

**Rule 15c2-11  
Information and Disclosure Statement  
For the Six Months Ended June 30, 2012**

**Ormet Corporation  
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THIS INFORMATION AND DISCLOSURE STATEMENT HAS BEEN PREPARED TO FULFILL THE REQUIREMENTS OF (1) RULE 15C2-11(A) (5) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED AND (2) THE COMPANY'S BY-LAWS. IT IS INTENDED AS INFORMATION TO BE USED BY SECURITIES BROKERS AND DEALERS IN SUBMITTING OR PUBLISHING QUOTATIONS ON THE COMMON STOCK OF THE COMPANY AS CONTEMPLATED BY RULE 15C2-11.

NO BROKER, DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED HEREIN IN CONNECTION WITH THE COMPANY. ANY REPRESENTATIONS NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN MADE OR AUTHORIZED BY THE COMPANY.

THIS STATEMENT HAS NOT BEEN FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC"), THE FINANCIAL INDUSTRY REGULATORY AUTHORITY ("FINRA") OR ANY OTHER REGULATORY AGENCY.

October 17, 2012

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## **Introduction**

The information contained in this Information and Disclosure Statement ("Statement") has been prepared to fulfill the requirements of Rule 15c2-11(a) (5) under the Securities Exchange Act of 1934, as amended, and provides certain additional supplemental information. Although this Statement relates to the six months ended June 30, 2012, it should be read in conjunction with the Information and Disclosure Statements for the year ended December 31, 2011, the six months ended June 30, 2011. As used herein, "Ormet", the "Company", "we" and "our" shall mean Ormet Corporation, together with its subsidiaries, unless otherwise specified or the context otherwise requires. Throughout the document, references to the term 'tons' shall mean metric tonnes, consisting of 2,204.62 pounds.

Ormet Corporation is a major producer of primary aluminum in the United States. Its aluminum smelter, located in Hannibal, Ohio, is capable of producing 270,000 tons of aluminum per year. The Company also owns an alumina refinery which is located in Burnside, Louisiana, which was restarted on November 1, 2011. The alumina refinery is capable of producing 540,000 tons of smelter grade alumina per year. Ormet Corporation directly owns 100 percent of the equity interests of its subsidiaries (Ormet Primary Aluminum Corporation, Ormet Aluminum Mill Products Corporation (inactive), Specialty Blanks Holding Corporation (inactive), Ormet Railroad Corporation (inactive), Ormet Primary LLC (inactive) and Ormet Power Marketing LLC (inactive). Ormet Corporation and its subsidiaries are all organized under the laws of the State of Delaware.

For the six months ended June 30, 2012, Ormet continued to operate its aluminum smelter in Hannibal, Ohio and its alumina refinery located in Burnside, Louisiana. There has not been a final determination regarding the billet casting operations, which has been idled since October 2007. The Company ceased operation at its marine terminal, located in Burnside, LA, in 2007 and was subsequently classified in the Company's balance sheet as held for sale (see the attached Exhibit A, Note 15). On June 2, 2011 the Company closed on the sale of its Burnside, Louisiana marine terminal assets and certain specified parcels of land to Impala Warehousing (US) LLC, a wholly owned subsidiary of Trafigura Beheer BV.

An investment in the Company's common stock entails significant risks. This Statement does not contain all the information that an investor may consider important. Additional information, including certain important documents pertaining to the Company, can be accessed through the "Investors" and "News and Press" sections of the Company's website at [www.ormet.com](http://www.ormet.com). Copies of the Company's Second Amended and Restated Certificate of Incorporation, the Company's Amended and Restated By-Laws, the Company's Amended and Restated Loan and Security Agreement ("ABL Facility"), documentation relating to the Company's Term Loan and Security Agreement ("Term Loan") and other important documents are available in the "Investors" section of the Company's website, [www.ormet.com](http://www.ormet.com).

For information concerning the Company's Common Stock, see the information under the caption **Information Concerning the Stockholders and the Common Stock** beginning on page 32.

## **Recent Developments and Significant Matters**

### **Strategic Alternatives and Liquidity**

Faced with declining London Metals Exchange (“LME”) prices compared to 2011 and higher electric power prices, the Company has reduced operations and has taken other measures to mitigate these developments. As of October 16, 2012 the Company’s utilization of its revolving credit facility totaled \$33.3 million (including \$6.1 million for letters of credit) with approximately \$18.2 million of remaining availability (net of a \$6.0 million availability reserve). The Company’s liquidity will continue to be pressured because the 2012 contractual discounts that the Company received from its power supplier were fully utilized in August 2012 and the Company began incurring an increased rate for power consumption beginning in September 2012 as a result of an adverse ruling by the Public Utilities Commission of Ohio (“PUCO”) in August 2012.

In addition, the Company has engaged Evercore Group L.L.C. to assist in identifying and evaluating strategic alternatives. Representative initiatives being explored include: asset sales, new sources of funds, vendor contract re-negotiations and debt restructuring.

To that end, the Company has been in negotiations with its various constituents (i.e. Term Loan lenders, ABL lender, the United Steelworkers International (“USW”), its electricity and other trade vendors and state government agencies). On October 12, 2012, the Company requested an expedited hearing from the PUCO. The PUCO granted the Company’s request and considered, on October 17, 2012, the agreement between Columbus Southern Power Company and Ohio Power Company (collectively “AEP”) and the Company for a deferral of AEP’s power bills that would be payable in November 2012 and December 2012. These power bills, totaling approximately \$27.0 million, would have normally been paid twenty-one days after receipt by the Company. According to the agreement, the payment for these bills will be made in seventeen equal monthly installments beginning in January 2014 and ending in May 2015. The PUCO approved the payment deferral agreement. While this approval provides the Company significant relief, the Company’s longer term liquidity will only be achieved if all constituents and the Company reach similar agreements. The outcome of these remaining negotiations and the impact on the Company is uncertain at this time.

### **Jeffrey Marshall Resignation**

Jeffrey Marshall notified the Board of Directors on October 17, 2012 that he was resigning as a Director and Chairman of the Board, immediately, due to health reasons. The Board has accepted his resignation with regret and extended its thanks for his many years of service. Robert Prusak, in his capacity as Vice Chairman, will assume the responsibilities of Chairman, effective immediately.

### **Status of Hannibal Smelter Potlines**

During the first six months of 2012, the Company operated all six of its Hannibal smelter pot lines. The cash settlement price on the LME for primary aluminum on June 30, 2012 was \$1,885 per ton, a decline of 32 percent from the 2011 peak price of \$2,774 per ton on April 30, 2011. In addition, due to the

drought that occurred during the summer of 2012, water levels on the Mississippi and Ohio rivers decreased to a point where barge traffic was delayed, as well as limiting barge capacity. The river conditions hindered the Company's ability to ship alumina from the Burnside, LA alumina refinery to the Hannibal smelter.

As a result of the market and logistics conditions, the Company issued a Worker Adjustment and Retraining Notification Act ("WARN Act") notification to its Hannibal employees on July 19, 2012 that it may curtail up to six potlines. The Company reduced production at the Hannibal smelter to four pot lines at the end of August 2012. As of October 1, 2012, the Company has reduced its Hannibal smelter workforce by approximately 90 employees.

### **Status of Burnside Alumina Refinery**

On September 11, 2012, the Company issued a WARN Act notification for its Burnside, Louisiana alumina refinery employees, indicating that a reduction in operating level may occur as a result of the smelter's lower production level. A decision regarding the future operating level of the refinery has not been made at this time. In addition, the Company has sold approximately 165,000 tons of bauxite from its 2012 contractual obligation. The remaining 2012 obligation is approximately 165,000 tons, of which approximately 110,000 tons has been deferred to 2013.

### **Recent Amendments to the ABL Facility and Term Loan**

During May 2012 the Company notified the holders of its ABL Facility that it may be out of compliance with the EBITDA provision at the close of the second quarter 2012. On July 18, 2012, the Company and the holders of the ABL Facility entered into Amendment No. 5 to the ABL agreement. That Amendment waived the EBITDA provision within the ABL Facility for the June through August 2012 reporting periods and required a minimum excess availability of \$12.0 million. On October [xx], 2012 the Company and the holder of the ABL Facility entered into Amendment No. 6 to the ABL agreement further extending the EBITDA waiver through the December 2012 reporting period and reducing the minimum excess availability from \$12.0 million to \$6.0 million through December 15, 2012 and then increasing to \$8.0 million. If the Company is unable to successfully renegotiate the EBITDA provision in the ABL Facility by the end of the waiver period, that event would trigger a cross default on its long term debt, which could result in the long term debt issued under the Term Loan becoming due and payable. Due to the cross default provision within the Term Loan, Generally Accepted Accounting Principles ("GAAP") rules required the Company to reclassify the Term Loan from long term debt to a current liability on the consolidated balance sheet as of June 30, 2012. These same rules required the Company to reclassify the EDLOP loan to a current liability as well, since the EDLOP loan contains a cross default provision in its terms and conditions. If the Term Loan were to become due and payable, the Company would have to repay the loan at face value plus any prepayment premiums in effect, which includes approximately \$4.4 million of unamortized original issue discount which is not included in the carrying value of the Term Loan as of June 30, 2012.

On September 28, 2012 the Company and the holders of the Term Loan entered into Amendment No. 3. This amendment allowed the October 1, 2012 interest payment to be paid-in-kind by adding that amount to the outstanding principal balance of the Term Loan.

On March 28, 2012, the Company entered into Amendment No. 4 and Amendment No. 2 of its ABL Facility and Term Loan Agreement, respectively. The amendments provide for revising the terms and conditions for the Company related to the \$1.5 million Economic Development Loan, described in detail below.

On December 23, 2011, the Company and the holders of its ABL Facility (described in detail below) entered into Amendment No. 3 of the ABL Facility which revised the definition of EBITDA in the agreement and reset the monthly EBITDA covenant levels during 2012.

### **Collective Bargaining Agreements**

In June 2011, the Company and the United Steelworkers of America (“USW”) agreed to, and the membership ratified on June 8, 2011, a new five year collective bargaining agreement for the Hannibal, OH smelter which will expire on December 31, 2016.

On March 1, 2011, the Company and the USW entered into a new collective bargaining agreement that covers hourly workers at the Burnside, LA alumina refinery. The agreement has an expiration date of December 31, 2014.

On June 3, 2012, the Company and USW agreed to defer the remaining 2008 hourly VEBA Benefit Trust contributions and the regular monthly hourly VEBA Benefit Trust contributions due during June 2012 through December 2012. The deferred amounts plus a modification fee will be repaid evenly over a twenty four month period beginning January, 2013. The total amount deferred, including the modification fee, amounts to approximately \$5.9 million.

### **Agreement with Trafigura to Evaluate Potential Joint Opportunities**

On May 24, 2012, the Company and Trafigura, PTE Ltd. (“Trafigura”) entered into an agreement to explore and evaluate potential joint investments in projects in the bauxite, alumina and aluminum industry. The new venture will combine Trafigura’s global experience in mining, commodities trading and logistics with the Company’s aluminum related production expertise. There can be no assurance that the Company and Trafigura will identify any opportunities to invest in, or that any such opportunities will be profitable.

### **Financing and Restart of the Alumina Refinery**

In anticipation of rising purchased alumina prices, the Company performed an operational and financial feasibility review of restarting its Burnside, LA alumina refinery. The Company made a decision on February 23, 2011 to restart the Burnside, LA alumina refinery, subject to obtaining acceptable financing. On May 6, 2011, the Company entered into Amendment No.1 of the Term Loan with the

holders of the \$110 million Term Loan (“Term A Loan”) and at the same time, amended the ABL Facility as described below. The amendment to the Term Loan provided for an additional loan (“Term B Loan”) with a face value of \$30 million that matures on March 2, 2014 and was issued at a 5 percent original issue discount (“OID”). The Term B Loan also bears interest at 14 percent per annum, payable in cash quarterly. The Term B Loan is pre-payable at face by the Company after March 1, 2012, with all other terms and conditions (including inter-creditor agreements) remaining substantially the same as the Term Loan described below. The Term Loan was also amended to allow for the additional debt, to revise the capital spending limitations for 2011 and beyond, and to allow for the State of Louisiana to take a first mortgage on a parcel of land at Burnside in conjunction with entering into a \$1.5 million Economic Development Loan Program (“EDLOP Loan”) which the Company had been approved to receive by the Louisiana Economic Development Commission. The Company received the \$1.5 million proceeds from the loan on April 12, 2012. At the same time as the Amendment No. 1 to the Term Loan, the Company entered into Amendment No. 2 of the ABL Facility (described above). This amendment increased the credit limit to \$60 million from \$50 million and allowed for the Term B loan, revision of capital spending limitations for 2011 and beyond, and, as noted above, allowed for the State of Louisiana to take a first mortgage on a parcel of land at Burnside in conjunction with entering into a \$1.5 million EDLOP loan.

The Company hired approximately 250 employees at Burnside, completed the equipment refurbishment along with other maintenance and capital projects, and brought the refinery back online by November 1, 2011. For the year ended December 31, 2011, the Company spent \$36.8 million for restart costs, as well as an additional \$11.1 million and \$2.1 million in associated capital expenditures and asbestos remediation expenditures, respectively. The refinery attained full operational capacity during the second quarter, 2012.

#### **Sale of the Burnside, LA marine terminal**

On June 2, 2011 the Company sold its Burnside, Louisiana marine terminal assets and certain specified parcels of land to Impala Warehousing (US) LLC (“Impala”), a wholly owned subsidiary of Trafigura. At the closing, a separate Terminal Services Agreement (“TSA”) was executed which provides for loading and unloading services to support the operation of the Burnside alumina refinery. The TSA has an initial term of 30 years. The gross proceeds of the sale were approximately \$28.0 million of which (as more fully described below) \$10.0 million was used to reduce the Company’s long term debt in accordance with the terms of the Company’s Term Loan.

On November 16, 2011, Impala exercised its option to acquire a certain additional parcel of land. The Company received gross proceeds of approximately \$1.5 million.

#### **Effect of the Reversal of the Valuation Allowance for Deferred Tax Assets**

Since emerging from bankruptcy in 2005, the Company had accumulated as of December 31, 2010, \$217.5 million of Net Operating Losses (“NOL”) that are eligible, with some limitations (due to Internal Revenue Code Section 382), to be used to mitigate income tax liabilities in future years. As of December 31, 2010, the Company had recorded a valuation allowance of \$117.2 million offsetting a portion of the NOL and other cumulative timing differences due to the uncertainty of realizing their benefit.

