

**KAISER GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

September 30, 2011 and 2010

(UNAUDITED)

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>(unaudited)</u>	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,877	\$ 12,749
Certificates of deposit	250	4,330
Marketable securities, at fair value	—	5,572
Restricted cash and cash equivalents	109	109
Accounts receivable	412	—
Inventories, net	227	—
Prepaid expenses and other current assets	338	85
Total Current Assets	<u>9,213</u>	<u>22,845</u>
Total property and equipment, net	239	—
Other Assets		
Non-marketable securities, at cost	36,053	27,158
Investment in and advances to joint venture	785	876
Total Other Assets	<u>36,838</u>	<u>28,034</u>
Total Assets	<u>\$ 46,290</u>	<u>\$ 50,879</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 637	\$ 70
Post retirement benefit plan obligation	163	186
Other accrued expenses	843	117
Total Current Liabilities	<u>1,643</u>	<u>373</u>
Other long-term liabilities	49	—
Total liabilities	<u>1,692</u>	<u>373</u>
Commitments and Contingencies		
Shareholders' Equity		
Common stock, par value \$.01 per share:		
Authorized—3,000,000 shares		
Issued —1,790,577 and 1,789,577 shares at September 30, 2011 and December 31, 2010, respectively		
Outstanding — 1,320,155 and 1,412,431 shares at September 30, 2011 and December 31, 2010, respectively		
	18	18
Capital in excess of par	11,806	11,776
Retained earnings	46,139	48,902
Accumulated other comprehensive income	40	431
Subtotal	<u>58,003</u>	<u>61,127</u>
Less: Treasury stock, at cost (470,422 and 377,146 shares at September 30, 2011 and December 31, 2010)	<u>(13,405)</u>	<u>(10,621)</u>
Total Shareholders' Equity	<u>44,598</u>	<u>50,506</u>
Total Liabilities and Shareholders' Equity	<u>\$ 46,290</u>	<u>\$ 50,879</u>

See notes to consolidated financial statements.

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Three Months Ended September 30 (unaudited)		For the Nine Months Ended September 30, (unaudited)	
	2011	2010	2011	2010
Gross Revenue	\$ 358	\$ —	\$ 358	\$ —
Cost of Revenue	581	—	581	—
Gross Loss	(223)	—	(223)	—
Selling, general and administrative expenses				
Professional fees	1,031	390	1,892	1,549
Payroll and benefits	344	237	908	724
Other administrative expenses	211	160	504	519
Operating Loss	(1,809)	(787)	(3,527)	(2,792)
Other Income:				
(Loss) Income in earnings of joint venture	—	—	(91)	(11)
Investment income	565	—	665	—
Interest income	1	107	190	293
Loss Before Income Tax	(1,243)	(680)	(2,763)	(2,510)
Income tax benefit	—	196	—	288
Net Loss	(\$1,243)	(\$484)	(\$2,763)	(\$2,222)
Basic and Diluted Loss Per Common Share:	(\$0.91)	(\$0.34)	(\$1.98)	(\$1.57)
Weighted average shares for basic and diluted loss per common share	1,370	1,412	1,395	1,412

See notes to consolidated financial statements

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Nine Months ended September 30,	
	2011	2010
	(Unaudited)	
Operating Activities		
Net loss	\$ (2,763)	\$ (2,222)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Deferred taxes	—	(90)
Equity loss in earnings of joint venture	91	11
Changes in operating assets and liabilities:		
Accounts receivable, trade	(412)	—
Inventories	(2)	—
Prepaid expenses and other current assets	(128)	(40)
Income tax receivable	—	(196)
Accounts payable and accrued expenses	1,229	110
Stock based compensation	30	27
Other operating activities	(5)	(45)
Net Cash Used in Operating Activities	(1,960)	(2,445)
Investing Activities		
Asset purchase	(500)	—
Purchases of certificates of deposit	—	(2,784)
Maturity of certificates of deposit	4,086	2,784
Purchase of marketable securities	—	(181)
Sale of marketable securities	5,181	—
Purchase of non-marketable securities	(8,895)	(15,603)
Sale of non-marketable securities	—	145
Net Cash Used in Investing Activities	(128)	(15,639)
Financing Activities		
Purchase of common stock held as treasury stock	(2,784)	(27)
Net Cash Used in Financing Activities	(2,784)	(27)
Decrease in Cash and Cash Equivalents	(4,872)	(18,111)
Cash and Cash Equivalents at Beginning of Period	12,749	30,526
Cash and Cash Equivalents at End of Period	\$ 7,877	\$ 12,415

See notes to consolidated financial statements.

