjustments to the purchase price allocations of our 2005 acquisitions, primarily related to the preliminary appraised values of long-lived assets of Alumitech, Inc. and the long-lived assets acquired from Ormet Corporation. The purchase price allocations for these acquisitions remain preliminary and are subject to the final determination of the fair value of acquired long-lived assets, deferred income taxes and certain other acquired assets and assumed liabilities.

NOTE E - LONG-TERM DEBT AND REFINANCING

Our long-term debt is summarized as follows:

	September 30, 2006	December 31, 2005
ABL Credit Facility	$ 391.9	$
Term Loan Facility	647.0	
Senior Unsecured Facility	504.0	
Amended and restated senior credit facility		263.3
9% Senior Notes, due November 15, 2014		125.0
10 3/8% Senior Secured Notes, due October 6, 2010, net	8.0	207.9
VAW-IMCO credit facilities		34.8
7.65% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1996 Series, due May 1, 2016, net	5.7	5.7
7.45% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1997 Series, due May 1, 2022	4.6	4.6
6.00% Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-1998 Series, due May 1, 2023	4.1	4.1
Morgantown, Kentucky Solid Waste Disposal Facilities Revenue Bonds-2004 Series, due October 1, 2027 bearing interest at 3.99% at September 30, 2006	5.0	5.0
Other	15.7	1.4
Subtotal	1,586.0	651.8
Less current maturities	22.4	20.8
Total	$ 1,563.6	$ 631.0

In conjunction with the acquisition of Corus Aluminum, we entered into a $750.0 asset backed multi-currency credit facility (ABL Facility), a $650.0 term loan facility (Term Loan Facility) funded in U.S dollars and Euros and a temporary senior unsecured facility (Senior Unsecured Facility) funded in U.S. dollars and Euros. In addition to funding the purchase price paid to acquire Corus Aluminum, we used the proceeds from these facilities to refinance substantially all of our existing indebtedness and to pay costs associated with the acquisition and new facilities. Amounts outstanding under our senior credit facility, totaling $231.5, were repaid and that agreement was terminated on August 1, 2006. We also completed a tender offer to redeem substantially all of the outstanding 10 3/8% senior secured notes and 9% senior notes and repaid all of the amounts outstanding under the VAW-IMCO, our German global recycling operation, credit facilities and $59.0 of Corus Aluminum s outstanding debt. As a result of these financing activities, we incurred prepayment penalties totaling $37.3 and wrote off $16.4 of unamortized debt issuance costs. The total charge of $53.7 has been recorded as Loss on early extinguishment of debt in the consolidated statement of operations.

ABL Facility

The ABL Facility is a $750.0, five-year revolving credit facility which permits multi-currency borrowings of up to $690.0 by our U.S. and European subsidiaries and $60.0 by our Canadian subsidiaries. We pay interest at rates per annum equal to, at our option, either LIBOR plus a margin ranging from 1.25% to 2.00% as determined based on levels of borrowing availability which is reset each quarter, or the prime rate of Deutsche Bank AG NY Branch plus a margin ranging from 0.25% to 1.00% as determined based on levels of borrowing availability which is reset each quarter. At September 30, 2006, the average interest rate on borrowings outstanding under this facility was 6.40%. The ABL Facility is secured by substantially all of the assets of our wholly-owned domestic subsidiaries, including a first priority security interest in the current assets and a second priority interest in substantially all other tangible and intangible assets, all of the assets of the Canadian borrowers, and the accounts receivable of the European borrowers. Advances under the ABL Facility are subject to domestic and appropriate Canadian and European borrowing base calculations. The borrowing base is comprised of eligible accounts receivable and inventory of those entities. As of September 30, 2006, we estimate that our borrowing base would have supported borrowings of $700.9. After giving effect to the $391.9 of outstanding borrowings as well as outstanding letters of credit of $20.0, we had $289.0 available for borrowing as of September 30, 2006. In addition, any time excess availability under the ABL Facility is less than the greater of (a) $65.0 or (b) 10% of the borrowing base, the ABL Facility has a minimum fixed charge coverage ratio requirement of 1.10 to 1.00.

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Term Loan Facility

The Term Loan Facility is a $650.0, seven-year facility and includes $399.0 of U.S. borrowings and 195.6 (approximately $248.0) of European borrowings. The Term Loan Facility will be repaid at a rate of 1.00% per annum in equal quarterly installments during the first 81 months thereof, with the balance payable at final maturity. In addition, we are required to prepay the Term Loan Facility with 50.0% of our annual excess cash flows, as defined, and the net cash proceeds from the sale of fixed assets, insurance recoveries, and the issuance of additional debt, except in certain situations. We pay interest at rates per annum equal to, at our option, either the EURIBOR plus a margin of 2.50% (2.75% for European borrowings), or the higher of (a) the Federal Funds rate plus 0.50% or (b) the prime rate of Deutsche Bank AG NY Branch each plus 1.50%. At September 30, 2006 the average interest rate on outstanding borrowings under this facility was 7.16%. The Term Loan Facility is secured by substantially all of the assets of our wholly-owned domestic subsidiaries, including a first priority security interest in the fixed assets of our wholly-owned U.S. subsidiaries and a second priority interest in the current assets and substantially all other tangible and intangible assets of our wholly-owned subsidiaries. All obligations of the European borrowers are secured by the assets of our German holding company and its wholly-owned subsidiaries (other than our Belgian subsidiaries and other subsidiaries which are prohibited by local law from providing such security interests).