At the end of the second quarter of 2011, Ormet management revised the estimate of the likelihood of realizing these deferred tax benefits to more likely than not and reversed the valuation allowance recorded as of June 30, 2011 on the balance sheet. The reversal of the valuation allowance resulted in recording a non-cash deferred tax benefit of \$114.8 million from continuing operations in the consolidated statement of operations for the year ended December 31, 2011. The provision for income taxes on income from continuing operations recorded for the year ended December 31, 2011 reduced the income tax benefit effect of the valuation allowance reversal by \$6.4 million.

### **Status of Proposed Carbon Anode Plant Joint Venture**

Ormet executed a non binding term sheet in March 2011 with a Chinese partner relating to the possible formation of a joint venture carbon anode production company located in China. The term sheet expired during June 2012 with the Company unable to successfully negotiate an agreement to facilitate the formation of a registered Peoples Republic of China Corporation joint venture within the prescribed timeframe. The Company will continue to pursue other avenues, including joint ventures, to reduce its carbon anode cost.

### **Metal Sales and Tolling**

During the three months ended March 31, 2012, the Company had toll sales contracts with Glencore, Ltd. ("Glencore") and Trafigura under which the Company converted these customers' alumina into aluminum for a fee. These tolling agreements accounted for approximately 61 percent of the Company's aluminum production during 2011 and continued until the contracts expired on March 31, 2012. Both customers are international commodity traders. Pricing is based on a percentage of the average LME price for the month of production.

On November 25, 2011, the Company and Glencore executed a three year metal supply agreement under which the Company will sell Glencore a significant portion of its production beginning on April 1, 2012 and ending March 31, 2015. The agreement allows the Company to pre price a portion of the metal for a fee. In a separate agreement dated November 15, 2011, the Company and Glencore agreed to cancel the then existing forward financial sales contracts (including certain financial hedge agreements) effective January 1, 2012 for \$23.0 million which was recorded as a \$15.4 million increase to the fourth quarter 2011 revenue, and a gain of \$5.0 million (net of a provision for income taxes of \$2.6 million) recorded in other comprehensive income. The gain represents the excess of the fair value over the contract price as of the date of cancellation. The fair value of the cash flow hedge included in other comprehensive income will be recognized in the consolidated statement of operations when the original cash flows hedged occur during April through December 2012. Glencore remitted the \$23.0 million in cash ratably over the first quarter of 2012.

During the first quarter of 2012, the Company and another customer agreed to unwind existing forward pre priced metal sales contracts for which the Company received \$12.9 million in cash on January 11, 2012. All remaining pre pricing contracts with other parties were unwound in April 2012 for a total of \$4.9 million.

Currently, approximately 97 percent of the Company's production for 2012 and approximately 82 percent of the production for the years 2013 through March 31, 2015 are under sales agreements with various commodity trader customers. The sales agreements call for pricing based on the average LME price for the month of shipment. All of the sales agreements provide for pre pricing of future sales at the Company's option.

### **Supply Agreements for Bauxite**

On December 9, 2010, the Company entered into a bauxite purchase contract with Vale International, SA who subsequently sold its bauxite and alumina business to Norsk Hydro ASA ("Hydro") for the second half of 2011 and the year 2012. The bauxite, produced by Mineracão Rio do Norte ("MRN") (which is partially owned by Hydro), will supply a major portion of the bauxite requirements for the Burnside alumina refinery. The Burnside alumina refinery consumes approximately 1.2 million tons of bauxite annually when operating at capacity. The contract is non cancellable by either party; therefore the Company will be required to purchase the full amount dictated by the contract. The price is based on the 'MRN Formula Price', which is influenced by changes in the price of alumina and aluminum.

The Company has sold approximately 165,000 tons of bauxite from its 2012 contractual obligation. The remaining 2012 obligation is approximately 165,000 tons, of which approximately 110,000 tons has been deferred to 2013.

### **ABL Facility and Refinancing of Outstanding Debt**

On March 1, 2010, the Company completed a refinancing of its then outstanding Senior Secured Subordinated Notes due November 1, 2010 and Subordinated Term Note due November 30, 2010 (collectively the "Old Notes") with term loans borrowed under a Term Loan (now amended as described above) entered into with Bank of New York Mellon as agent and certain lenders party thereto. The Term A Loan was made in the principal amount of \$110.0 million, issued with a 5 percent OID, and matures March 2, 2014. At the same time, the Company and Wells Fargo Capital Finance, LLC (formerly known as Wachovia Capital Finance Corporation (Central)) as agent for the banking syndicate, executed an Amended and Restated Loan and Security Agreement relating to the ABL Facility for an asset backed loan facility with a maximum credit limit of \$50.0 million which expires on March 1, 2013. Funding for the refinancing occurred on March 2, 2010. The ABL Facility was amended, as noted above, to increase the credit limit to \$60 million, amend certain loan covenants, and provide for the Term B Loan under the Term Loan and for the EDLOP Loan. The ABL Facility is secured in first priority by cash, accounts receivable and inventory, while the Term Loan is secured in first priority by the Company's plant, property, equipment and other assets. Each lender has a second lien right on the other lender's first-lien collateral. The lenders under the Term Loan were investment funds affiliated or managed by Wayzata Investment Partners LLC (collectively, "Wayzata"). Wayzata was also the majority holder of the Old Notes.

The Term A Loan has a 14 percent interest rate per annum, payable quarterly. In addition, a detachable five year warrant was issued to the lenders under the Term A Loan to purchase 1,850,000 shares of the Company's common stock for \$3.00 per share, subject to adjustment. The warrant is exercisable in whole or in part at any time and from time to time prior to March 1, 2015.

In conjunction with the refinancing, the detachable warrants associated with the Old Notes, which remain outstanding and exercisable, were amended to extend the expiration date from November 1, 2011 to March 1, 2015. After the refinancing, outstanding warrants for purchase of the Company's common stock totaled 4,783,333 with an average exercise price of \$4.51/share. On May 3, 2011, 152,338 warrants associated with the Old Notes were exercised by a holder not related to Wayzata with the Company receiving \$0.5 million. As of December 31, 2011 the Company has 4,630,995 warrants outstanding at an average exercise price of \$4.55 per share, with 87 percent exercisable at \$3.00 per share.

On June 2, 2011 the Company used \$10 million of the gross proceeds from the sale of the Burnside marine terminal (described above) to pay down at face \$7.9 million of the Term A Loan and \$2.1 million of Term B Loan. This transaction accelerated accretion of discount from face in the amount of \$0.5 million.

On September 28, 2012 the Company and the holders of the Term Loan and Security Agreement entered into Amendment No. 3. This amendment allowed the October 1, 2012 interest payment to be paid-in-kind by adding that amount to the outstanding principal balance of the Term Loan.

The ABL Facility is subject to a borrowing base availability calculation based on accounts receivable and inventory. The calculated borrowing base availability is subject to a reserve of \$2.0 million or the amount of the upcoming quarterly pension contribution, whichever is greater. Interest, as elected by the Company, is based on the London Interbank Offered Rate ("LIBOR") plus 2.75 percent per annum with a 2.0 percent per annum minimum LIBOR, or the prime rate plus 0.50 percent per annum depending on the interest method elected. The ABL also has a commitment fee of 0.625 percent per annum payable monthly on the unused portion of the facility from time to time.

On July 18, 2012, the Company and the holders of the ABL Facility entered into Amendment No. 5 to the ABL agreement. That Amendment waives the EBITDA provision within the ABL Facility for the June through August 2012 reporting periods and required a minimum excess availability of \$12.0 million. On October 12, 2012 the Company and the holder of the ABL Facility entered into Amendment No. 6 to the ABL agreement further extending the EBITDA waiver through the December 2012 reporting period and reducing the minimum excess availability from \$12.0 million to \$6.0 million through December 15, 2012 and then increasing to \$8.0 million.

### **Supply Agreement for Electricity**

On September 16, 2009 AEP and the Company executed a power agreement reflecting the terms as approved by the PUCO on July 15, 2009.

Under the power agreement, for calendar years 2010 through 2018, the PUCO approved the link of the Company's electric rate to the price of aluminum on the LME with a maximum annual electric discount for the Company of \$60 million annually for the years 2010 and 2011. For the year 2012 the annual maximum amount is \$54.0 million which is reduced by \$10 million each year thereafter from 2013 until phased out by 2018. Commencing in 2013, Ormet may use, in any current year, any unused portion

of the maximum discount from previous years, subject to the discount limit in the current year (there are no unused portions as of December 31, 2011). On a monthly basis, the maximum discount cannot exceed 12.5 percent of such annual limit. This discount will be subject to reduction if employment levels at the Hannibal facility fall below 601 employees. The Company is required to submit the targeted LME price for the following year to the PUCO by October 1 of the then current year based on the Company's then current forecast. The discount received by the Company in 2012 is based on a reduction to the GS-4 rate then in effect. For the six months ended June 30, 2012, the Company's recognized average cost of electricity consumed was \$39.84 per MWh, while the cash cost was \$33.06 per MWh.

On November 12, 2009, AEP filed an appeal to the Supreme Court of the State of Ohio ("State Supreme Court") regarding PUCO's orders approving the Company's contract with AEP. On May 24, 2011, the State Supreme Court issued its non appealable opinion which denied AEP's claim.

On March 30, 2012, AEP filed an amended Electric Service Plan proposal ("ESP II Modified"). Ormet challenged the proposal, and hearings were held in May and June of 2012 at the PUCO. On August 8, 2012, the PUCO issued its ruling on the ESP II Modified submitted by AEP. The PUCO order granted AEP an increase of \$4.71/MWh in the current rate the Company pays effective September 2012 before future rider modifications. Management estimates the new rates will increase the Company's cost for electricity by approximately \$20.0 million annually, based on full production.

The Company and AEP are currently in discussions to modify the current arrangement. These discussions are centered on providing the Company with increased liquidity. There can be no assurance that these discussions will result in achieving an increase in liquidity.

### **Alumina Contracts**

For the tolling agreements during 2011 and for the first three months of 2012, the alumina required for production under such agreements was supplied by the respective tolling customers. The Company's alumina requirements for non tolling agreements are primarily filled by the Burnside alumina refinery and from spot purchases.

### **Supply Agreements for Carbon Anodes**

The Company has entered into a series of contractual arrangements to obtain a sufficient supply of carbon anodes for its 2012 production levels. Increases in raw material prices used to manufacture anodes resulted in higher purchased anode prices of approximately 9 percent for the year 2011 versus 2010. Purchased anode prices for the six months ended June 30, 2012 were approximately 7 percent lower than the same period in 2011, when prices peaked during the second quarter 2011, then began to fall. However, due to the price volatility of the raw materials used to manufacture anodes, there is no assurance that anode costs will not increase.

## **Discontinued Operations**

The Company has reported costs associated with discontinued operations, specifically, the marine terminal which was held for sale until the sale closed on June 2, 2011. Ormet incurred fixed costs associated with its prior ownership of the marine terminal, which included legacy employee costs, and other fixed overhead costs. Going forward, only legacy employee costs related to the marine terminal will be incurred which such costs will be reported in continuing operations.

## **Risk Factors**

**These Risk Factors should be read in conjunction with Recent Developments and Significant Matters.**

### **Risks Related to the Company's Business**

#### **Strategic Alternatives and Liquidity**

Faced with declining LME prices compared to 2011 and higher electric power prices, the Company has reduced operations and has taken other measures to mitigate these developments. As of October 16, 2012 the Company's utilization of its revolving credit facility totaled \$33.3 million (including \$6.1 million for letters of credit) with approximately \$18.2 million of remaining availability (net of a \$6.0 million availability reserve). The Company's liquidity will continue to be pressured because the 2012 contractual discounts that the Company received from its power supplier were fully utilized in August 2012 and the Company began incurring an increased rate for power consumption beginning in September 2012 as a result of an adverse ruling by PUCO in August 2012.

In addition, the Company has engaged Evercore Group L.L.C. to assist in identifying and evaluating strategic alternatives. Representative initiatives being explored include: asset sales, new sources of funds, vendor contract re-negotiations and debt restructuring.

To that end, the Company has been in negotiations with its various constituents (i.e. Term Loan lenders, ABL lender, USW, its electricity and other trade vendors and state government agencies). On October 12, 2012, the Company requested an expedited hearing from the PUCO. The PUCO granted the Company's request and considered, on October 17, 2012, the agreement between AEP and the Company for a deferral of AEP's power bills that would be payable in November 2012 and December 2012. These power bills, totaling approximately \$27.0 million, would have normally been paid twenty-one days after receipt by the Company. According to the agreement, the payment for these bills will be made in seventeen equal monthly installments beginning in January 2014 and ending in May 2015. The PUCO approved the payment deferral agreement. While this approval provides the Company significant relief, the Company's longer term liquidity will only be achieved if all constituents and the Company reach satisfactory agreements. The outcome of these remaining negotiations and the impact on the Company is uncertain at this time.

**Cyclical fluctuations in the primary aluminum industry can cause significant variability in the Company's earnings and cash flows**

The Company's operating results depend on the market for primary aluminum, which is a cyclical commodity with prices subject to global market forces of supply and demand and other related factors such as speculative activities by market participants, production activities by competitors and political and economic conditions, as well as production costs in major production regions. A substantial increase in primary aluminum production capacity could further affect prices. Prices have been volatile. Within the past three and one half years, the average daily LME settlement price has ranged from a high of \$2,772 per ton on April 28, 2011 to a low of \$1,254 per ton on February 24, 2009, or a decline of 55 percent from peak to trough. The selling price for the Company's products and cost for raw materials and energy can be subject to significant fluctuations which could affect the Company's profitability. If the price we can realize for our aluminum falls below our cost of production, we may choose or be forced to curtail or cease operations. Currently the Company is operating at two thirds of its capacity. Downturns in aluminum prices may significantly reduce the amount of cash available to meet our obligations and fund our long-term business strategies and could have a material adverse effect on our business, financial condition, results of operations and liquidity.