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation: Kaiser Group Holdings, Inc. (“Kaiser Group Holdings” or the “Company”) is a Delaware corporation that was formed on December 6, 2000 for the purpose of owning all of the outstanding stock of Kaiser Group International, Inc. (“Old Kaiser”) which in turn continues to own the stock of its remaining subsidiaries. On June 9, 2000, Old Kaiser and 38 of its domestic subsidiaries voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the District of Delaware (case nos. 00-2263 to 00-2301). Old Kaiser emerged from bankruptcy with an approved plan of reorganization (which was its Second Amended Plan of Reorganization and is referred to in this report as the “Plan of Reorganization”) that was effective on December 18, 2000 (the “Effective Date”). A summary of the Plan of Reorganization for Old Kaiser can be found in a Current Report on Form 8-K dated December 5, 2000 filed by Old Kaiser. In this report, unless the context states otherwise, the terms “we”, “our” and “Kaiser” refer to Kaiser Group Holdings (including Old Kaiser as its predecessor) and its subsidiaries.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required for complete financial statements. The following summary of significant accounting policies of the Company is presented to assist the reader in understanding the financial and other data presented in this report. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for any future periods or for the year ending December 31, 2011. In the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. The Company has evaluated subsequent events through the date of the issuance of its financial statements.

These statements should be read in conjunction with the financial statements and accompanying notes included in the Company’s 2010 Consolidated Financial Statements.

As of September 30, 2011, apart from resolving remaining bankruptcy claims, the Company had only a limited number of activities, assets and liabilities, primarily consisting of:

- the ownership of a 50% interest in Kaiser-Hill Company, LLC (“Kaiser-Hill”), which serves as the general contractor at the U.S. Department of Energy’s (“DOE”) Rocky Flats site near Denver, Colorado for the performance of a contract for the closure of the site (the “Closure Contract”) (See Note 6).
- the closeout of a completed contract for the engineering and construction of a steel mini-mill in the Czech Republic for Nova Hut (“Nova Hut”).
- the ownership of approximately 19.38% interest in Bally Total Fitness Holding Corporation (“Bally”) (See Note 5).
- an \$13.4 million investment in investment partnerships, at cost (See Note 5).
- a wholly-owned subsidiary, Kaiser Aircraft Industries, Inc. (“Kaiser Aircraft”), which we formed in August 2011 to acquire certain assets of Alabama Aircraft Industries, Inc., a Birmingham, Alabama based provider of aircraft maintenance and modification services to government and military customers. The purchase transaction was executed in September 2011 through a “363” bankruptcy sale under the jurisdiction of the Delaware Bankruptcy Court and was accounted for as an asset purchase. The purchase price for the purchased assets was \$0.5 million.
- a wholly-owned captive insurance company that has not been issuing new policies since October 1, 2000 and has solely been involved in resolving remaining claims made against previously issued policies. In the fourth quarter of 2004, the Company received regulatory approval and finalized the formation documents of a sponsored captive subsidiary, MS Builders Insurance Company, to enable our wholly-owned captive insurance company to offer derivative captive insurance services to third party clients. MS Builders Insurance Company was dissolved effective September 20, 2011 as the Company determined that under prevailing market conditions there were insufficient business prospects for MS Builders Insurance Company.

- an ongoing obligation to fund a capped, post-retirement medical benefit plan for a fixed number of retirees (See Note 10).

The Company adopted fresh start reporting in its consolidated balance sheet as of December 31, 2000. Guidance issued by the American Institute of Certified Public Accountants requires, under certain circumstances resulting from a bankruptcy, the creation of a new entity for financial reporting purposes upon the emergence of an entity from bankruptcy. Accordingly, the value of the reorganized enterprise becomes the established amount for the emerging balance of shareholders' equity, and any accumulated deficit of the predecessor entity is offset against available capital in excess of par, resulting in an emerging retained earnings of zero. Additionally, assets and liabilities are recorded at their fair values.