Senior Unsecured Facility

The Senior Unsecured Facility is a $505.0, eight-year facility due in 2014. The facility bears interest at LIBOR plus an applicable margin. At September 30, 2006, the average interest rate on borrowings outstanding under this facility was 8.82%. Borrowings under the Senior Unsecured Facility will be guaranteed by our wholly-owned U.S. subsidiaries.

The terms of the ABL Facility, Term Loan Facility and the Senior Unsecured Facility will significantly restrict and, in some cases, prohibit our ability and the ability of most of our subsidiaries to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions, or redeem or repurchase equity interests or subordinated obligations;
- make investments;
- sell assets, including the capital stock of subsidiaries;
- enter into sale/leaseback transactions;
- create liens;
- enter into agreements that restrict the restricted subsidiaries , as defined, ability to pay dividends, transfer assets or make intercompany loans;
- merge or consolidate or transfer all or substantially all of its assets; and
- enter into transactions with affiliates.

10 ^{3}/8% Senior Secured Notes

We completed a tender offer to purchase for cash substantially all of the $10\,^{3}/8\%$ senior secured notes on August 1, 2006 as part of our debt refinancing resulting from the acquisition of Corus Aluminum. The remaining $10\,^{3}/8\%$ senior secured notes, totaling $8.0, were covenant defeased and at September 30, 2006 were no longer subject to many of the covenants included under the related indenture. In connection with the defeasance, we placed funds sufficient to meet future principal, interest and prepayment penalty requirements in a trust. However, the untendered notes remain our legal obligation at September 30, 2006 and, therefore, are classified within current portion of long-term debt in the consolidated balance sheet with the amounts placed in trust classified as other current assets. On October 20, 2006, we legally defeased the untendered notes which are no longer our obligation.

As of September 30, 2006, we were in compliance with all applicable debt covenants.

NOTE F EARNINGS PER SHARE

The following table sets forth the reconciliation between the weighted average shares used for calculating basic and diluted earnings per share:

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Numerator for basic and diluted (loss) earnings per share:				
Net (loss) income	$ (24.2)	$ 31.5	$ 59.4	$ 79.5
Denominator:				
Basic (loss) earnings per share-weighted-average shares	31,026,840	30,494,578	30,914,240	30,367,299
Dilutive potential common shares-stock options and non-vested shares and units		781,458	809,765	783,728
Denominator for diluted earnings per share	31,026,840	31,276,036	31,724,005	31,151,027
(Loss) earnings per share:				
Basic	$ (0.78)	$ 1.03	$ 1.92	$ 2.62
Diluted	$ (0.78)	$ 1.01	$ 1.87	$ 2.55

Stock options and non-vested shares and units totaling 839,455 were excluded from the computation of diluted earnings per share for the three months ended September 30, 2006 because the effect would have been anti-dilutive.

NOTE G COMMITMENTS AND CONTINGENCIES

Environmental proceedings and asset retirement obligations

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.

Currently and from time to time, we are a party to notices of violation brought by environmental agencies concerning the laws governing air emissions. In connection with certain pending proceedings, we are in discussions with government authorities for the purpose of resolving similar issues that have arisen at a number of our facilities in different states. At present, discussions are not sufficiently advanced to determine the scope of relief or the amount of penalties. However, with respect to these pending proceedings, the company does not anticipate that the amount of penalties would have a material adverse effect on our financial position or results of operations.

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 state 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.

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 $13.1 and $12.6 at September 30, 2006 and December 31, 2005, respectively, and have been classified as other long-term liabilities in the consolidated balance sheet.

In addition to environmental liabilities, we have recorded asset retirement obligations associated with legal requirements related primarily to the normal operation of our landfills and the retirement of the related assets. At September 30, 2006 and December 31, 2005, our total asset retirement obligations for our landfills were $12.6 and $12.8, respectively, which have been classified within other long-term liabilities in the consolidated balance sheet.

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, results of operations or cash flows.

NOTE H COMPREHENSIVE INCOME

The following table presents the components of comprehensive income for the three and nine months ended September 30, 2006 and 2005.

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net (loss) income	$ (24.2)	$ 31.5	$ 59.4	$ 79.5
Changes in other comprehensive (loss) income, net of tax:				
Currency translation adjustments	(2.8)	1.0	3.5	(4.4)
Unrealized (losses) gains on derivative financial instruments:				
Net change from periodic revaluations	(0.8)	38.8	(19.5)	54.1
Net amount reclassified to income	(1.5)	(4.5)	(3.0)	(6.8)
Income tax effect	1.2	(13.0)	8.9	(16.9)
Net unrealized (losses) gains on derivative financial instruments	(1.1)	21.3	(13.6)	30.4
Comprehensive (loss) income	$ (28.1)	$ 53.8	$ 49.3	$ 105.5

See Note M for further information relating to our derivative financial instruments.

