

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

Consolidated Financial Statements

June 30, 2009 and 2008

(UNAUDITED)

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

| | June 30, 2009 | December 31, 2008 |
|--|--------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 54,621 | \$ 53,876 |
| Certificates of deposit | 250 | 3,259 |
| Restricted cash and cash equivalents | 108 | 106 |
| Prepaid expenses and other current assets | 124 | 76 |
| Income taxes receivable | 611 | 5,371 |
| Total Current Assets | 55,714 | 62,688 |
| Other Assets | | |
| Investment in and advances to joint venture | 886 | 878 |
| Total Other Assets | 886 | 878 |
| Total Assets | \$ 56,600 | \$ 63,566 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 90 | \$ 66 |
| Post retirement benefit plan obligation | 241 | 260 |
| Other accrued expenses | 1,451 | 1,536 |
| Deferred tax liabilities | — | 2 |
| Total Current Liabilities | 1,782 | 1,864 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Common stock, par value \$.01 per share: | | |
| Authorized—3,000,000 shares | | |
| Issued —1,788,577 and 1,787,577 shares at June 30, 2009 and December 31, 2008, respectively | | |
| Outstanding — 1,491,891 and 1,692,100 shares at June 30, 2009 and December 31, 2008, respectively | | |
| | 18 | 18 |
| Capital in excess of par | 11,715 | 11,688 |
| Retained earnings | 51,296 | 52,534 |
| Accumulated other comprehensive income | 40 | 40 |
| Subtotal | 63,069 | 64,280 |
| Less: Treasury stock, at cost (296,686 and 95,477 shares, respectively) | (8,251) | (2,578) |
| Total Shareholders' Equity | 54,818 | 61,702 |
| Total Liabilities and Shareholders' Equity | \$ 56,600 | \$ 63,566 |

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 June 30 (unaudited) | | For the Six Months Ended June 30, (unaudited) | |
|---|--|----------|---|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Gross Revenue | \$ — | \$ — | \$ — | \$ — |
| Operating Expenses | | | | |
| Administrative expenses | 646 | 549 | 1,311 | 1,146 |
| Operating Loss | (646) | (549) | (1,311) | (1,146) |
| Other Income: | | | | |
| Income (in earnings of joint venture) | 11 | — | 9 | — |
| Interest income | 22 | 278 | 64 | 626 |
| Loss Before Income Tax | (613) | (271) | (1,238) | (520) |
| Income tax benefit | — | 103 | — | 208 |
| Net Loss | (\$613) | (\$168) | (\$1,238) | (\$312) |
| Basic and Diluted Loss Per Common Share: | (\$0.41) | (\$0.09) | (\$0.78) | (\$0.17) |
| Weighted average shares for basic and diluted loss per common share | 1,495 | 1,787 | 1,579 | 1,787 |

See notes to consolidated financial statements

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

(In thousands)

| | For the Six Months ended June 30, | |
|--|--------------------------------------|-----------|
| | 2009 | 2008 |
| | (Unaudited) | |
| Operating Activities | | |
| Net loss | \$ (1,238) | \$ (312) |
| Adjustments to reconcile net loss to net cash provided (used) in operating activities: | | |
| Deferred taxes | (2) | 8 |
| Equity loss in earnings of joint venture | (8) | — |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | (48) | (10) |
| Income taxes receivable | 4,760 | (216) |
| Accounts payable and accrued expenses | (80) | (59) |
| Stock based compensation | 27 | — |
| Other operating activities | (14) | (23) |
| Net Cash Provided by (Used in) Operating Activities | 3,397 | (612) |
| Investing Activities | | |
| Proceeds from redemptions of marketable securities | — | 8,865 |
| Purchases of certificates of deposit | — | (2,171) |
| Maturity of certificates of deposit | 3,021 | 3,433 |
| Net Cash Provided by Investing Activities | 3,021 | 10,127 |
| Financing Activities | | |
| Purchase and retirement of common stock | — | (188) |
| Purchase of common stock held as Treasury Stock | (5,673) | — |
| Transfer from restricted cash | — | 546 |
| Net Cash (Used in) Provided by Financing Activities | (5,673) | 358 |
| Increase in Cash and Cash Equivalents | 745 | 9,873 |
| Cash and Cash Equivalents at Beginning of Period | 53,876 | 48,553 |
| Cash and Cash Equivalents at End of Period | \$ 54,621 | \$ 58,426 |

See notes to consolidated financial statements.