The value of the emerged enterprise used for fresh start reporting as of December 31, 2000 was \$87.5 million. It was determined by management with the assistance of independent advisors. The methodology employed involved estimation of the enterprise value taking into consideration a discounted cash flow analysis. The discounted cash flow analysis was based on a seven-year cash flow projection prepared by management, taking into consideration the terminal value of its assets and liabilities as of immediately prior to its emergence from bankruptcy on December 18, 2000. Terminal values of assets and liabilities were determined based either on contracted amounts, actuarial present values and/or management's estimates of the outcome of certain operating activities. Net after-tax cash flows, assuming a 40% effective tax rate, were discounted at 17% in order to take into consideration the risks and uncertainties inherent in such projections. The cash flow projections were based on estimates and assumptions about circumstances and events that had not yet taken place. Estimates and assumptions regarding individual retained matters which form the collective composition of the overall enterprise value as of December 18, 2000 are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the Company. Accordingly, there may be differences between projections and actual results because events and circumstances frequently do not occur as expected and may be significant. More specifically, assumptions within the valuation related to the amount and timing of the ultimate performance and related cash flows of the Company's investment in Kaiser-Hill have the greatest impact on the overall enterprise valuation.

Principles of Consolidation: The consolidated financial statements include all majority-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated. Investments in unconsolidated affiliated companies and joint ventures are accounted for using the equity method.

Revenue Recognition: Revenue at Kaiser Aircraft Industries, Inc. ("Kaiser Aircraft") is derived principally from aircraft maintenance and modification services performed under contracts or subcontracts with military and commercial customers. Kaiser Aircraft recognizes revenue and associated costs under such contracts on the proportional performance method. Revenue and any estimated profit is recognized each period based upon certain contract performance measures (labor hours, labor costs, or total costs) incurred expressed as proportion of a total project estimate. Thus, labor hours, labor costs, or total contract costs incurred to date are compared with the total estimate for these items at completion. Performance is based on the ratio of the incurred hours or costs to the total estimate. Kaiser Aircraft also derives some revenue from the manufacture and/or assembly of parts and kits used by its customers. Kaiser Aircraft recognizes revenue and the associated cost related to the manufacture and/or assembly of parts and kits when the parts or kits are delivered and accepted by its customers.

Kaiser Aircraft provides for losses on uncompleted contracts in the period in which management determines that the estimated total costs will exceed the estimated total contract revenue. These estimates are reviewed periodically and any revisions are charged or credited to operations in the period in which the change is determined.

Marketable Securities: The Company classifies all of its marketable securities as available-for-sale.

Available-for-sale securities are recorded at fair value, determined at a specific point in time. Unrealized gains and losses, net of the related tax effect, on securities classified as available-for-sale are excluded from the determination of net income and are reported as a separate component of shareholders' equity, within other comprehensive income, until realized. Declines in the fair value of marketable securities below their cost that are other than temporary are reflected in net income as realized.

Inventories: Raw materials and supplies are stated at the lower of cost or net realizable value, with cost principally determined by the last-in first-out method. Finished goods and work-in-process include materials, direct labor, manufacturing overhead, and other indirect costs incurred under each contract, less amounts in excess of estimated realizable value. At September 30, inventories consisted of raw materials and fuel.

Property and equipment: Machinery and equipment are stated at cost, less accumulated amortization and depreciation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives.

Non-marketable Securities: The Company values the investments in a private company and investment partnerships using the cost method of accounting. The Company monitors these investments for factors indicating an other than temporary impairment of value.

Impairment of Securities: For investments in equity funds and non-public securities, the Company bases its determination upon financial statements, net asset values and/or other financial information obtained from fund managers or investee companies. Declines in the value of equity securities considered to be other than temporary and declines in the value of debt securities related to credit losses are reflected in net securities gains (losses) in the consolidated financial statements of operations. The Company evaluates its investments for impairment on a quarterly basis. Equity securities that do not have readily determinable fair values are carried at cost.

Income Taxes: Deferred tax assets and liabilities represent the tax effects of differences between the financial statement carrying amounts and the tax basis carrying amounts of the Company's assets and liabilities. These differences are calculated based upon the statutory tax rates in effect in the years in which the differences are expected to reverse. The effect of subsequent changes in tax rates on deferred tax balances is recognized in the period in which a tax rate change is enacted. The Company evaluates its ability to realize future benefit from all deferred tax assets and establishes valuation allowances for amounts that may not be realizable. As of September 30, the Company has recorded a full valuation reserve for all of its deferred tax assets.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Earnings Per Share: A basic earnings per share ("EPS") is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted EPS normally includes the weighted-average effect of dilutive securities outstanding during the period. As of September 30, 2011 and 2010, there were 6,000 shares of common stock equivalents excluded from the diluted EPS calculation as their effect was anti-dilutive.