**We could be adversely affected by the loss of a major customer.**

The Company currently has long-term primary aluminum sales agreements with three principal customers. These contracts allow the Company to pre price certain quantities of production. If these agreements are not honored it may have a negative impact on the Company's revenue and cash flows.

**A significant reduction in demand for aluminum by China, India or a combination of other developing countries could have an adverse impact on the profitability of the Company.**

The China and India markets are a major source of global demand for aluminum and other commodities. A slow down of economic growth in these countries, especially China, would have a negative effect on global demand for aluminum and prices for aluminum. Also, investments by these countries and other developing countries to increase their own domestic capacity for aluminum and other commodities could negatively impact the world wide supply demand balance and prices.

**The Company purchases its raw materials and sells its production based on market prices, which are subject to fluctuations and uncertainty.**

The Company purchases its raw materials and sells its production in the open market. Realized prices for our aluminum sow are primarily based on LME prices for the month of production. Market prices for aluminum have fluctuated significantly over the last three years. The three month LME as of June 30, 2011, September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012 was \$2,539, \$2,243, \$1,992, \$2,136 and \$1,885 per ton, respectively. The three month LME as of June 30, 2012 represents a 32 percent decline from the year 2011 peak on April 30, 2011 of \$2,774 per ton.

Prior to the restart of its Burnside alumina refinery in November 2011, the Company was required to procure a significant portion of its alumina requirements in the open market. Going forward, the

Company expects to obtain sufficient alumina to meet its needs from its Burnside alumina refinery. To the extent the Burnside refinery is not able to satisfy the Company's needs for alumina, the Company may be required to obtain alumina in the open market.

With the restart of the refinery, the Company's dependence on natural gas, bauxite and caustic soda is now significant. If there is an interruption in the supply of these resources and or cost increases, it would have a negative impact on the Company's ability to produce alumina at an acceptable cost.

For the past three years, all anodes purchased by the Company have been exclusively from suppliers located in China. Shortages of raw materials in China used to manufacture our anodes increased the Company's purchased price for the year 2011 by approximately 9 percent from 2010 and while prices for the first six months of 2012 were 7 percent less than the same period of 2011 (during which prices peaked in the second quarter 2011 and then began to fall), there can be no assurance that future anode costs will not increase.

The selling price for the Company's products and cost for raw materials and energy can be subject to significant fluctuations which could affect the Company's profitability. The recent near financial default of Greece and fear of default from other European Union countries has increased the risk of price volatility and uncertainty across the commodity markets.

**The sale of the marine terminal may affect the Company's ability to unload bauxite.**

Under the ownership of Impala, the marine terminal is undergoing significant repair and maintenance to allow it to resume operations. Prior to completion of the refurbishment, the Company is operating a temporary bauxite handling system at the terminal to facilitate the Burnside alumina refinery's interim needs. If the refurbishment of the marine terminal is not completed, the Company may have to find an alternative way to deliver raw materials to the alumina refinery, as well as load alumina for shipment to the Hannibal smelter. Such alternative methods would increase the cost of producing and shipping the alumina or possibly limit production of the alumina refinery.

**Increases in Electric Power Costs may undermine profitability and cash flows.**

The recent increases in the GS-4 rate are jeopardizing the Company's ability to continue operations at current LME prices. The new U.S. Environmental Protection Agency ("USEPA") rules to regulate carbon dioxide emissions that are being implemented will increase the cost of electricity from the coal fired power generation plants in AEP's system. The PUCO in the past has allowed AEP to recover cost increases from its customers. As such, as these proposed regulations go into effect, the Company may not be able to realize the power costs required to sustain operations even when the discount rate from its unique arrangement is included.

On March 30, 2012, AEP filed an amended Electric Service Plan proposal ("ESP II Modified"). Ormet challenged the proposal, and hearings were held in May and June of 2012 at the PUCO. On August 8, 2012, the PUCO issued its ruling on the ESP II Modified submitted by AEP. The PUCO order granted AEP an increase of \$4.71/MWh in the current rate the Company pays for effective September

2012, before future rider modifications. Management estimates the new rates will increase the Company's cost for electricity by approximately \$20.0 million annually based on full production.

**The Company has had inconsistent earnings and cash flows from operations in recent years.**

The Company has had past losses and recent financial results have been materially influenced by certain cash and non cash events. While the Company had net income of approximately \$32.8 million for the year ended December 31, 2009, the Company was operating under its then existing tolling agreement with Glencore from January through August 2009. The tolling agreement was on favorable pricing terms relative to market prices for aluminum. In addition, included in the 2009 net income and free cash flow was approximately \$31.2 million in cash received by the Company from an arbitration award from Glencore in lieu of continuing the tolling agreement through the balance of 2009. The Company defines free cash flows as cash flows from operating activities plus cash flows from investing activities less any asset sales proceeds. For the year ended December 31, 2010, the Company had net income of \$39.8 million (which included \$6.7 million of charges associated with its March 2010 refinancing and recognition of a non cash \$36.5 million income tax benefit) and negative cash flows from operations of approximately \$47.3 million primarily due to contributions to the Company's defined benefit pension plan of \$46.7 million and working capital build of \$21.3 million. For the year ended December 31, 2011, the Company had a net income of \$137.6 million (which includes a non cash income tax benefit of \$108.5 million and a gain on the sale of the marine terminal and certain parcels of land of \$22.9 million) and as a result of expenditures associated with the restart of the alumina refinery, negative free cash flow of \$47.4 million (which also excludes net proceeds from asset sales of \$27.6 million). For the six months ended June 30, 2012, the Company incurred a net loss of \$15.0 million and a positive free cash flow of \$2.2 million which included \$40.8 million received from unwinding pre-pricing agreements in the fourth quarter of 2011 and the first and second quarters of 2012. There can be no assurance that the Company will be able to consistently achieve and maintain profitability in the near future, or at all, or that the Company will be able to consistently generate positive free cash flows or be able to service its significant legacy liabilities, debt or refinance its debt when required. The selling price for the Company's products and cost for raw materials and energy can be subject to significant fluctuations which would affect the Company's profitability.

**The Company is highly leveraged.**

As described under "ABL Facility and Refinancing of Outstanding Debt" in the Recent Developments and Significant Matters section above, the Company's prior credit agreement was restated and amended and the Old Notes were refinanced on March 1, 2010. At issuance, the Term A Loan amounted to \$110.0 million (at face) and with Amendment 1 to the Loan and Security Agreement, the Term B Loan of \$30 million (at face) was borrowed on May 6, 2011. Subsequent to the application of part of the proceeds from the sale of the marine terminal, the face value of the Term A and B loans amount to \$102.1 million and \$27.9 million, respectively. Both debt instruments will mature March 2, 2014 and both have a 14 percent annual interest rate that is payable on a quarterly basis. The ABL Facility will expire on March 1, 2013. There can be no assurance that the Company will be able to service this debt. In addition, if the Company is unable to comply with its debt service obligations or covenants under its outstanding debt, repayment of the Company's outstanding debt could be accelerated.

The restart of the alumina refinery in Burnside, LA has required and may continue to require a significant amount of spending to maintain the facility to peak operating condition and acquire raw materials and operating supplies. Cash will also be needed to operate the facility until it becomes self sustaining. These additional costs and expenses may exacerbate the risk associated with our substantial debt.

**The Company has substantial retiree pension obligations.**

The Company has a total under-funded pension liability of approximately \$149.6 million as of December 31, 2011. The Company made pension plan contributions for calendar year 2010 of approximately \$46.7 million (which included \$23.8 million to satisfy the Company's 2006 funding waiver from the Pension Benefit Guaranty Corporation ("PBGC")). For the calendar year 2011 the pension plan contributions totaled approximately \$30.0 million. On July 6, 2012, the Moving Ahead for Progress in the 21st Century Act was signed into law. The legislation contained certain short term pension plan funding relief. After taking into account the effects of this legislation, the Company now estimates it will contribute \$20.4 million during the calendar year 2012. Current bond market conditions have resulted in lower long term corporate bond yields, the continuation of which could result in a lower discount rate and adversely affect the Company's current pension benefit obligation and increase its funding requirements. These market conditions also could result in a lower than anticipated return on Plan assets which in turn would result in higher funding requirements. In June 2010, Congress passed and the President signed into law, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, which among other things, included changes to funding requirements for defined benefit plans. The Company has elected the 'two plus seven' year amortization option available in the aforementioned act for the funding of Ormet's defined benefit pension plans beginning with 2011. Future contributions required may be at risk if the Company is unable to resolve its short term liquidity issues.

In addition to the defined benefit plans, effective July 1, 2006, all hourly employees were eligible to participate in a USW sponsored multi-employer defined benefit pension plan. As a result, the Company is obligated to make monthly contributions to this plan based on the number of hours worked by its hourly employees. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by the Company may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to the plan, the underfunded obligations of the plan may be borne by the remaining participating employers;
- If the Company stops participating in a multi-employer plan, the Company may be required to pay that plan an amount based on the underfunded status of the plan, which is referred to as a withdrawal liability.

**The Company has substantial contractual obligations for payments to the VEBA Benefit Trusts.**

As of June 30, 2012, the Company has approximately \$48.2 million of undiscounted contractual obligations (discounted to \$40.2 million of recorded liability) to make monthly payments to a VEBA Benefit Trust for the benefit of eligible current and future hourly Ormet retirees and their eligible spouses and dependents. The Plan Trustees for the hourly Retiree Group Benefit Plan are responsible for independently establishing the program of benefits for all hourly Hannibal and Burnside retirees and for determining the amount of the monthly contributions required from participating retirees. In conjunction with the 2006 collective bargaining agreements with the United Steelworkers, the Company agreed to (a) make monthly cash contributions (excluding deferral amounts resulting from the 2007 collective bargaining agreement explained below) of \$483,000 through May 31, 2008, \$500,000 from June 1, 2008 through May 31, 2013 and \$667,000 from June 1, 2013 through May 31, 2018 to the Hourly VEBA Benefit Trust for healthcare and death benefits for eligible current and future hourly retirees of the Hannibal facility, (b) monthly cash contributions of \$120,000 from January 1, 2007 through December 31, 2010 to the Hourly VEBA Benefit Trust for healthcare and death benefits for eligible current and future hourly retirees of the Burnside facility and (c) within fifteen days after the Company releases its quarterly financial statements, a variable contribution equal to 5 percent of the Company's "Profits" (as defined in the Hannibal Collective Bargaining Agreement). During 2007, the collective bargaining agreement was amended and \$5.9 million of the scheduled 2008 Company contributions and \$0.9 million of profit sharing contributions to the Hannibal hourly VEBA Benefit Trust were deferred and were to be made during 2010 and 2011. In conjunction with the extension of the prior Hannibal smelter labor agreement through May 31, 2011, the USW and the Company agreed to delay the commencement of the above 24 month repayment of the 2008 VEBA payment (including the profit sharing portion) deferral from January 2010 to January 2011. On June 3, 2012, the Company and the USW agreed to defer the remaining 2008 hourly VEBA Benefit Trust contributions and the regular monthly hourly VEBA Benefit Trust contributions during June 2012 through December 2102. The deferred amounts plus a modification fee will be repaid evenly over a twenty four month period beginning January, 2013. The total amount deferred, including the modification fee, amounts to approximately \$5.9 million. Future contributions required may be at risk if the Company is unable to resolve its liquidity issues.

The Company also has a \$5.3 million undiscounted liability (discounted to \$4.5 million of recorded liability) as of June 30, 2012, to the salary VEBA Trust and continues to make monthly contributions to the VEBA trust to fund healthcare and death benefits for eligible current and future salaried retirees and for eligible hourly retirees at luka, Mississippi and Jackson, Tennessee, and for their eligible spouses and dependents. For the year ended December 31, 2011, these contributions were \$900,000 and are expected to be the same for year 2012. As directed by a resolution of the Company's Board of Directors ("the Board"), the Company will continue funding the salary VEBA through May 2018. The Plan Trustees for the Salaried and Other Retiree Group Benefit Plan are responsible for establishing the program of benefits and for determining the amount of the monthly contributions required from participating retirees under the Plan.

**Interruptions in the supply of energy to the Company's facilities may halt production.**

The Company's operations require a continuous and uninterrupted supply of energy, including electricity and natural gas. The Company could suffer significant losses due to a temporary or prolonged interruption of the supply of electric power to its aluminum smelter, which may be caused by unusually high demand, blackouts, equipment failure, natural disasters or other catastrophic events which are not in the control of the Company. In addition, temporary or prolonged interruptions could be experienced due to upgrade, maintenance, and/or capital infrastructure improvements of the AEP electrical distribution and transmission system. While the Company works closely with AEP to minimize risk of interruption and establish contingency options when feasible, no assurance can be given that the Company will not experience interruptions in its power supply.

The alumina refinery is highly dependent on a continuous supply of natural gas in its manufacturing process. There are two major natural gas pipelines to service the alumina refinery. A simultaneous interruption in both of these lines could result in a disruption of production at the alumina refinery. Past disruptions in supply were the result of extreme weather conditions, such as hurricanes and severely cold temperatures.

**The Company is likely to require significant capital expenditures in the future.**

The Company's capital spending for the year ended December 31, 2011 was \$32.3 million including \$15.7 million for relining 206 of the 1,032 pots at the Hannibal smelter and \$11.1 million of capital expenditures related to the restart of the Burnside alumina refinery. Capital expenditures for the year ended December 31, 2010 were \$8.9 million which included costs of relining 95 pots at the Hannibal aluminum smelter. In the first six months of 2012, capital expenditures totaled \$6.9 million, which included the relining of 46 pots at the Hannibal smelter. Covenants in the Company's credit agreements limit the Company's ability to make capital expenditures. As amended, the limit for 2012, including a carryover amount of \$10.0 million from 2011, is \$45.0 million and thereafter until maturity the limit is \$35 million per year plus up to \$10 million of the unused amount from the prior year. There can be no assurance that the Company will have sufficient resources available to make any capital expenditures that may be required or that additional financing, if needed, will be available on acceptable terms. In addition, there can be no assurance that required capital expenditures will be permitted under the Company's debt agreements. The Company's principal operating facility in Hannibal, Ohio is over 50 years old and the Burnside alumina facility had been idled for over four years and is over 50 years old. The restart of the alumina refinery required additional and significant expenditures in order to fully bring it back online. As a result, the Company may be required to make substantial additional capital investments in order to maintain competitive production levels at these facilities.