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

(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.

As of June 30, 2009, 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 3).
- 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”).
- 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. As of June 30, 2009, MS Builders Insurance Company has not written any policies.
- an ongoing obligation to fund a capped, post-retirement medical benefit plan for a fixed number of retirees (See Note 6).

The Company adopted fresh start reporting in its consolidated balance sheet as of December 31, 2000. The American Institute of Certified Public Accountants’ Statement of Position 90-7, “Financial Reporting by Entities in Reorganization Under the Bankruptcy Code” (“SOP 90-7”), 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.

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 a result of the current year losses at June 30, 2009 and due to uncertainties surrounding the ability of the Company to realize the tax benefits associated with these losses, there is no provision or benefit for income taxes in current year.

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized \$1.0 million liability for unrecognized tax benefits, which was accounted for as a component of income tax benefit. The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next twelve months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax benefit. The Company had approximately \$0.4 million of accrued interest and penalties at June 30, 2009.

Earnings Per Share: 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. The Company has no dilutive common stock equivalents as of June 30, 2009.

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 the FASB Statement No. 123R, 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.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. There were 6,000 options granted for year 2008. The 6,000 options granted in December 2008 will vest 20% on each of the first five annual anniversaries of the date of grant. No options have been granted, exercised or cancelled during the six month period ended June 30, 2009.

During the quarter, the Company granted 1,000 shares of common stock to the CEO as compensation for serving as a director of the Company. These shares were valued at \$27 per share based on daily price quoted on the Pink Sheets.

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 does not maintain cash and cash

equivalent balances with financial institutions in excess of federally insured limits. Restricted cash balances consisted of the following (in thousands):

| | <u>June 30, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|------------------------------|
| Cash balances of wholly owned insurance subsidiary | \$ 108 | \$ 106 |
| | <u>\$ 108</u> | <u>\$ 106</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 major U.S. banks.

Reclassifications: Certain reclassifications have been made to the prior period financial statements contained herein in order to conform them to the 2009 presentation.

Subsequent Events: The Company has evaluated subsequent events for potential recognition and/or disclosure through August 31, 2009, the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements

Pronouncements adopted:

Statement of Financial Accounting Standards No. 141 (Revised 2007), Business Combinations ("SFAS 141(R)"). During December 2007, the FASB issued SFAS 141(R). SFAS 141(R) recognizes and measures the goodwill acquired in the business combination and defines a bargain purchase, and requires the acquirer to recognize that excess as a gain attributable to the acquirer. In contrast, Statement 141 required the "negative goodwill" amount to be allocated as a pro rata reduction of the amounts assigned to assets acquired. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. The Company adopted SFAS 141(R) effective March 31, 2009, and adoption did not have a material impact on the Company's consolidated financial statements.

Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51 ("SFAS 160"). During December 2007, the FASB issued SFAS 160 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statement, but separate from the parent's equity. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management adopted this Statement effective March 31, 2009, and adoption did not have a material impact on the Company's consolidated financial condition or results of operations.

Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivative, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Adoption of SFAS 161 did not have a material impact on the consolidated financial statements.