Stock-Based Compensation: The Company has incentive compensation plans that permit the granting of incentive and non-statutory awards in the form of stock options. Generally, the terms of these plans stipulate that the exercise price of options may not be less than the fair market value of our common stock on the date the options are granted. Options vest over a five year period from the date of grant, and expire not later than ten years from date of grant.

Stock-based compensation is recorded in accordance with guidance issued by the Financial Accounting Standards Board ("FASB"), which requires stock-based compensation to be measured based on the grant-date fair value of the awards and the cost to be recognized over the period during which an employee is required to provide service in exchange for the award.

Cash Equivalents and Restricted Cash: The Company considers all highly liquid financial instruments purchased with maturities of three months or less at date of purchase to be cash equivalents. The Company maintains cash and cash equivalent balances with financial institutions in excess of federally insured limits. Restricted cash balances consisted of the following at September 30, 2011 and December 31, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Cash balances of wholly owned insurance subsidiary	<u>\$ 109</u>	<u>\$ 109</u>
	<u>\$ 109</u>	<u>\$ 109</u>

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Such estimates include those related to allowances for contract and accounts receivable, deferred tax assets and related valuation allowances, investments, and assumptions used to determine the retiree medical obligation and the remaining unresolved claims. Actual results could differ from those estimates.

Concentrations of Credit Risk: Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and certificates of deposit. The Company's cash and cash equivalents and certificates of deposit are maintained in accounts held in FDIC insured commercial banks.

2. General Terms of Plan and Status of Bankruptcy Distributions

The effectiveness of the Plan of Reorganization as of December 18, 2000 did not, in and of itself, complete the bankruptcy process. The process of resolving claims initially filed in the bankruptcy is ongoing.

By far the largest class of claims (“Class 4”) was made up of creditor claims other than trade creditor or equity claims. Class 4 claims included holders of Old Kaiser’s senior subordinated notes due 2003. Holders of Class 4 claims allowed by the Bankruptcy Court received a combination of cash and Company preferred (“New Preferred”) and common stock (“Kaiser Common Stock”) in respect of their claims. Each Class 4 claimant was entitled to receive one share of New Preferred and one share of Kaiser Common Stock for each \$100 of claims, subject to a reduction in the number of shares of New Preferred issued to such claimant by one share for each \$55.00 of cash received by the claimant. In November 2005, the Company redeemed all of the remaining outstanding shares of New Preferred held by non-affiliates. As a result, at December 31, 2005, after consideration of shares in treasury of 101,471, the Company had no shares of New Preferred outstanding. In January 2006, pursuant to approval by the Company’s Board, the treasury shares were cancelled leaving no shares outstanding in treasury at that time.

Pursuant to the terms of the Plan of Reorganization, the Company was required to complete its initial bankruptcy distribution within 120 days of the Effective Date. Accordingly, to satisfy approximately \$136.8 million of allowed Class 4 claims, the Company effected its initial distribution on April 17, 2001. The amount of unresolved Class 4 claims remaining at April 17, 2001 was approximately \$130.5 million. To address the remaining unresolved claims, the Bankruptcy Court issued an order on March 27, 2001 establishing an Alternative Dispute Resolution (“ADR”) procedure whereby the remaining claimants and Old Kaiser produced limited supporting data relative to their respective positions and engaged in initial negotiation efforts in an attempt to reach an agreed claim determination. If necessary, the parties were thereafter required to participate in a non-binding mediation before a mediator pre-selected by the Bankruptcy Court. All unresolved claims as of March 27, 2001 are subject to the ADR process. Since April 17, 2001, the date of the initial distribution, all asserted Class 4 claims have been withdrawn, negotiated or mediated to an agreed amount, resulting in cash payments approximating \$2.8 million and issuances of 683 shares of New Preferred (all of which have been redeemed) and 823 shares of Kaiser Common Stock. The Company resolved the remaining claims in the third quarter of 2008.

Upon final resolution, the Company expects to take the necessary steps to close the bankruptcy cases. Upon such closing, the Bankruptcy Court would no longer be involved in the administration of the Company’s affairs, and the Company’s obligation to pay certain fees and submit periodic reports to the Bankruptcy Court would be terminated. Since closing of the cases requires resolution of all outstanding matters and such resolution is somewhat out of the Company’s control, there is a possibility that the cases will not be closed within the anticipated time period.

3. Marketable Securities

The Company held marketable securities of \$0.0 million and \$5.6 million at September 30, 2011 and December 31, 2010, respectively. Marketable securities consisted of an investment in a mutual fund that seeks long-term total return by investing in bonds and other types of credit instruments.