The Financial Accounting Standards Board ("FASB") Financial Accounting Standard Codified Topic ("ASC") 360-10-35-18 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The alumina refinery at Burnside, LA has a solid waste site to handle the red mud surface impoundment for bauxite tailings. This site occupies approximately 400 acres of the 1100 acres available surrounding the refinery. When the alumina facility reaches the end of its useful life the Company will have an obligation to maintain the integrity of the solid waste site. The Company believes that its ability to utilize the remaining

700 acres of land and the remaining life of the existing Red Mud surface impoundment, make the useful life of the alumina refinery indeterminable and therefore an indeterminate settlement date for the establishment of an obligation associated with the red mud lakes.

**The Company's debt agreements impose restrictions that may limit the ability to raise new capital, finance future operations or engage in business activities that may be in the Company's interest.**

The Company's loan agreements contain significant covenants that restrict the Company's ability to, among other things, refinance existing debt, incur additional debt and raise new equity, pay dividends, make investments, enter into transactions with affiliates, merge or consolidate with other entities, sell assets and reduce operations. Additionally, the Company's ABL Facility requires compliance with minimum EBITDA targets and both the ABL Facility and the Term Loan impose capital spending limits. A breach of any of these covenants could result in a default under these debt agreements, which would allow the lenders to declare all amounts outstanding immediately due and payable and could trigger cross-defaults resulting in additional debts becoming due. If the Company is unable to repay outstanding borrowings when due, the lenders will have the right to proceed against the collateral securing their debt. The Company may also be prevented from taking advantage of business opportunities that arise because of the limitations imposed on the Company by the restrictive covenants under these debt agreements.

The Company's high level of debt and the terms of this debt could:

- result in the inability to comply with the financial and other restrictive covenants in its debt agreements, which, among other things, limit the ability to incur debt and sell assets, which could in turn result in an event of default that, if not cured or waived, could have an adverse impact on the Company's operations and liquidity;
- prevent the Company from pursuing acquisitions or other strategic transactions which might otherwise be attractive, or deter others from pursuing strategic transactions with the Company;
- increase the Company's vulnerability to adverse industry and general economic conditions;
- require the Company to dedicate a substantial portion of cash flow from operations to make principal payments on the debt when due, thereby reducing the availability of cash flow for working capital, capital investments and other business activities;
- limit the Company's ability to obtain additional debt or equity financing to fund future working capital, capital investments and other business activities;
- limit the Company's ability to refinance indebtedness on terms that are commercially reasonable or at all;

- expose the Company to the risk of interest rate fluctuations to the extent it pays interest at variable rates on its debt;
- limit the Company's flexibility to plan for, and react to, changes in the Company's business and industry; and
- place the Company at a competitive disadvantage relative to its less leveraged competitors.

Upon the occurrence of "change in control" default or prepayment events specified in the Company's ABL and Term Loan agreements, the holders of our indebtedness may require the Company to immediately repurchase or repay that debt on less than favorable terms and these defaults or prepayment events could trigger cross-defaults under other agreements which could result in additional debts and other obligations (including pension obligations) becoming due. If a change of control is triggered under these agreements, it could have an adverse impact on the Company. For purposes of certain of our agreements, a change of control could be triggered by beneficial ownership of as little as 35 percent of our common stock, calculated in accordance with the relevant agreements. Under our ABL Facility and the Term Loan, Wayzata is a "permitted holder" and therefore under our loan agreements, beneficial ownership by Wayzata above these thresholds would not trigger a change of control.

**Volatile conditions in the global capital and credit markets could adversely affect our business, as well as the industries served by our customers.**

Severe reductions in the availability and cost of credit, and volatility in the capital and credit markets, could adversely affect the business and economic environment in which we operate and the profitability of our business. Moreover, the worldwide financial crisis during 2008 and 2009 and the continuing protracted economic downturn has reduced the availability of liquidity and credit to fund or support the continuation and expansion of our business operations. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers. Continued disruption in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to repay or refinance maturing liabilities and access the capital markets to meet liquidity needs.

**The Company's operations may create exposure to various business and other risks associated with doing business internationally.**

While the Company's operations are based in the United States, it is subject to certain risks associated with doing business internationally. For example, many of its customers, business partners and counterparties are located outside of the United States. In addition, the Company may in the future expand its operations internationally. Risks associated with doing business internationally include, among other things:

- compliance with local laws and regulations;

- compliance with anti-bribery laws such as the Foreign Corrupt Practices Act and similar laws;
- the ability to enforce legal rights in foreign countries;
- foreign currency related risks;
- political or financial instability;
- expropriation, renegotiation or nullification of existing agreements or assets;
- differences in, and changes to, local laws, regulations and policies including tax related risks.

While the impact of these factors is difficult to predict and beyond the Company's control, it is possible that any one or more of them could adversely affect our business, financial condition or operating results. In addition to the business risks inherent in operating internationally, economic conditions may be more volatile, legal and regulatory systems less developed and predictable, and the possibility of various types of adverse governmental or regulatory action more pronounced.

**To the extent the Company raises capital from issuing new equity, the Company's stockholders may experience significant dilution.**

To the extent the Company seeks to raise additional equity capital in the future, the Company's stockholders may experience significant dilution. Among other things, in addition to dilution resulting generally from the issuance of additional shares, the Company's outstanding warrants contain anti-dilution provisions that generally will be triggered, among other circumstances, if common equity (including common stock or convertible securities, warrants or other rights to acquire common stock, subject to certain exceptions) is issued at a price that is below the exercise price of the warrants (currently \$3 per share for the outstanding warrants issued in connection with the Company's previously outstanding convertible notes and in connection with the Term A Loan and \$15 per share for the outstanding warrants issued in connection with the Company's previously outstanding subordinated note), or if common equity is issued at a price less than the then current market price. In the event of an issuance below the applicable warrant exercise price, the warrant exercise price may be subject to reduction to the price at which the new common equity is issued. This is known as a 'full ratchet' adjustment. The adjustment in respect of sales at below market prices is a weighted average formula. If either adjustment is triggered, the warrant exercise prices may be lowered and the number of shares issuable under the warrants may be increased. If both adjustments are triggered, the anti-dilution provisions generally provide for the Company to make the adjustment most favorable to the holders of the warrants. The Company's outstanding debt related warrants are for approximately 4.6 million shares of which approximately 3.7 million are held by Wayzata. The last reported price of the Company's common stock on the OTC Pink Marketplace on October 4, 2012 was \$1.15 per share. The operation of the anti-dilution provisions in warrants could trigger substantial additional dilution if new equity is issued.

**The Company is subject to environmental laws and regulations that expose it to potential financial liability.**

The Company's operations are regulated under a number of Federal, state and local environmental laws and regulations, which govern, among other things, the discharge of pollutants into

the air and water as well as the handling, storage and disposal of, or exposure to, hazardous materials and occupational health and safety. Violations of these laws can lead to material liability, fines or penalties. Compliance with these environmental laws is a major consideration in production of the Company's products because metals and other hazardous materials are used in the manufacturing process. In addition, it is possible that in the future new or more stringent requirements could be imposed. Various Federal and state laws and regulations impose liability on current or previous facility owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the facility. Liability may be imposed without regard to legality of the original actions and without regard to whether the Company knew of, or was responsible for, the presence of such hazardous or toxic substances, and it could be responsible for payment of the full amount of the liability, whether or not any other responsible party is also liable. As disclosed in the Company's consolidated financial statements, the Company reached an agreement in the form of a consent decree with the USEPA in 1995. The consent decree with the USEPA also requires the Company to be able to demonstrate that it has sufficient financial resources available to meet the obligations set forth in the consent decree. The Company had entered into an agreement with the USEPA on December 5, 2007 where the Company would provide by December 27, 2007 a Letter of Credit ("LC") for \$0.6 million with additional LC's issued over the next two years aggregating \$3.4 million by December 21, 2009, to support the Company's ability to fund the super-fund liability. During December 2009, the USEPA agreed to extend the December 21, 2009 deadline for the final LC until March 31, 2010, which has subsequently been extended several times. On March 26, 2012 USEPA signed an Explanation of Significant Differences ("ESD") changing the consent decree to allow the shutdown of the treatment plant and authorize the request for a reduction in financial assurance to move forward. The USEPA has not yet responded to the financial assurance reduction allowing a reduction in the LC's. On August 28, 2012, the USEPA extended the current deadline for increasing the LC to October 30, 2012, which is intended to allow the USEPA time to approve the financial assurance reduction and correspondingly reduce the amount of LC's.

The Company has been subjected to claims, settlements and lawsuits by contractors and former employees for hearing loss and mesothelioma from asbestos exposure. The Company cannot forecast with any certainty the extent of any future claims.

In addition, the Company has certain additional environmental costs and obligations related to the ongoing operations at its facilities. There can be no assurance that a material environmental liability will not arise in the future or that the Company will be able to obtain relief from the current funding requirements noted above.

In addition, the Company and the Louisiana Department of Environmental Quality agreed during the first quarter 2011 to enter into an Administrative Order on Consent ("AOC") under which Ormet will initiate the establishment and funding of a trust fund totaling approximately \$201,000 to provide financial assurance for the closure and post-closure costs of the red mud lakes in conjunction with renewing its solid waste permit at the alumina refinery in Burnside, LA. After the initial 48 month funding, the Company will be required to make an annual payment to be calculated according to a formula defined in specific Louisiana environmental regulations each year thereafter. The Company signed and entered into the AOC agreement on May 9, 2011. While funding is scheduled to commence in May 2013, the

Company may suspend payments to the trust fund if the Company demonstrates compliance to a financial assurance test as codified under applicable Louisiana environmental statutes.

The Company's asset retirement obligations ("ARO") consist of costs related to the disposal of certain spent pot lining associated with the Hannibal, OH smelter. While management believes the ARO recorded represent reasonable estimates of these future costs, such estimates are subject to change due to a number of factors, including changes in regulatory requirements and costs of labor and materials. As of June 30, 2012, the ARO liability related to the pot lining disposal was \$6.8 million.

The current portion of the ARO liability of \$1.8 million at June 30, 2012 relates to the disposal of spent pot lining at the Hannibal smelter and is recorded in accrued liabilities in the accompanying consolidated balance sheet. The remaining non-current portion of \$5.0 million at June 30, 2012 is included in other long-term liabilities in the accompanying consolidated balance sheet. The ARO is estimated employing a discounted cash flow approach using a credit-adjusted risk-free discount rate of 7.0 percent upon initial recognition and such rate being adjusted for additional layers of liability when such additional liability is recognized.

#### **The Company is at risk of financial losses from natural disasters**

The Company consumes approximately 540,000 tons of alumina annually. The alumina is transported to the Hannibal, Ohio smelter in river barges on the Mississippi and Ohio rivers. Any flooding or drought events such as occurred during the spring of 2011 and summer 2012, respectively could result in disruption, and possibly halting, of barge movement on both of these waterways. Although the Company normally maintains sufficient alumina inventory at the smelter to prevent a reduction in operations, any prolonged river traffic shutdown could require the Company to adjust its production level, incur higher transportation costs, or take other measures that could increase the cost of producing aluminum during and after such an event. Currently, due to low water conditions on the Mississippi and Ohio Rivers, barge load capacity has been restricted.

The Company's operations in Burnside Louisiana are also in an area that is prone to hurricanes and tornadoes. Such storms have inflicted damage in the past to the plant assets. In addition these storms have required operations to be curtailed.

#### **The Company is not subject to the reporting obligations of the Securities Exchange Act of 1934.**

The Company's common stock is not listed on any stock exchange. A public offering registered under the Securities Act of 1933 has never been made by the Company and the Company's common stock is not registered under the Securities Exchange Act of 1934 ("Exchange Act"). As a result, the Company is not subject to the reporting requirements applicable to such companies, such as the requirement that Securities and Exchange Commission ("SEC") reporting companies file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K or comply with the SEC's proxy rules. While the Company makes certain information publicly available on an annual and quarterly basis, this information is significantly less than the information required of SEC reporting companies. In

addition, unlike SEC reporting companies, the Company is not subject to the Sarbanes-Oxley Act. While some of the Company's common stock trades over the counter in the public market and quotes can be obtained through the OTC Pink Marketplace, trading is infrequent and the market highly illiquid. The Company cannot predict if or the extent to which an active trading market might develop for the Company's common stock or how liquid that market might become.

In addition, because the Company is not a reporting company under the Exchange Act, stockholders that beneficially own more than 5 percent of the Company's common stock are not required to file notifications of their stock ownership on Schedule 13D or Schedule 13G with the SEC or the Company, and stockholders are not subject to Section 16 reporting under the Exchange Act. Of the Company's 18,662,272 shares outstanding as of June 30, 2012, 81.8 percent are held in "street" name. As a result, the identity of many of the beneficial owners of the Company's common stock and their holdings are not known to the Company. However, based on public filings made to the SEC of Form N-Q through October 6, 2012 by certain registered managed investment companies with an effective date of June 30, 2012, the Company was able to identify UBS Willow Fund, LLC as an additional beneficial owner owning more than 5 percent of the Company's stock. Based on SEC filings by registered management investment companies on Form N-Q for the quarter ended June 30, 2012, the Company believes it has identified 37.5 percent of its stockholders as of June 30, 2012. Certain of the Company's debt and other agreements contain "change in control" provisions that can lead to acceleration of debt, termination of agreements or other adverse consequences. Due to the lack of visibility of the Company's stock ownership, it may be difficult for the Company to monitor the risk of the change in control provisions being triggered or the risk of large accumulations in the Company's stock taking place. Therefore, a change of control could take place without the Company's knowledge.

Federal regulations under the Exchange Act regulate the trading of so-called "penny stocks," which are generally defined as any security not listed on a national securities exchange, priced at less than \$5.00 per share and offered by an issuer with limited net tangible assets and revenues. Since the Company's common stock currently is quoted on the OTC Pink Marketplace (which is not a securities exchange), its common stock may be considered a "penny stock" when the price is below \$5.00 per share and may not be quoted or sold by a broker-dealer unless a disclosure schedule explaining the penny stock market and the risks associated therewith is delivered to a potential purchaser prior to any trade, and the investor meets certain suitability requirements.