Statement of Financial Accounting Standards, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). During May 2008, the FASB issued SFAS 162. This Statement identifies the sources of account principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. The codification is effective for interim and annual periods ending after September 15, 2009. The adoption of SFAS 162 is not expected to

change the Company's current accounting practices; therefore, it is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

Statement of Financial Accounting Standards, Subsequent Events ("SFAS 165"). On May 28, 2009, the FASB issued SFAS No. 165, which became effective for the second quarter of 2009. SFAS 165 modifies the definition of subsequent events and requires entities to disclose the date through which subsequent events have been evaluated and the basis for that date. Adoption of SFAS was not significant to the Company's consolidated financial statements.

FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ("FSP EITF 03-6-1"). FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and requires a company to retrospectively adjust its earning per share data. The Company adopted FSP EITF 03-6-1 effective March 31, 2009, and adoption did not have a material effect on consolidated results of operations or earnings per share.

FASB Staff Positions FAS 107-1 and APB 28-1, FAS 157-4, FAS 115-2 and FAS 124-2, Other Than Temporary Impairment. FASB has issued FSPs to address concerns regarding (1) determining whether a market is not active and a transaction is not orderly, (2) recognition and presentation of other-than-temporary impairments and (3) interim disclosures of fair values of financial instruments. The FSPs will be effective for interim and annual period ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted the FSPs effective June 30, 2009, and adoption did not have a material effect on consolidated results of operations.

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 has 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. Investment in and Advances to Joint Venture

The Company's net investment in and advances to joint venture totaled \$0.9 million at June 30, 2009 and December 31, 2008, 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 June 30, 2009, 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.

4. Common Stock

In October 2007, the Company initiated a tender offer to purchase, at a price of \$29.80 per share, all shares of its outstanding common stock held by stockholders who owned beneficially or of record fewer than 100 shares of the Company's common stock as of the close of business on October 22, 2007 and who continued to hold such shares through the expiration of the

tender offer (“the Offer”). The Offer expired on January 9, 2008. Based on the final count, 6,313 shares of common stock from 414 record and beneficial holders eligible to participate in the offer were properly tendered. On January 9, 2008, the Company accepted for purchase all of the shares properly tendered at a purchase price of \$29.80 per share for each share tendered, for an aggregate purchase price of \$188,127. All shares participating in the tender offer were subsequently cancelled.

On December 17, 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 June 30, 2009, the Company repurchased 296,686 shares that are held in treasury.

5. Related Party Transactions

The Company has deposited funds at a financial institution where one of the Company’s directors serves on the board. The certificates of deposits and other cash deposits at this financial institution total \$3.0 million and \$0.1 million at June 30, 2009 and December 31, 2008, respectively. These accounts bear a market rate of interest.

6. 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 by recording an additional reserve of \$3.0 million.

The Company continues to evaluate its remaining options against Nova Hut and the International Finance Corporation (“IFC”), the organization which arranged for and participated in funding the Nova Hut steel mini-mill project. Among the options being considered are the filing of independent arbitration claims by the Company (as opposed to Kaiser Netherlands) against Nova Hut and the IFC in accordance with prior rulings of the Bankruptcy Court. The Bankruptcy Court has entered an order staying the Company’s claim against the IFC pending submission of the dispute to arbitration. Similarly, the Bankruptcy Court has entered an order staying the Company’s bankruptcy claim against Nova Hut pending arbitration. The Company filed a motion with the Bankruptcy Court to secure discovery against Nova Hut and the IFC, pending the initiation of international arbitration proceedings 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 separate 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 has 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. This appeal is still

pending. 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 collectibility. 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 June 30, 2009, 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 June 30, 2009, Kaiser-Hill has withheld approximately \$3.6 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 \$0.3 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.

7. Subsequent Events

As of June 30, 2009, the Company has entered into an agreement with a money center bank to purchase, at discount, secured term loans made to Bally Total Fitness Holding Corporation ("Bally") for \$11.7 million. The transaction closed in the third quarter. As a result of conversion of Bally secured term loans into equity, the Company owns approximately 10% common stock in Bally. This investment transaction was approved by the Company's Board of Directors on June 9, 2009.