The cost and fair value of investment securities available-for-sale are as follows (in thousands):

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2010				
Mutual Fund	\$5,181	\$391	\$ —	\$5,572

4. Fair Value Measurements

The Company applies accounting guidance that defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value should be based on the assumptions market participants would use when pricing the asset or liability. The fair value hierarchy is as follows:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to

access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table presents the assets measured at fair value on a recurring basis (in thousands):

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
December 31, 2010				
Mutual Fund	\$ 5,572	\$ —	\$ —	\$ 5,572

5. Non-marketable Securities

In June 2009, the Company entered into an agreement to purchase, at discount, secured term loans made to Bally Total Fitness Holding Corporation (“Bally”) for \$11.7 million. This transaction closed in July 2009. As a result of the conversion of Bally secured term loans into equity in September 2009, the Company owned approximately 10% of common stock in Bally. In March 2010, pursuant to a settlement agreement between the Trustees for the Bally Senior and Subordinated Notes (the “Settlement Agreement”), the Company purchased additional shares and warrants from Bally Senior Noteholders. In April, 2011, the Company acquired additional shares and warrants in a private transaction for an aggregate purchase price of \$10.5 million. As a result of this purchase, the Company now owns approximately 19.38% of common stock in Bally. The cost basis of the investment in Bally was \$22.6 million and \$12.2 million at September 30, 2011 and December 31, 2010, respectively.

In June 2010, the Company invested \$10 million as a limited partner in Paulson Gold Fund LP, a Delaware limited partnership. At September 30, 2011, Company’s investment in the limited partnership is not large enough to apply the equity method of accounting. Therefore, this investment will be carried at cost on the consolidated financial statements.

In September 2010, the Company invested \$5 million as a limited partner in Somerset Special Opportunities Fund, L.P. The Company’s investment in the limited partnership is not large enough to apply the equity method of accounting. Therefore, this investment will be carried at cost on the consolidated financial statements.

In March 2011, the Company invested \$1.1 million as a member in Tennenbaum Opportunities Fund VI, LLC, a Delaware limited liability company (the “Fund”). As of September 30, 2011, the Company has invested a net total of \$2.4 million in the Fund after taking into account a return of capital distribution of \$0.9 million in August 2011. The Company’s total capital commitment in the Fund, including amounts already contributed, is \$15 million. Unfunded commitments of \$11.7 million may be called by the Fund at any time during the 30-month drawdown period that commenced in October 2010. At September 30, 2011, the Company’s investment in the Fund is not large enough to apply the equity method of accounting. Therefore, this investment will be carried at cost on the consolidated financial statements.

A summary of non-marketable securities at September 30, 2011 and December 31, 2010 is as follows (at cost):

	September 30, 2011	December 31, 2010
Investment in Bally Total Fitness	\$ 22,633	\$ 12,158
Investment in Paulson Gold Fund	\$ 10,000	\$ 10,000
Investment in Somerset Special Opportunity Fund	\$ 1,000	\$ 5,000
Investment in Tennenbaum Opportunities Fund	\$ 2,420	\$ —

6. Investment in and Advances to Joint Venture

The Company's net investment in and advances to joint venture totaled \$0.8 million and \$0.9 million at September 30, 2011 and December 31, 2010, respectively and consisted solely of the Company's investment in the Kaiser-Hill. The Company accounts for its 50% ownership in the Kaiser-Hill investment using the equity method.

In October 2005, Kaiser-Hill declared physical completion of the cleanup and closure of the DOE's Rocky Flats site. In December 2005, the DOE affirmed Kaiser-Hill's declaration as required under the Closure Contract and the DOE authorized Kaiser-Hill to invoice all remaining performance fees less a retained amount equaling \$5.0 million. In January 2006, Kaiser-Hill received payment for all fees except for the retained amount. The project total fee expected to be earned by Kaiser-Hill pursuant to the Contract is \$510.9 million based on Kaiser-Hill's cost to complete the site closure of \$3.44 billion. Through September 30, 2011, Kaiser-Hill has received \$510.8 million of such fee from the DOE.

Kaiser-Hill recognized a substantial amount of the fee income from the DOE upon the declaration of physical completion in October 2005 and, accordingly, the Company's proportionate share of such income was recorded in Equity Income in Earnings of Joint Venture in its consolidated statement of operations for the year ended December 31, 2005. As a result, upon the receipt of the \$85.0 million cash distribution from Kaiser-Hill in 2006, the Company made a corresponding reduction of \$85.0 million in its investment in Kaiser-Hill on its balance sheet as of December 31, 2006. The Company received an additional distribution of \$1.5 million from Kaiser-Hill in 2007 and made a corresponding reduction of \$1.5 million in its investment in Kaiser-Hill on its consolidated balance sheet as of December 31, 2007.