Because the Company is not required to file reports under the Securities Exchange Act of 1934 as amended, its common stock is not listed on a national securities exchange, the market for trading in the Company's common stock on the OTC Pink Marketplace is very illiquid and the Company's common stock is very thinly traded, and, depending on the price of the common stock, the "penny stock" rules may be applicable to the Company's common stock, it may be very difficult for the Company's equity holders and broker-dealers to sell the Company's common stock in the secondary trading market.

**The Company has significant relationships with Wayzata, whose interests may be different than other investors.**

Investment funds, affiliated or managed by Wayzata, are the lenders under our (as amended) Term Loan Agreement. In addition, as of June 30, 2012, Wayzata holds warrants that, if exercised in full, would represent approximately 16.6 percent of the Company's outstanding common stock after giving effect to such exercise. Wayzata may also outright own additional shares of the Company's stock, the number of such shares, if any, is unknown by the Company. The interests of Wayzata may be materially different from that of other investors and shareholders.

**Forward Looking Statements**

This Statement contains forward-looking statements that can be identified by use of words like "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "likely," "result," "forecast," "outlook," "projects," "plans," "may," "could" or other words of similar meaning. All statements that address the Company's expectations or projections about the future, including statements about the Company's strategy for growth, cost reduction goals, expenditures, financial results, liquidity and capital needs, are forward-looking statements. Forward-looking statements are based on the Company's estimates, assumptions and expectations of future events and are subject to a number of risks and uncertainties and may or may not be realized. The Company disclaims any intention or obligation (other than as required by law) to update or revise any forward-looking statements. Among the risks and uncertainties these statements are subject to are those discussed above under the captions "Introduction," "Recent Developments and Significant Matters" and "Risk Factors," those discussed in the Notes to Consolidated Financial Statements which are a part of the Consolidated Financial Report (attached as Exhibit A) and in Management's Discussion and Analysis (attached as Exhibit B), and those identified elsewhere in this Statement.

Although the Company believes the expectations reflected in its forward-looking statements are reasonable, the Company cannot guarantee its future performance or results of operations. All forward-looking statements in this Statement are based on information available to the Company on the date hereof; however, the Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. When reading any forward-looking statements, the reader should consider the risks and uncertainties referenced above as well the other disclosures contained in this Statement. Given the significant uncertainties and risks to which the Company is subject (a) the reader should not place undue reliance on these forward-looking statements and (b) the Company's future results could differ materially from the Company's current results and from those anticipated in the Company's forward-looking statements. Furthermore, the reader is advised to consult any additional disclosures the Company makes in quarterly and annual 15c2-11 reports and current reports and disclosures available on the Company's website, under the "Investor's" and "News & Press" sections of the Company's website at <http://www.ormet.com>.

## **Market and Industry Data**

Market and industry data used throughout this document, including information relating to the Company's relative position in the industries in which it operates, is based on the good faith estimates of management upon their review of independent industry publications and other publicly available information. Although the Company believes that the third party sources relied upon by management in making such estimates are reliable, it cannot guarantee the accuracy or completeness of this information, and this information has not been independently verified.

**The information provided below is intended to fulfill the requirements of Rule 15c2-11(a) (5) under the Securities Exchange Act of 1934, as amended. The enumerated captions correspond to those set forth in the Rule.**

### **ITEM (i): The exact name of the issuer and its predecessor (if any).**

Ormet Corporation.

### **ITEM (ii): The address of its principal executive offices.**

Ormet Corporation  
43840 State Route 7  
Hannibal, Ohio 43931  
(740) 483-2776  
<http://www.ormet.com>.

### **ITEM (iii): The state and date of incorporation, if it is a corporation.**

Ormet Corporation is a Delaware corporation incorporated on October 3, 1989. An Amended and Restated Certificate of Incorporation was filed on April 1, 2005. Amendments to the Amended and Restated Certificate of Incorporation were filed on February 20, 2007 and March 13, 2007. A second amendment to the Amended and Restated Certificate of Incorporation was filed on August 4, 2010.

### **ITEM (iv): The exact title and class of each class of securities outstanding**

As of June 30, 2012, the total number of shares of all classes of stock which the Company had authority to issue was 51,000,000 of which 50,000,000 shares are designated as common stock, par value \$0.001 per share, and 1,000,000 shares of which are designated as preferred stock, no par value per share.

As of December 31, 2011 and June 30, 2012, 18,662,272 shares of common stock were issued and outstanding.

On November 1, 2007 the Company issued warrants to a group of private investors to purchase up to 2.3 million shares of common stock of the Company (subject to certain anti-dilution provisions) in combination with the issuance of secured debt to those investors. The warrants are exercisable

immediately at a price of \$3 per share (subject to adjustment) and as amended in March 2010, expire on March 1, 2015. The anti-dilution provisions of the warrants provide for adjustments for common stock dividends, subdivisions and combinations of the Company's outstanding common stock, cash dividends and distributions of assets, certain dilutive issuances and certain fundamental changes such as a merger or consolidation or a sale of substantially all of the Company's assets. Among other things, the anti-dilution provisions generally will be triggered if common equity (including common stock or convertible securities, warrants or other rights to acquire common stock, subject to certain exceptions) is issued at a price that is below the exercise price of the warrants, or if common equity is issued at a price less than the then current market price. In the event of an issuance below the current warrant exercise price, the warrant exercise price will be subject to reduction to the price at which the new common equity is issued. This is known as a 'full ratchet' adjustment. The adjustment in respect of sales at below market prices is a weighted average formula. If either adjustment is triggered, the warrant exercise will be lowered and the number of shares issuable under the warrants may be increased. If both of these adjustments are triggered, the anti-dilution provisions generally provide for the Company to make the adjustment most favorable to the holders of the warrants. On May 3, 2011, 152,338 warrants associated with the Old Notes were exercised by a holder not related to Wayzata, with the Company realizing proceeds of \$0.5 million.

On March 1, 2010, warrants for the purchase of up to 1,850,000 shares of the Company's common stock at \$3.00 per share were issued in conjunction with the \$110.0 million Term A Loan financing. The warrants expire on March 1, 2015. Anti-dilution provisions generally similar to those contained in the Company's other outstanding warrants are also applicable for these warrants.

The Company has reserved an aggregate of 2.0 million shares of common stock for equity grants under its Stock Option Plan. As of June 30, 2012, the Company has issued and outstanding options to the senior management team, other employees and board of directors totaling 1,811,000 shares of common stock under the Stock Option Plan. In addition, as of June 30, 2012, the Company had 104,793 RSUs outstanding, which RSUs were granted to non employee members of the Board of Directors. As part of the March 1, 2010 refinancing, the Company agreed with Wayzata that the Company would limit aggregate option grants to no more than 2.0 million shares and that any new option issuances would provide for a per share exercise price at least equal to the per share fair value of our common stock, with an exercise price floor of \$5.00 per share. This restriction would remain in effect as long as Wayzata holds more than 50 percent each of the Term Loan and the new warrants and/or warrant shares. See the table on page 31 below and the attached Exhibit A, Note 19 for complete description of stock options and Restricted Stock Units ("RSU") granted to management and the Board of Directors.

The Company had an aggregate of 4,630,995 of debt related warrants outstanding at June 30, 2012. Of these warrants, 3,690,121 are held by Wayzata as of June 30, 2012. If Wayzata were to exercise these warrants in full, the shares issuable upon exercise of the warrants would represent approximately 16.6 percent of our outstanding shares after giving effect to such exercise. Any such shares would be in addition to shares of the Company's common stock that may be owned by Wayzata and its position as a significant lender to the Company. The number of any shares owned outright by Wayzata is not known by the Company at this time. On May 3, 2011, 152,338 warrants associated with

the Old Notes were exercised by a holder not related to Wayzata, with the Company receiving \$0.5 million.

No shares of preferred stock are outstanding nor were any shares of preferred stock outstanding as of June 30, 2012.

**ITEM (v): The par or stated value of the security.**

See ITEM (iv).

**ITEM (vi): The number of shares or total amount of the securities outstanding for each class of securities as of the end of the issuer's most recent fiscal year**

See ITEM (iv).

**ITEM (vii): The name and address of the transfer agent**

Continental Stock Transfer & Trust Co.  
17 Battery Place  
New York, New York 10004  
212-509-4000

**ITEM (viii): The nature of the issuer's business**

**Overview of the Company**

Ormet Corporation is a major producer of primary aluminum in the United States. Its aluminum smelter, located in Hannibal, Ohio, is capable of producing approximately 270,000 tons of aluminum per year. The Company also owns an alumina refinery located in Burnside, Louisiana, which had been idled since 2006 and was restarted during the fourth quarter of 2011. The alumina refinery is capable of producing approximately 540,000 tons of smelter grade alumina per year.

The Company operates one of ten producing aluminum smelters in the United States. Its Hannibal aluminum smelter has six potlines. During 2009, the Company reduced its production to four potlines from six potlines. Improved market conditions during the fourth quarter of 2010 resulted in the restarting of one of the idled potlines beginning on December 13, 2010 with the remaining idled pot line restarting on January 31, 2011. Disruptions in barge traffic along the Mississippi and Ohio rivers, as a result of drought conditions during the summer of 2012, inhibited the supply of alumina from the alumina refinery to the smelter. This, coupled with a significant increase in the unit cost of electricity, forced the Company to reduce its smelter production to four potlines by September 1, 2012.

The principal customers for the Company's aluminum/sow and alumina (when produced in excess of internal requirements) are international commodity traders.

The selling prices of aluminum and alumina are primarily determined by global supply and demand and other competitive factors. The Company's selling prices for aluminum are generally based on the prices as published by the LME. As market conditions warrant, the Company will lock in some production at fixed prices, or enter into hedging agreements. The Company entered into a series of pre pricing and financial hedge agreements at the end of the first and beginning of the second quarters of 2011 to mitigate any potential losses from a decline in the LME price of primary aluminum for the remainder of 2011 and a portion of the year 2012. The 2012 pre pricing agreements and financial hedge agreements were unwound by mutual agreement during November 2011, January 2012 and April 2012, which the Company received cash proceeds of \$35.9 million in the first quarter of 2012. The Company received the remaining \$4.9 million from the unwound pre pricing agreements in April 2012.

The principal cost elements for the production of primary aluminum products are labor, electricity, alumina and carbon anodes. On a combined basis, these cost elements represent approximately 90 percent of the cost of producing aluminum (excluding capital expenditures).

The Company's main competitors in the primary aluminum segment include Rusal, Alcoa, Inc., Rio-Tinto, Inc., Noranda, Inc., and Century Aluminum, Inc. (of which based on public filings by Century, Glencore owns 41.2 percent of the outstanding stock as of October 4, 2011, plus debt convertible into an additional 8.1 million Century shares). Alumina sales to third parties may occur when the Company's alumina business is operational and alumina production exceeds internal requirements. When third party sale of alumina occurs, the Company competes primarily with Alcoa, Inc., Noranda, Inc., and Sherwin, Inc. (a wholly owned subsidiary of Glencore). These competitors have significantly greater financial, marketing, and other resources than Ormet.

For a discussion of recent developments concerning the Company's business, see "Recent Developments and Significant Matters" beginning on page 2.

## **Overview of the Industry**

The LME three month price of aluminum for the third quarter of 2012 averaged \$1,948 per metric ton. Mid West Transaction premiums increased throughout the quarter and averaged 9.63 cents per pound. LME 3 month aluminum prices rose by 11.1 percent month on month in September bolstered by a weaker US dollar, fresh fund buying, less unfavorable end-user demand dynamics in every key geographical region and physical availability issues. Prices rallied during the first half of September 2012 to a six-month high of \$2,200 per metric ton as market confidence strengthened amid the monetary/fiscal stimulus measures announced in Europe, China and the US. In spite of the favorable September trend, prices in October have been on a downward trend with the three month LME at \$2,016 per metric ton as of October 11, 2012. The above triggered fund buying (short covering and new longs) of aluminum while at the same time physical demand was supported by stronger US manufacturing activity and physical metal availability issues which was reflected in higher premiums.

According to industry experts, prices corrected after the announcement of Quantitative Easing ("QE3"). This price correction was consistent with the behavior seen the last three times that QE programs were announced, the materialization of QE3 was followed by a decline of as much as \$121 per

metric ton during the following two weeks. Funds took profits from long aluminum positions opened earlier in September 2012 as market concerns continued unresolved around slowing demand growth in China and uncertainty remained high about Europe's debt crisis and manufacturing recession. Aluminum market sentiment was unable to climb back to bullish mode.

According to industry experts, the US dollar weakened by 1.6 percent in September 2012 from the prior month, accounting for roughly 20 percent of aluminum's rise. However manufacturing activity in Europe contracted for the fourteenth consecutive month in September. China's stock market remains in a downward trend and has fallen to fresh multi-year lows.

**ITEM (ix): The nature of products or services offered.**

See ITEM (viii) above.

**ITEM (x): The nature and extent of the issuer's facilities**

Ormet Corporation owns two facilities as listed below, which are both pledged under the Company's financing agreements:

**Facilities**

Name	Location	Operational	Approximate Production Capacity (in tons)	Approximate Square Footage
Hannibal Facility	Hannibal, Ohio	1958		2,400,000
• Billet Casting (a)			100,000	
• Reduction Plant (b)			270,000	
Burnside Alumina Refinery (c)	Burnside, Louisiana	1957	540,000	330,000

(a) Operations curtailed October 17, 2007.

(b) Operations at the reduction plant were reduced by one third during 2009 and brought back to full capacity during December 2010 and January 2011.

(c) Operations at the alumina refinery plant were curtailed in the fourth quarter of 2006 and resumed on November 1, 2011.

**Hannibal Facility**

The Hannibal facility, encompassing 256 acres, is located on the Ohio River in Hannibal, Ohio and consists of a billet casting operation, a reduction plant (aluminum smelter) comprised of six potlines (1,032 pots), and the corporate headquarters. The billet casting operation (currently idle) utilizes two casting units for producing conventional extruded aluminum billet products up to 300 inches in length and 7-15 inches in diameter. The Hannibal reduction plant is among the largest aluminum smelters in the United States and has a capacity of approximately 270,000 tons of aluminum on an annual basis. The reduction plant consists of six process potlines, alumina unloading/storage systems, baghouse system for

air emissions, and associated production support and maintenance services. As of June 30, 2012 approximately 849 hourly workers and 112 salaried workers are employed at the smelter operations in Hannibal, with an additional 52 employees being associated with corporate management. The Hannibal facility's new collective bargaining agreement expires on December 31, 2016.