NOTE I SEGMENT REPORTING

The Corus Aluminum acquisition increased the size and scope of our international operations substantially and, as a result, we have re-aligned our reporting structure into global business units that offer different types of metal products and services. Our new operating segments consist of global rolled and extruded products, global recycling, global specification alloy and global zinc. As a result, the former international segment is now included within the global recycling and global specification alloy segments.

Our global rolled and extruded products segment produces aluminum sheet, plate and extruded and fabricated products for distributors and customers serving the aerospace, building and construction, transportation and consumer durables industry segments. For financial reporting purposes, the global recycling and global specification alloy operating segments have been aggregated into the global recycling reportable segment. The global recycling segment represents all of our aluminum melting, processing, alloying, and salt cake recycling activities. We have aggregated the above 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 have been and are expected to remain similar. Our zinc segment represents all of our zinc melting, processing and trading activities. Prior periods have been restated to reflect this change.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in Note A of our Form 10-K for the year ended December 31, 2005. 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, including depreciation of corporate assets, losses from the early extinguishment of debt and amortization of capitalized debt issuance costs. Intersegment sales and transfers are recorded at market value. Consolidated cash, long-term debt, net capitalized debt issuance costs, deferred tax assets and liabilities and assets located at our headquarters office are not allocated to the reportable segments.

Beginning in 2006, certain recycling facilities were shifted to the global rolled and extruded products segment and these facilities are now included within the global rolled and extruded products segment. Management estimates that the global recycling segment s revenues and segment income would have been lower by $5.7 and $0.7, respectively, in the three months ended September 30, 2005 and $17.5 and $1.8, respectively, in the nine months ended September 30, 2005. Global rolled and extruded products segment income would have been higher by $0.7 and $1.8 in the three and nine months ended September 30, 2005, respectively. In addition, intersegment revenues would have been lower by $5.7 and $17.5 in the three and nine months ended September 30, 2005, respectively, as a result of this change. The prior periods have not been restated for the change.

Reportable Segment Information

The following table shows our segment assets as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Assets:		
Global rolled and extruded products	$ 2,402.4	$ 819.0
Global recycling	640.7	575.2
Global zinc	160.3	124.5
Other unallocated assets	86.8	35.4
Total assets	$ 3,290.2	$ 1,554.1

The following table shows our revenues and segment income for the three and nine months ended September 30, 2006 and 2005:

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Revenues:				
Global rolled and extruded products	$ 877.6	$ 270.5	$ 1,767.9	$ 942.8
Global recycling	375.7	230.9	1,110.3	708.9
Global zinc	148.8	60.2	397.4	175.1
Intersegment revenues	(7.1)	(6.7)	(20.2)	(23.3)
Total revenues	$ 1,395.0	$ 554.9	$ 3,255.4	$ 1,803.5
Segment income:				
Global rolled and extruded products	$ 45.5	$ 35.9	$ 140.3	$ 123.7
Global recycling	22.7	10.7	71.0	31.3
Global zinc	14.2	4.8	48.5	14.9
Total segment income	$ 82.4	$ 51.4	$ 259.8	$ 169.9
Unallocated amounts:				
Corporate general and administrative expenses	$ (23.5)	$ (14.4)	$ (57.2)	$ (42.4)
Restructuring and other charges	(2.6)	(1.0)	(2.3)	(4.8)
Loss from early extinguishment of debt	(53.7)		(53.7)	
Interest expense	(26.6)	(9.8)	(54.3)	(30.1)
Unrealized (losses) gains on derivative financial instruments	(24.3)	2.7	(7.1)	(10.4)
Interest and other income, net	9.6	0.3	9.8	1.4
(Loss) income before provision for income taxes and minority interests	$ (38.7)	$ 29.2	$ 95.0	$ 83.6

NOTE J STOCK-BASED COMPENSATION

On January 1, 2006 we adopted SFAS No. 123(R), Share-Based Payments, issued by the Financial Accounting Standards Board (FASB) in December 2004. Prior to January 1, 2006, we applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees as required by SFAS No. 123 Accounting for Stock-Based Compensation. 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. The 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.

We elected to adopt the modified prospective transition method of SFAS No. 123(R). Under this method, stock-based compensation expense beginning as of January 1, 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated under the provisions of SFAS No. 123 and previously used to value the awards for the pro forma footnote disclosures required by SFAS Nos. 123 and 148. Compensation expense also includes the grant-date fair value for all stock-based compensation awards granted subsequent to December 31, 2005 estimated in accordance with SFAS No. 123(R). In addition, all remaining unamortized stock-based compensation expense previously included as a separate component of stockholders equity was reversed against additional paid-in-capital on January