Since Kaiser-Hill declared physical completion, many of the performance risks have been eliminated, but contract risks and uncertainties remain. As a result of declaration of physical completion in October 2005, Kaiser-Hill recognized all remaining performance fees under the Closure Contract in 2005 and established reserves for certain risks and uncertainties related to the Closure Contract. Kaiser-Hill will reverse these reserves to the extent it is successful in mitigating or eliminating these remaining contract risks and uncertainties.

Under the Closure Contract, Kaiser-Hill is not responsible for, and the DOE pays all costs associated with any liability, including, without limitation, any claims involving strict or absolute liability and any civil fine or penalty, expense or remediation cost, but limited to those of a civil nature, which may be incurred by, imposed on, or asserted against Kaiser-Hill arising out of any act or failure to act, condition or exposure which occurred before Kaiser-Hill assumed responsibility on July 1, 1995 ("pre-existing conditions"). To the extent the acts or omissions of Kaiser-Hill constitute willful misconduct, lack of good faith, or failure to exercise prudent business judgment on the part of Kaiser-Hill's managerial personnel and cause or add to any liability, expense, or remediation cost resulting from pre-existing conditions, Kaiser-Hill is responsible, but only for the incremental liability, expense or remediation caused by Kaiser-Hill.

The Closure Contract further provides that Kaiser-Hill will be reimbursed for the reasonable cost of bonds and insurance allocable to the contract and for liabilities and expenses incidental to these liabilities, including litigation costs, to third parties not compensated by insurance or otherwise. There is an exception to this reimbursement provision applicable to liabilities caused by the willful misconduct, lack of good faith or failure to exercise prudent business judgment by Kaiser-Hill's managerial personnel.

Kaiser-Hill now operates under the closeout phase of its contract with the DOE, primarily resolving the administrative issues and providing support to the DOE to achieve regulatory closure of the site. The closeout phase of the contract is a cost reimbursable phase and is not fee - bearing; the Company does not expect that the closeout phase will impact fees earned. Effective December 31, 2005, Kaiser-Hill terminated its remaining employees. Staff necessary to complete closeout activities is being subcontracted or provided by CH2M Hill Companies Ltd.

7. Common Stock

In December 2008, the Company was authorized by its Board of Directors to repurchase shares of its outstanding common stock from time to time as appropriate opportunities became available. Such repurchases may be made through a variety of methods, which may include open market purchases or privately negotiated transactions. The timing of repurchases and actual number of shares repurchased will depend on a variety of factors. The share repurchase program may be limited or terminated at any time without prior notice. As of December 12, 2011, the Company has repurchased 470,422 shares that are held in treasury.

8. Comprehensive Income

The components of other comprehensive income for the three and nine month periods ended September 30 were as follows:

	For the Three Months Ended September 30 (unaudited)		For the Nine Months Ended September 30, (unaudited)	
	2011	2010	2011	2010
Net Loss	(\$1,243)	(\$484)	(\$2,763)	(\$2,222)
Reclassification adjustment for realized gain on marketable securities	(159)	—	(159)	—
Gross unrealized holding (loss) gain on marketable securities	(251)	245	(232)	280
Net Comprehensive Loss	(\$1,653)	(\$239)	(\$3,154)	(\$1,942)

9. Related Party Transactions

In 2011, the Company invested funds in an investment fund that is managed by an entity where one of the Company's directors serves as a senior managing partner. Company's net investment in this investment fund totals \$3.2 million at September 30, 2011, after taking into account a return of capital distribution of \$0.9 million in August 2011. The Company's total capital commitment in the Fund, including amounts already contributed, is \$15 million. Unfunded commitments may be called by the Fund at any time during the 30-month drawdown period that commenced in October 2010.