As a result of the market and logistics conditions, the Company issued a WARN Act notification to its Hannibal employees on July 19, 2012 that it may curtail up to six potlines. The Company reduced production at the Hannibal smelter to four pot lines at the end of August 2012. As of October 1, 2012, the Company has reduced its Hannibal smelter workforce by approximately 90 employees.

Legislation passed in the State of Ohio in 2008 provided the Company the opportunity to negotiate competitive electricity contracts for a number of years commencing January 1, 2009. In 2009, the Company negotiated a new 10 year power contract that became effective in September 2009. The power contract provides for discounts based upon LME aluminum pricing. For 2010 and 2011, the power contract provided for up to a \$60.0 million discount from applicable tariff rates for large industrial consumers (GS-4). For the year 2012, the annual maximum amount is \$54.0 million which is reduced by \$10 million each year thereafter from 2013 until phased out by 2018. The amount of discount to which the Company is entitled to will be dependent on prices for aluminum on the LME and the Company's projected break-even free cash flow levels. The Company and AEP are currently in discussions to modify the current unique arrangement. These discussions are centered on providing the Company with increased liquidity. There can be no assurance that these discussions will result in achieving an increase in liquidity.

### **Burnside Alumina Refinery**

The Burnside alumina refinery is situated on approximately 1,100 acres in Burnside, Louisiana. The refinery produces smelter-grade alumina which is used in the molten aluminum industry to produce aluminum. The Burnside alumina refinery is one of only four alumina refineries in the United States. The Burnside refinery can produce approximately 540,000 tons of smelter-grade alumina when operating at full capacity. Burnside Alumina Refinery operations were curtailed in the fourth quarter of 2006. On February 23, 2011, the Board of Directors authorized the restart of the refinery, subject to obtaining acceptable financing, which financing was completed on May 6 2011. The alumina refinery, after undergoing refurbishment and maintenance activities, went back on line on November 1, 2011.

As of June 30, 2012 approximately 202 hourly workers and 49 salaried workers are employed at the Burnside facility. The Burnside facility's collective bargaining agreement expires on December 31, 2014. On September 11, 2012, the Company issued a WARN Act notification for its Burnside, Louisiana alumina refinery employees, indicating that a reduction in operating level may occur as a result of the smelter's lower production level. A decision regarding the future operating level of the refinery has not been made at this time.

The Company has sold approximately 165,000 tons of bauxite from its 2012 contractual obligation. The remaining 2012 obligation is approximately 165,000 tons, of which approximately 110,000 tons has been deferred to 2013.

**ITEM (xi): The name of the chief executive officer and members of the board of directors**

**Board of Directors -**

Name	Title
Jeffrey G. Marshall	Chairman (Resigned October 17,2012)
Nicholas Burakow	Member of the Audit and Strategy Committees
Benjamin Duster	Chairman of the Audit Committee, member of the Compensation Committee
Robert Prusak	Vice Chairman and Chairman of the Strategy Committee, member of the Audit Committee
David L. Robertson	Chairman of the Compensation Committee
Michael F. Tanchuk	President and Chief Executive Officer, member of the Strategy Committee

Jeffrey Marshall – Mr. Marshall has been a director since April 1, 2005. Mr. Marshall notified the Board of Directors on October 17, 2012 that he was resigning as a Director and Chairman of the Board, immediately, due to health reasons. Mr. Marshall had been chairman of the board since September 27, 2007, a position he previously held from 2005 through May 2007.

Dr. Nicholas Burakow – Dr. Burakow has been a director since November 6, 2008. He holds a Ph.D. in economics from the University of Notre Dame and is the Executive Vice President and Chief Financial Officer of Kaiser Group Holdings, Inc., an engineering and consulting firm. Prior to joining Kaiser, Dr. Burakow served for twelve years in the U.S. Department of State's Foreign Service where his last position was Director for Monetary Affairs. Dr. Burakow has been a senior officer of Kaiser and its predecessors for more than 20 years. Dr. Burakow is also the President of Global Trade and Invest, Inc., an international trade and consulting firm that he co-founded to engage in international trading activities and to provide consulting assistance to companies doing business internationally. Dr. Burakow has been engaged as a paid consultant to provide strategic planning advice and services to the Company. The Company believes the compensation being paid to Dr. Burakow for the consulting services is no more or less favorable to the Company than if he were not a related party.

Benjamin Duster - Mr. Duster has been a director since November 6, 2007, and currently serves as the Chairman of the audit committee. Mr. Duster is currently a board advisor with Watermark Advisors, a FINRA licensed strategic and financial advisory firm. Mr. Duster is a former partner of Masson & Company LLC. From 1997 to 2001, he was Managing Director with Wachovia Securities and prior to that spent seventeen years with Salomon Brothers, specializing in bankruptcy reorganizations, financial restructurings and acquisitions. He served as chairman of the board of directors of Algoma Steel, Inc., from 2002 to 2007. He is currently a member of the board of directors of Accuride Corporation, and Chorus Aviation, serving both boards as the chairman of the compensation committee. Mr. Duster is also a member of the board of directors of Greektown Superholdings, Inc.

Robert Prusak – Mr. Prusak is currently vice chairman of the board and has been a director since July 6, 2007. Mr. Prusak was on a leave of absence due to the Company's contract dispute with Glencore from April 3, 2009 until July 21, 2009. Mr. Prusak also serves on the audit committee and is the

Chairman of the strategy committee. Beginning April 20, 2010, Mr. Prusak has been engaged as a paid consultant to provide strategic planning advice and services to the Company. The Company believes the compensation being paid to Mr. Prusak for the consulting services is no more or less favorable to the Company than if he were not a related party. Mr. Prusak was formerly an executive with Glencore, an international trading company, from 1988 to 2005. Mr. Prusak held various financial positions with Glencore, including treasurer of its U.S. operations. In 2001, Mr. Prusak assumed operational responsibility for Glencore's alumina/aluminum group of industrial assets, including plants in the US, Sweden, Italy, Ireland, and Jamaica. Most recently, he served on the board of directors for Sherwin Alumina.

David Robertson – Mr. Robertson has been a director since April 1, 2005. Mr. Robertson is Chairman of the compensation committee. Mr. Robertson currently holds the position of Counsel in the Pittsburgh office of the Spilman Thomas & Battle law firm. His practice focuses on labor law and federal government relations. Mr. Robertson is the former executive vice president of human resources and corporate law of the former Weirton Steel Corporation. He managed Weirton Steel's interests in trade cases pursued at the International Trade Commission and implemented its steel lobbying efforts at the federal, state and local levels. Mr. Robertson also has negotiated labor agreements.

Michael F. Tanchuk – Mr. Tanchuk has been a director since May 1, 2007. Mr. Tanchuk is the Company's President and Chief Executive Officer. Mr. Tanchuk has 35 years experience in the metals industry. Mr. Tanchuk joined Ormet from Nordural, a division of Century Aluminum located in Grundartangi, Iceland, where he served as vice president and managing director. Prior to joining Century Aluminum, Mr. Tanchuk was president of Alcoa's Primary Business Unit- Northwest Region. He also worked in other executive and managerial capacities at Alcoa, as well as Reynolds Metals Company and Inland Steel Company.

The Company's directors are elected annually.

**Executive Officers –**

Name	Title
Michael F. Tanchuk	President and Chief Executive Officer
James Burns Riley	Chief Financial Officer, Treasurer and Secretary
Michael Griffin	Vice President of Operations
Matthew Powell	Commercial Vice President

**ITEM (xii): The issuer's most recent balance sheet and profit and loss and retained earnings statements**

See the Consolidated Financial Statements, attached as Exhibit A, which includes the Consolidated Balance Sheet and the Consolidated Statement of Stockholders' Equity as of June 30, 2012 and December 31, 2011 and the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and 2011.

**ITEM (xiii): Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.**

The Company's consolidated 2011 and 2010 financial statements are included in the Information and Disclosure Statement for each respective period, which are available on the Company's website ([www.ormet.com](http://www.ormet.com)).

**ITEM (xiv): Whether broker or dealer or any associated person is affiliated, directly or indirectly with the issuer**

To be answered by broker/dealer.

**ITEM (xv): Whether the quotation is being published or submitted on behalf of any other broker or dealer, and, if so, the name of such broker or dealer**

To be answered by broker/dealer.

**ITEM (xvi): Whether the quotation is being submitted or published directly or indirectly on behalf of the issuer, or any director, officer or any person, directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the issuer, and, if so, the name of such person, and the basis for any exemption under the Federal securities laws for any sales of such securities on behalf of such person**

To be answered by the broker/dealer. Any person selling shares of our common stock must notify the broker-dealer executing the transaction if such sale or quotation is being submitted or published directly or indirectly on behalf of a director or officer of the Company or a person that is directly or indirectly the beneficial owner of more than 10 percent of the Company's common stock, and the basis for any exemption under the federal securities laws for such sale.

## **Information Concerning the Stockholders and the Common Stock**

### **Common Stock**

As of June 30, 2012, there were less than 350 stockholders of record of the Company's common stock. Of the Company's 18,662,272 shares outstanding at that date, a very large percentage (81.8 percent) is held in "street" names. As a result, the identity of many of the beneficial owners of our common stock and their holdings are not known to the Company. Because the Company is not required to file reports under the Securities Exchange Act of 1934 as amended, no requirement exists for stockholders who own more than 5 percent of its shares to file notification with the Company or the SEC. However, based on public filings to the SEC by certain registered management investment companies of Form N-Q through October 6, 2012 with an effective date of June 30, 2012, the Company was able to identify the UBS Willow Fund, LLC as an additional beneficial owner owning more than 5 percent of the Company's stock. Based on SEC filings by certain registered management investment companies on

Form N-Q for the quarter ended June 30, 2012, the Company believes it has identified 37.5 percent of its stockholders as of June 30, 2012.

The Company has reserved 2.0 million shares of common stock for equity grants under its Stock Option Plan. As of June 30, 2012, the Company has issued and outstanding options to the senior management team, other employees and board of directors totaling 1,811,000 shares of common stock under the Stock Option Plan. In addition, the Company has issued 103,493 RSUs to non employee members of the Board of Directors. As part of the Company's March 1, 2010 refinancing, the Company agreed with Wayzata that the Company would limit aggregate option grants to no more than 2.0 million shares and that any new option issuances would provide for a per share exercise price at least equal to the per share fair market value with an exercise floor price of \$5.00 per share. This restriction will run with the tenure of the new warrants as long as Wayzata holds more than 50 percent each of the Term Loan and the new warrants and or warrant shares. See the table below and the attached Exhibit A, Note 19 for complete description of stock options and RSU granted to management and the Board of Directors.

Various third parties held options to purchase an aggregate of one million shares of common stock at an exercise price of \$10.00 per share (subject to adjustment). The options expired on June 1, 2011. These options were not part of the Company's Stock Option Plan.

On November 1, 2007 the Company issued warrants to a group of private investors to purchase up to 2.3 million shares of common stock of the Company (subject to certain anti-dilution provisions) in combination with the issuance of the Old Notes to those investors. The warrants are exercisable at a price of \$3 per share and as extended in conjunction with the closing of the Term Loan, expire on March 1, 2015. On May 3, 2011, 152,338 warrants were exercised by a holder not related to Wayzata, with the Company realizing proceeds of \$0.5 million.

On September 3, 2008, the Company issued warrants to Wayzata to purchase up to 600,000 shares at an exercise price of \$15 per share in connection with Wayzata providing a \$10 million Subordinated Term Note to the Company. These warrants are exercisable immediately and, as extended in conjunction with the closing of the Term Loan, expire on March 1, 2015.

On March 1, 2010 warrants for the purchase of up to 1,850,000 shares of the Company's common stock at \$3.00 per share were issued to Wayzata in conjunction with the closing of the \$110.0 million Term A Loan. This warrant has an expiration date of March 1, 2015. Anti-dilution provisions generally similar to those contained in the Company's other outstanding warrants are also applicable for these warrants.

Upon the occurrence of "change in control" default or prepayment events specified in the Company's existing debt agreements, the holders of our indebtedness may require the Company to immediately repurchase or repay that debt on less than favorable terms and these defaults could trigger cross-defaults under other agreements which could result in additional debts and other obligations (including pension obligations) becoming due. If a change of control is triggered under these agreements, it could have an adverse impact on the Company. For purposes of certain of our agreements, a change of control could be triggered by beneficial ownership of as little as 35 percent of

our common stock, calculated in accordance with the relevant agreements. Under the Term Loan and the ABL Facility, Wayzata is a “permitted holder” and therefore beneficial ownership by Wayzata above these thresholds would not trigger a change of control under those agreements.

A summary of the outstanding warrants, options and RSUs as of June 30, 2012 is as follows:

Description of holder	Quantity of shares	Shares Exercisable as of June 30, 2012	Exercise price	Expiration Date (s)
Options:				
Certain Management	1,795,000	1,380,000	\$ 3.90 *	July 1, 2017 through March 14, 2022
Certain Board of Directors	16,000	16,000	\$ 17.86 *	April 4, 2017 through November 6, 2017
Total options	<u>1,811,000</u>	<u>1,396,000</u>		
Warrants:				
Holders of extinguished debt:				
Senior subordinated secured note	2,180,995	2,180,995	\$ 3.00	March 1, 2015
Subordinated term note	600,000	600,000	\$ 15.00	March 1, 2015
Term Note holders	<u>1,850,000</u>	<u>1,850,000</u>	\$ 3.00	March 1, 2015
Total Warrants	<u>4,630,995</u>	<u>4,630,995</u>		
Board of Directors Members - RSU	104,743	-	\$ -	Issuable only at resignation
* Weighted average				

### Liquidity Risks-Restrictions on Transfer

Holders of common stock (a) who acquired shares in the Company’s December 2006 or May 2007 private placements or in any other private placement or (b) who acquire such common stock upon conversion of notes or exercise of options or warrants, will be unable to offer or sell their shares except pursuant to an effective Registration Statement or an available exemption from registration under the Securities Act (including, if available, Rule 144 and Rule 144A) and under equivalent state securities or “blue sky” laws. Generally, a holder of common stock that represents in writing to the Company that such holder (a) is not an affiliate and was not an affiliate of the Company at any time during the three months preceding a sale and (b) has beneficially owned the common stock proposed to be sold for at least one year, is entitled to freely sell such common stock pursuant to Rule 144.