10. Other Contingencies

The Company has various obligations and liabilities from its continuing operations, including general overhead expenses in connection with maintaining, operating and winding down the various entities and net assets comprising the Company. Additionally, the Company believes contingent liabilities may exist in the following areas:

Nova Hut

In May 2006, the Company was informed that an arbitration panel formed under the auspices of the International Chamber of Commerce ("ICC") issued a ruling in the arbitration proceeding initiated by its subsidiary, Kaiser Netherlands B.V. ("Kaiser Netherlands") concerning the steel mini-mill that was constructed by Kaiser Netherlands for Nova Hut, a.s. (now Mittal Steel Ostrava, a.s.) ("Nova Hut") in Ostrava, the Czech Republic. The decision by the arbitration panel is not appealable. After calculation of claim and counter-claim award amounts as decided by the ICC arbitration panel, the net balance award against Kaiser Netherlands, including legal cost and interest amounts, is approximately \$4.1 million in favor of Nova Hut. The Company does not believe that Nova Hut has recourse to the Company to collect this award amount. However, Nova Hut has submitted a court filing in The Netherlands to enforce the award against Kaiser Netherlands which has limited assets.

Taking into account the results of the ICC arbitration ruling against Kaiser Netherlands, in the second quarter of 2006, the Company wrote off the remaining Nova Hut contract receivable of \$3.0 million.

On April 6, 2010, the Company filed independent arbitration claims against Nova Hut and the IFC in accordance with prior rulings of the Bankruptcy Court. These arbitration hearings are still pending. The Bankruptcy Court has entered an order staying the Company's claim against the IFC pending resolution of the dispute in this independent arbitration. Similarly, the Bankruptcy Court has entered an order staying the Company's bankruptcy claim against Nova Hut pending completion of the 2010, filed arbitration. The Company filed a motion with the Bankruptcy Court to secure discovery against Nova Hut and the IFC pending the initiation of the independent arbitrations by the Company as previously ordered by the Bankruptcy Court. In a combined hearing held in Delaware on April 25, 2007, the Bankruptcy Court denied the Company's motion for discovery in advance of the initiation of the independent arbitration proceedings against the IFC and Nova Hut, respectively. The Company filed a motion with the District Court seeking appeal of the Bankruptcy Court's denial of the Company's discovery motion. On January 29, 2009, the District Court denied the Company's motion. The Company appealed to the Third Circuit the District Court's denial of its motion seeking appeal of the Bankruptcy Court's denial of the Company's discovery motion. Subsequently, the Third Circuit Court of Appeals ruled that the Bankruptcy Court's order denying discovery is not a final order and thus cannot be appealed. On April 29, 2010, the Company petitioned in U.S. Federal Court for discovery from the World Bank in aid of the independent arbitration claims. The District Court of the District of Columbia denied the

Company's request for discovery in aid of the independent arbitrations on the grounds that the World Bank, the parent organization of the IFC, did not waive its immunity when its affiliate, the IFC, waived its immunity by submitting a proof of claim in the Bankruptcy Court. The Company has sought an expedited review of the District Court's ruling from the Court of Appeals for the D.C. Circuit, which subsequently upheld the prior ruling.

On April 22, 2008, Kaiser Netherlands voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the Western District of Pennsylvania, Pittsburgh Division (case no. 08-22623). In December 2003, an ICC arbitration panel, under the dispute resolution provisions of the Nova Hut mini-mill subcontract between Kaiser Netherlands and the mini-mill's main equipment supplier, Tippins, Inc., issued a final award that was on balance favorable to Kaiser Netherlands. As a result of the ruling, Kaiser Netherlands was relieved of the obligation to pay retention to Tippins, and Kaiser Netherlands was awarded a net cash settlement of \$2.6 million. The Company has not recorded this award due to the uncertainties regarding collectability. However, the Company is actively pursuing collection of this award.

The continued litigation of these disputes has had, and will continue to have, a negative impact on the cash flow of the Company.

Kaiser-Hill

In October 2005, Kaiser-Hill declared physical completion of the cleanup and closure of the DOE's Rocky Flats site. DOE has reviewed Kaiser-Hill's declaration as required under the Closure Contract. In December 2005, the DOE accepted the physical completion declaration in accordance with the Closure Contract. The projected total fee to be earned pursuant to the Closure Contract is expected to be \$510.9 million based on Kaiser-Hill's cost to complete the site closure of \$3.44 billion. As of September 30, 2011 Kaiser-Hill has received \$510.8 million of such fee from the DOE. A substantial portion of the received fee remains subject to audit.

Under Kaiser-Hill's contract with the DOE, Kaiser-Hill is not responsible for, and the DOE pays all costs associated with, any liability, including, without limitation, any claims involving strict or absolute liability and any civil fine or penalty, expense, or remediation cost, but limited to those of a civil nature, which may be incurred by, imposed on, or asserted against Kaiser-Hill arising out of any act or failure to act, condition, or exposure which occurred before Kaiser-Hill assumed responsibility on July 1, 1995 (pre-existing conditions). To the extent the acts or omissions of Kaiser-Hill constitute willful misconduct, lack of good faith, or failure to exercise prudent business judgment on the part of Kaiser-Hill managerial personnel and cause or add to any liability, expense, or remediation cost resulting from pre-existing conditions, Kaiser-Hill is responsible, but only for the incremental liability, expense, or remediation caused by Kaiser-Hill.