### No Assurance that a Public Market for the Common Stock Will Develop

None of the Company’s issued securities are registered under the Securities Act, the Exchange Act or under any other securities laws. Accordingly, in the absence of such registration, the Company’s common stock and other securities may be offered or sold only pursuant to an exemption from the

registration requirements of the Securities Act (including, if available, Rule 144 and Rule 144A) and similar provisions of applicable state securities laws or pursuant to an effective Registration Statement.

The Company's common stock is not listed on any stock exchange, and the Company cannot predict whether the Company's common stock will be so listed or, if listed, whether the Company will be able to satisfy the applicable listing criteria to remain listed on an ongoing basis in the future. While some of the Company's common stock trades over the counter in the public market and quotes can be obtained through the OTC Pink Marketplace, trading is infrequent and the market highly illiquid. The Company cannot predict if or the extent to which an active trading market might develop for the Company's common stock or how liquid that market might become.

### **Uncertainty of and Fluctuations in Trading Prices**

As there is currently no active public trading market for the Common Stock, there can be no assurance as to the development of any market, or the liquidity of any market that may develop, for the common stock or the ability of the holders to sell their Common Stock. The prices at which shares of the common stock may trade, whether by way of the OTC Pink Marketplace or in any other public trading market that may develop, cannot be predicted and will not necessarily be related to the Company's book value, net worth or any other established criteria of value. Furthermore, the Company's financial results and the trading prices of the common stock may fluctuate substantially in the future.

### **No Anticipated Payment of Dividends**

Since its emergence from bankruptcy on April 1, 2005, the Company has not declared or paid any dividends on the Common Stock. The Company's ABL Facility and Term Loan restrict the Company's ability to pay dividends. The Company does not anticipate paying any dividends on the common stock in the foreseeable future.

### **Registration Rights Agreement**

The Company is party to a registration rights agreement, dated February 22, 2007, with a number of eligible stockholders. Among other things, the registration rights agreement provides the parties thereto (including their transferees) with the right, beginning November 1, 2007, to make two demands that their sales of "registrable shares" (as defined in the registration rights agreement) be registered under applicable Federal securities laws through the filing of a registration statement with the U.S. Securities and Exchange Commission. A first demand pursuant to these registration rights requires at least 13 percent of the aggregate number of issued and outstanding shares of common stock of the Company to demand registration and the demand must be for a number of shares having a market value of at least \$20.0 million. A second demand would require at least 5 percent of the aggregate number of issued and outstanding shares of common stock of the Company having a market value of at least \$10.0 million. In the event of a demand, subject to restrictions in the registration rights agreement, the other parties to the Agreement may be able to register their shares for resale as well. No demand has been made to-date.

A copy of the registration rights agreement is available on the Company's website, [www.ormet.com](http://www.ormet.com). The description of the Agreement provided in this Statement is provided for convenience only and the rights of parties to the Agreement are governed by the actual terms of the registration rights agreement.

### Selected Financial Data

The following table presents selected financial data as to continuing operations as of or for the three and six months ended June 30, 2012 and 2011 and the year ended December 31, 2011. All data is derived from the consolidated financial statements which are set forth in the Consolidated Financial Statements, attached as Exhibit A.

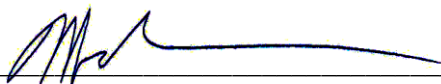
In millions except for per share data	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2012	2011	2012	2011	2011
Total assets	\$ 398.2	\$ 432.8	\$ 398.2	\$ 432.8	\$ 435.9
Long-term liabilities	\$ 182.8	\$ 285.6	\$ 182.8	\$ 285.6	\$ 319.1
Net sales from continuing operations	\$ 152.0	\$ 148.1	\$ 290.5	\$ 272.3	\$ 585.3
Operating (loss) income	\$ (16.4)	\$ 21.9	\$ (13.2)	\$ 32.0	\$ 39.0
(Loss) income from continuing operations	\$ (13.9)	\$ 126.2	\$ (15.0)	\$ 131.9	\$ 126.7
<b>Per common share data:</b>					
(Loss) income from continuing operations	\$ (0.74)	\$ 6.78	\$ (0.80)	\$ 7.11	\$ 6.81
Net (loss) income	\$ (0.74)	\$ 7.38	\$ (0.80)	\$ 7.70	\$ 7.40

## Certifications

I, Michael F. Tanchuk, President and Chief Executive Officer, hereby certify that:

1. I have reviewed this Information and Disclosure Statement for the six months ended June 30, 2012 for Ormet Corporation;
2. Based on my knowledge, this statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this statement;
3. Based on my knowledge, the consolidated financial statements and other financial information included in this statement, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented.

Date: October 17, 2012



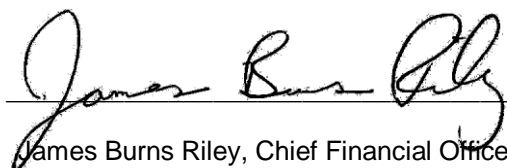
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Michael F. Tanchuk, President and Chief Executive Officer

I, James Burns Riley, Chief Financial Officer, hereby certify that:

1. I have reviewed this Information and Disclosure Statement for the six months ended June 30, 2012 for Ormet Corporation;
2. Based on my knowledge, this statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Statement;
3. Based on my knowledge, the consolidated financial statements and other financial information included in this statement, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period presented;

Date: October 17, 2012



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James Burns Riley, Chief Financial Officer

**Exhibit A**  
**Ormet Corporation**  
**Consolidated Financial Statements**  
**June 30, 2012**

**Consolidated Balance Sheet**  
**(Dollars in thousands)**

	<b>Unaudited</b>	
	<b><u>6/30/2012</u></b>	<b><u>12/31/2011</u></b>
<b>ASSETS</b>		
Cash	\$ 6,103	\$ 2,468
Accounts Receivable:		
Trade accounts receivable, net	8,930	\$20,619
Receivable from sales contract cancellation (Note 8)	-	23,000
Inventories (Note 2)	110,789	124,013
Prepaid expense and other current assets (Note 4)	14,674	12,411
Total current assets	<u>140,496</u>	<u>182,511</u>
Property and equipment (Note 3)	63,107	65,543
Goodwill	42,284	42,284
Deferred income tax asset, net (Note 14)	150,890	143,724
Other assets (Note 4)	1,388	1,864
<b>TOTAL ASSETS</b>	<b><u>\$ 398,165</u></b>	<b><u>\$ 435,926</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Accounts payable	32,855	51,906
Deferred energy discount	14,028	-
Accrued compensation	12,346	18,670
Accrued interest	4,527	4,527
Postretirement obligations (Note 13)	5,487	9,858
Current portion of long term debt (Note 6)	127,146	-
Other accrued liabilities (Notes 8,9, 11)	5,578	5,773
Total current liabilities	<u>201,967</u>	<u>90,734</u>
Long term debt (Note 6)	-	124,378
Other liabilities:		
Pension obligations (Note 11)	137,405	149,627
Postretirement obligations (Note 13)	39,217	37,615
Other liabilities (Notes 8, 9,11)	6,178	7,446
<b>STOCKHOLDERS' EQUITY</b>		
Common stock 50,000 shares authorized at \$0.001 per share, 18,662 issued as of 6/30/2012 and 12/31/2011	19	19
Additional paid in capital and stock warrants	187,243	187,113
Accumulated deficit	(30,776)	(15,790)
Accumulated other comprehensive loss	(143,088)	(145,216)
Total stockholders' equity	<u>13,398</u>	<u>26,126</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 398,165</u></b>	<b><u>\$ 435,926</u></b>

The accompanying Notes are an integral part of the Consolidated Financial Statements

**Exhibit A**  
**Ormet Corporation**  
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**June 30, 2012**

**CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

(Dollars in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
		As Adjusted (Note 1)		As Adjusted (Note 1)
	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Net sales from continuing operations	\$ 151,975	\$ 148,099	\$ 290,495	\$ 272,280
Cost of sales				
Production costs	163,207	121,641	293,727	230,109
Alumina refinery restart costs	-	5,830	-	7,694
Total cost of sales	<u>163,207</u>	<u>127,471</u>	<u>293,727</u>	<u>237,803</u>
Gross (loss) profit	(11,232)	20,628	(3,232)	34,477
Operating expenses (income)				
General and administrative expenses	5,175	4,568	9,953	8,313
Gain on sale of assets	-	(5,827)	-	(5,827)
Operating (loss) income	<u>(16,407)</u>	<u>21,887</u>	<u>(13,185)</u>	<u>31,991</u>
Non-operating (expenses) income				
Other income (expense), net	297	20	692	273
Interest expense	<u>(5,354)</u>	<u>(5,716)</u>	<u>(10,716)</u>	<u>(10,320)</u>
Total non-operating expenses	<u>(5,057)</u>	<u>(5,696)</u>	<u>(10,024)</u>	<u>(10,047)</u>
(Loss) income before income taxes	(21,464)	16,191	(23,209)	21,944
Income tax benefit (Note 14)	<u>(7,605)</u>	<u>(109,983)</u>	<u>(8,223)</u>	<u>(109,983)</u>
(Loss) income from continuing operations	(13,859)	126,174	(14,986)	131,927
Income from discontinued operations (Note 15)	<u>-</u>	<u>11,189</u>	<u>-</u>	<u>10,971</u>
Net (loss) income	<u>\$ (13,859)</u>	<u>\$ 137,363</u>	<u>\$ (14,986)</u>	<u>\$ 142,898</u>
Shares outstanding:				
Average during period	18,662	18,607	18,662	18,559
As of June 30, 2012	18,662	18,662	18,662	18,662
Net (loss) income per share from continuing operations	<u>\$ (0.74)</u>	<u>\$ 6.78</u>	<u>\$ (0.80)</u>	<u>\$ 7.11</u>
Net (loss) income per share	<u>\$ (0.74)</u>	<u>\$ 7.38</u>	<u>\$ (0.80)</u>	<u>\$ 7.70</u>

The accompanying Notes are an integral part of the Consolidated Financial Statements

**Exhibit A**  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**  
(Dollars in thousands)

	Three months ended		Six months Ended	
	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Net (loss) income	\$ (13,859)	\$ 137,363	\$ (14,986)	\$142,898
Other comprehensive income:				
Unrealized gain (loss) on derivatives	1,789	5,014	(549)	5,014
Recognized gain on derivatives	(2,546)	-	(2,546)	-
Defined benefit pension plan:				
Adjusted prior service cost (Note 20)	20	20	40	40
Change in unrecognized net actuarial loss	3,152	1,745	6,366	3,488
Other Comprehensive income, pretax	2,415	6,779	3,311	8,542
Income tax expense (Note 20)	(864)	(2,373)	(1,183)	(2,989)
Other comprehensive income (Note 20)	1,551	4,406	2,128	5,553
Comprehensive (loss) income	<u>\$ (12,308)</u>	<u>\$ 141,769</u>	<u>\$ (12,858)</u>	<u>\$ 148,451</u>

The accompanying Notes are an integral part of the Consolidated Financial Statements

**Exhibit A**  
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**Consolidated Statement of Stockholders' (Deficit) Equity (Dollars in thousands)**

	Common Stock	Additional Paid in Capital	Stock Warrants	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance January 1, 2011	\$ 19	\$ 176,354	\$ 9,758	\$ (153,427)	\$ (120,004)	\$ (87,300)
Net income	-	-	-	137,637	-	137,637
Other comprehensive loss (Note 20)	-	-	-	-	(25,212)	(25,212)
Exercise of stock w arrants (Note 18)	-	935	(478)	-	-	457
Compensation expense (Note 19)	-	544	-	-	-	544
Balance December 31, 2011	<u>\$ 19</u>	<u>\$ 177,833</u>	<u>\$ 9,280</u>	<u>\$ (15,790)</u>	<u>\$ (145,216)</u>	<u>\$ 26,126</u>
Net loss	-	-	-	(14,986)	-	(14,986)
Other comprehensive income (Note 20)	-	-	-	-	2,128	2,128
Compensation expense (Note 19)	-	130	-	-	-	130
Balance June 30, 2012 (Unaudited)	<u><u>\$ 19</u></u>	<u><u>\$ 177,963</u></u>	<u><u>\$ 9,280</u></u>	<u><u>\$ (30,776)</u></u>	<u><u>\$ (143,088)</u></u>	<u><u>\$ 13,398</u></u>

The accompanying Notes are an integral part of the Consolidated Financial Statements

**Exhibit A**  
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**Consolidated Financial Statements**  
**June 30, 2012**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	(Dollars in thousands)	
	Unaudited	
	Six Months Ended June 30,	
	As Adjusted	
	2012	2011
<b>Cash flows from operating activities</b>		
<b>Net (loss) income</b>	<b>\$ (14,986)</b>	<b>\$ 142,898</b>
Adjustments to reconcile net income (loss) to net cash from:		
Depreciation and amortization	9,634	9,812
Receivable from sales contract cancellation	23,000	-
Non cash interest	1,620	2,088
Amortization of pension plan loss	6,375	3,529
Deferred gain on forward sales contracts	(2,546)	-
Compensation expense related to options	130	363
Deferred income tax benefit	(8,223)	(104,075)
Amortization of deferred financing costs	545	518
Gain on sale of property and equipment	-	(22,891)
Net change in:		
Trade accounts receivable	11,689	(1,362)
Inventory	13,224	14,046
Prepaid & other current assets	(2,579)	(3,918)
Accounts payable	(19,051)	(12,044)
Accrued liabilities & other assets	5,883	12,712
Pension and postretirement	(15,591)	(15,766)
Net cash provided by operating activities	<u>9,124</u>	<u>25,910</u>
<b>Cash flows from investing activities</b>		
Proceeds from asset sales	-	26,891
Capital spending	(6,872)	(13,672)
Net cash (used in) provided by investing activities	<u>(6,872)</u>	<u>13,219</u>
<b>Cash flows from financing activities</b>		
Repayment of long term loan	-	(10,000)
Proceeds from long term debt	1,500	28,500
Proceeds from exercised stock options	-	457
Payment of financing fees	(117)	(433)
Net cash provided by financing activities	<u>1,383</u>	<u>18,524</u>
<b>Net increase in cash</b>	<b>3,635</b>	<b>57,653</b>
Cash - beginning of period	2,468	3,085
Cash - end of period	<u><b>\$ 6,103</b></u>	<u><b>\$ 60,738</b></u>

The accompanying Notes are an integral part of the Consolidated Financial Statements

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**Note 1 - Nature of Business and Significant Accounting Policies**

Ormet Corporation (the "Company") is a manufacturing company that produces aluminum sow and is able to produce aluminum billet products at its Hannibal, OH smelter facility ("Hannibal") and in addition produces alumina at its Burnside, LA refinery ("Burnside"). For the six months ended June 30, 2012, the Company produced alumina (for Hannibal only) and produced and sold aluminum sow. For the years ended December 31, 2011 and 2010, the Company produced and sold aluminum sow only. Operations of the alumina refinery were curtailed in the fourth quarter of 2006 and resumed on November 1, 2011. Operations at the bulk marine terminal were idled in 2007 and were part of discontinued operations until it was sold in June 2011.