The Closure Contract further provides that Kaiser-Hill will be reimbursed for the reasonable cost of bonds and insurance allocable to the Rocky Flats contract and for liabilities and expenses incidental to these liabilities, including litigation costs, to third parties not compensated by insurance or otherwise. There is an exception to this reimbursement provision applicable to liabilities caused by the willful misconduct, lack of good faith or failure to exercise prudent business judgment by Kaiser-Hill managerial personnel.

As the contract between Kaiser-Hill and the DOE is cost-reimbursable in nature, the costs invoiced by Kaiser-Hill for reimbursement by the DOE are subject to audit by the U.S. government. Also since the inception of Kaiser-Hill, the Company invoiced certain management oversight costs to Kaiser-Hill. Government audits at Kaiser-Hill are ongoing. Although Kaiser-Hill and the Company have historically provided for their estimates of disallowed costs on cost-reimbursable contracts, uncertainties exist with regard to whether government audits will result in any disallowed costs needing to be refunded to the government customer. The continued adequacy of provisions for reserves with regard to unallowable costs is reviewed regularly.

Kaiser-Hill now operates under the closeout phase of the DOE Rocky Flats Closure Contract, primarily resolving open administrative issues and providing support to the DOE to achieve regulatory closure of the site. The closeout phase of the contract is a cost reimbursable phase and is not fee - bearing; the Company does not expect that the closeout phase impact fees earned.

In December 2005, when the DOE accepted physical completion in accordance with the Rocky Flats contract, it authorized Kaiser-Hill to invoice all remaining performance fees less a retained amount equaling \$5.0 million which was retained by the DOE for possible contract contingencies. In January 2006, Kaiser-Hill received payment for all fees except for the retained amount. As a result of this payment, in March 2006, the Company received an \$80.0 million cash distribution (representing its 50% share) from Kaiser-Hill. In April 2006, \$4.9 million of the remaining \$5.0 million retention was released to Kaiser-

Hill by the DOE. It cannot be determined at this time what portion of the remaining \$0.1 million DOE retention balance will ultimately be released and when (if ever) such a release would occur. In June 2006, the Company received an additional \$5.0 million cash distribution from Kaiser-Hill. And, in February 2007, the Company received another cash distribution from Kaiser-Hill in the amount of \$1.5 million.

As of September 30, 2011, Kaiser-Hill has withheld approximately \$2.5 million from distribution until these closeout issues are resolved. The Company expects to receive its 50% share of any distribution of such funds by Kaiser-Hill.

Post-Retirement Benefit Plan Obligation

In accordance with the terms and provisions of the Plan of Reorganization for Old Kaiser, the Company remains obligated to continue to fulfill the provisions of Old Kaiser's previously curtailed benefits plan, which provides certain medical and death benefits to a group of retirees. The Company was self-insured for all benefits payable under the plan.

Since the December 2000 approval of the reorganization plan, the Company has been negotiating with the Bankruptcy Court-appointed Official Committee of Retirees ("OCR") to design and implement a benefits funding plan that would provide for all retiree benefit obligations going forward. In an adversary claim hearing in the Bankruptcy Court held on April 12, 2006, the Court accepted the Company's proposal to establish a Voluntary Employees' Beneficiary Association ("VEBA") to fund retirees' future medical and death benefits in the present value amount of approximately \$6.1 million. The present value pension obligation of \$0.2 million will continue to be funded directly by the Company. The VEBA was established and funded by the Company in the amount of approximately \$6.1 million effective April 30, 2007. Prior to April 30, 2007, the benefits had been funded by the Company through a claims administrator.

Furthermore, according to the terms of the Bankruptcy Court decision, after the VEBA has been in place for five years, the Company will be required to undertake an actuarial analysis of the projected net present value of benefits remaining to be paid out. If the remaining VEBA fund amount is then not sufficient to pay the estimated present value of future benefits obligations, then the Company will be required to contribute the estimated shortfall amount to the VEBA fund. It is not possible to predict at this time whether a shortfall in the VEBA fund will exist after a period of five years and, if so, the required amount of the Company's contribution for the shortfall.