**Basis of Presentation** - The consolidated financial statements have been prepared on the basis of Generally Accepted Accounting Principles in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Ormet Corporation and its wholly owned subsidiaries. All significant inter-company accounts, balances, and transactions have been eliminated in consolidation. The consolidated financial statements reflect results of operations of the Company for the three and six months ended June 30, 2012 and 2011 and balance sheet amounts as of June 30, 2012 and December 31, 2011.

**Cash and Cash Concentration** - The Company maintains its cash in bank deposit accounts, which, at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Revolving Credit Agreement ("ABL Facility") mandates that cash and cash equivalents be held in bank accounts with the Agent Bank. Management believes the Company is not exposed to any significant credit risk related to cash other than the uninsured deposit risk of deposits held at Wells Fargo Bank, NA.

**Accounts Receivable** - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All accounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts was \$13 at June 30, 2012 and December 31, 2011.

	2012	2011
Balance at beginning of period	\$ 13	\$ 11
Bad debt expense	-	13
Accounts written off	-	(11)
Balance at end of period	\$ 13	\$ 13

**Inventory** - Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out ("FIFO") method.

**Property and Equipment** - Property and equipment at June 30, 2012 and December 31, 2011 are reported net of accumulated depreciation and amortization. Additions and improvements are recorded at cost.

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Maintenance and repairs are charged to operations as incurred. Depreciation expense is provided principally using the straight-line method over the estimated useful lives of the various assets, ranging from 54 months for potlines, 7-10 years for equipment and 25 years for buildings and improvements. The carrying value of property and equipment is reviewed for impairment when events or circumstances indicate that the carrying value may not be fully recoverable.

**Goodwill and Intangible Assets** - The carrying value of intangible assets with a finite useful life is reviewed for impairment when events or changes in circumstances indicate that the carrying value of the intangible assets may not be fully recoverable (see Note 4). Recoverability is determined based on an estimate of the expected future undiscounted cash flows of the intangible assets.

Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment. No impairment charge was recognized for the six months ended June 30, 2012 or 2011. It is reasonably possible that management's estimate of the carrying amount of goodwill could change in the near term.

**Accounts Payable** - Included in accounts payable at June 30, 2012 and December 31, 2011 are approximately \$2,220 and \$2,554, respectively, of outstanding checks.

**Revenue Recognition** – In most cases, revenue from the sale of primary aluminum is recognized when title, ownership and risk of market loss pass to the customer in accordance with contract terms, the price to the customer is fixed or determinable and collectability is reasonably assured. In some instances, customer material is retained in storage on the Company's premises and is contractually covered by the Company's insurance.

The Company had tolling agreements in place for a substantial amount of its production for the year 2011 and the first quarter of 2012. The Company recognizes revenue from its tolling conversion operations when the toll conversion process is complete in accordance with contract terms (i.e. when the customer's alumina has been converted into aluminum, cast and weighed for shipment to the customer), the price to the customer is fixed or determinable and collectability is reasonably assured.

**Forward Contracts and Financial Instruments** - The Company from time to time, may enter into fixed and market priced contracts for the sale of primary aluminum in future periods. The Company also enters into fixed price financial sales contracts and forward natural gas options, which include puts, calls and swaps to be settled in cash to manage its exposure to changing primary aluminum and natural gas prices, respectively. See Note 8 for additional disclosure.

**Asset Retirement Obligations** - The Company records the costs for legal obligations associated with the retirement of a tangible long-lived asset that result from its acquisition, construction, development or normal operation as asset retirement obligations ("ARO"). The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, the Company capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over their remaining useful life. See Note 9 for additional disclosure.

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**Discontinued Operations** - Consolidated balance sheet amounts for discontinued operations are reclassified from their historical presentation in the consolidated balance sheet and reflected as assets and liabilities held for sale, recorded at an amount equal to the lower of carrying value or fair value. If the carrying value is in excess of fair value, a loss is recognized. Fair value is estimated based on all available information, with competitive bids and appraisals considered as being most indicative of fair value.

Discontinued operations, including any gain or loss on sale of assets, are reported separately in the consolidated statement of operations for the period presented. See Note 15 for additional disclosure.

**Shipping and Handling Costs** - Shipping and handling costs are recognized as a component of costs of sales as they are incurred.

**Credit Risk, Major Customers, Suppliers and Labor Concentrations-** The majority of sales are to international trading companies with the remainder to manufacturing and distribution companies located principally in the United States. The Company extends credit terms to its customers that are generally practiced in the industry.

Information with respect to significant customers is as follows:

	Number of Significant Customers	Revenues from Customers During the Period	Accounts Receivable from Customers at End of the Period
Six months ended June 30, 2012	3	\$ 231,696	\$ 7,565
Six months ended June 30, 2011	3	\$ 243,861	\$ 4,960
Year ended December 31, 2011	3	\$ 546,539	\$ 40,815

During the six months ended June 30, 2012 and 2011, total sales to Glencore, Ltd. ("Glencore") and Trafigura Beeher BV ("Trafigura") who are included in the significant customers above, totaled \$164,705 and \$212,395, respectively. As of June 30, 2012 and December 31, 2011, accounts receivable outstanding with Glencore amounted to approximately \$4,535 and \$31,065, respectively. The December 31, 2011 amount includes \$23,000 recorded upon recognition of the revenue associated with the cancellation of the forward sales contracts during November 2011. See Note 8 for additional disclosure.

Due to negative market conditions in 2010, the Company operated four of its six pot lines. LME pricing and market conditions during the fourth quarter of 2010 showed sufficient improvement from the depressed levels of 2009 and the first three quarters of 2010 for management to make the decision to restart the two idled potlines. One pot line was energized on December 13, 2010 and was completed on January 3, 2011. The other idled pot line was energized on January 31, 2011 and completed on February 12, 2011.

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Approximately 82 percent of the Company's workforce is covered under two separate collective bargaining agreements for Hannibal and Burnside expiring December 31, 2016 and December 31, 2014, respectively.

**Comprehensive Income (Loss)** - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income (loss). Certain changes in assets and liabilities, however, such as amounts related to defined benefit pension plans and unrealized gains and losses on certain derivative instruments, are reported as a direct adjustment to stockholders' equity. Such items, along with net income or loss, are considered components of other comprehensive income (loss).

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Stock Option/ Restricted Stock Units Plans** - The Company applies the recognition and measurement provisions of ASC 718-10 to account for employee stock compensation costs, which is referred to as the fair value method. Compensation cost is measured based on the fair value of the equity instruments issued to employees and board of directors. Compensation costs charged to operations was \$130 and \$363 for the six months ended June 30, 2012 and 2011, respectively.

The fair value of each option grant or restricted stock unit is estimated on the date of grant using the Black Scholes option valuation model. See Note 19 for the weighted average assumptions used.

**Restatements and Reclassifications**- The consolidated statement of operations and the consolidated statement of cash flows for the three and six months ended June 30, 2011 have been restated to conform to the presentation of the reversal of the valuation allowance for deferred income tax assets as shown in the consolidated statement of operations and statement of cash flows for the year ended December 31, 2011. See Note 22 for additional disclosure.

Certain line items on the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation.

**Recent Accounting Pronouncements**- In June 2011, the FASB issued ASU No. 2011-05 which amends ASC Topic 220- *Other Comprehensive Income*. The ASU changes the presentation of comprehensive income to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The option to present components of other comprehensive income as a part of the statement of stockholders equity was eliminated. Requirements for items that are currently to be reported in other comprehensive income or when an item of other comprehensive income is required to be reclassified to net income were not changed. These changes became effective for Ormet on January 1, 2012.

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The Company selected the two statement option for the presentation of comprehensive income. Other than changing the presentation, the ASU adoption did not have an impact on the consolidated financial statements.

**Subsequent Events-** The consolidated financial statements and related disclosure include evaluation of events up through and including October 17, 2012, which is the date the consolidated financial statements were available to be issued.

**Note 2 - Inventory**

Inventory consists of the following, stated net of obsolescence reserves:

	<u>6/30/2012</u>	<u>12/31/2011</u>
Raw materials	\$ 87,297	\$ 103,316
Work in progress	7,308	5,045
Finished goods	2,565	3,379
Supplies and other -net of obsolescence reserves of \$12,174 and \$11,344 as of 6/30/12 and 12/31/11, respectively	<u>13,619</u>	<u>12,273</u>
Total Inventory	<u>\$ 110,789</u>	<u>\$ 124,013</u>

Changes in the Company's obsolescence reserves are as follows:

	<u>6/30/2012</u>	<u>12/31/2011</u>
Balance at beginning of period	\$ 11,344	\$ 3,784
Increase in reserve	<u>830</u>	<u>7,560</u>
Balance at end of period	<u>\$ 12,174</u>	<u>\$ 11,344</u>

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**Note 3 - Property and Equipment**

Major classes of property and equipment are summarized as follows:

	<u>6/30/2012</u>	<u>12/31/2011</u>
Land and land improvements	\$ 2,548	\$ 2,548
Buildings and improvements	10,935	10,170
Machinery and equipment	124,900	113,584
Construction in progress	<u>2,422</u>	<u>9,641</u>
Total cost	140,805	135,943
Accumulated depreciation	<u>77,698</u>	<u>70,400</u>
Net property and equipment	<u>\$ 63,107</u>	<u>\$ 65,543</u>

Depreciation expense was \$9,603 and \$9,777 for the six months ended June 30, 2012 and 2011, respectively.

**Note 4 - Other Assets**

Intangible assets of the Company are summarized as follows:

	<u>6/30/2012</u>		<u>12/31/2011</u>	
Amortized intangible assets -	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
License agreements	<u>\$ 558</u>	<u>\$ 422</u>	<u>\$ 558</u>	<u>\$ 391</u>

Amortization expense for intangible assets totaled approximately \$31 and \$35 for the six months ended June 30, 2012 and 2011, respectively.

Estimated amortization expenses for the years ending December 31 are as follows:

Estimated amortization expense:	
2012	\$ 55
2013	37
2014	37
2015	<u>38</u>
Total:	<u>\$ 167</u>

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Deferred finance charges represent legal, consulting, and financial costs associated with debt financing. Such charges are amortized over the respective terms of related debt agreements and any unamortized amounts are charged to expense when an obligation is refinanced. The Company expensed \$545 and \$518 of deferred financing costs previously capitalized for the six months ended June 30, 2012 and 2011, respectively. The total financing fees paid and capitalized to date was \$3,437. This amount includes additions for the six months ended June 30, 2012 of \$13, \$40 and \$64 associated with the Term Loan and ABL amendments and the Economic Development Loan Program, respectively. Fees of \$433 related to the May 2011 Term Note amendment were capitalized in the six months ended June 30, 2011. See Notes 5 and 6 for detailed disclosure.

The schedule below details prepaid expenses, other current assets and other assets at June 30, 2012 and December 31, 2011, respectively.

	<u>6/30/2012</u>	<u>12/31/2011</u>
Current deferred tax asset (Note 14)	\$ 9,031	\$ 9,150
Prepaid materials	2,077	163
Prepaid insurance	1,597	430
Sales tax refund receivable	598	-
Escrow funds receivable	558	558
Prepaid freight	-	1,600
Other	813	510
Total prepaid expense and other current assets	<u>\$ 14,674</u>	<u>\$ 12,411</u>
Long term value of forward financial contracts	\$ 33	\$ 50
Deferred financing costs, net of accumulated amortization of \$2,218 and \$1,673 at June 30, 2012 and December 31, 2011, respectively	1,219	1,647
Intangible assets	136	167
Total other assets	<u>\$ 1,388</u>	<u>\$ 1,864</u>

**Note 5 - Credit Facilities**

On March 1, 2010 the Company and Wachovia Capital Finance Corporation (Central), as agent, executed the Amended and Restated Loan and Security Agreement (“ABL Facility”) with a maximum credit limit of \$50,000 which expires on March 1, 2013. The ABL Facility is secured in first priority by cash, accounts receivable and inventory. The ABL Facility amended and restated the previous Loan and Security Agreement which was to expire on March 1, 2010. The \$50,000 ABL Facility is subject to borrowing base availability calculation for accounts receivable and inventory. There is no maximum availability limit for either accounts receivable or inventory. The calculated borrowing base availability is subject to a reserve of \$2,000 or the amount of the upcoming quarterly pension contribution, whichever is greater. Interest is based on the London Interbank Offered

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Rate ("LIBOR") plus 2.75 percent, with a 2 percent minimum LIBOR rate or the prime rate plus 0.50 percent depending on the interest rate selected. The ABL also has a commitment fee of 0.625 percent on the unused balance.

On May 6, 2011, the Company entered into an amendment to the ABL Facility and concurrently, as described in Note 6 below, with a separate amendment to its long term debt agreement. The amendment to the ABL Facility increased the credit limit to \$60,000 from \$50,000. The ABL Facility was also amended to allow for the additional long term debt and revise the capital spending limitations for 2011 and 2012. As amended, the limit for 2012, including a carryover amount from 2011, is \$45,000, and \$35,000 for each succeeding fiscal year. During the fiscal year ended December 31, 2011 and each fiscal year thereafter, the Company may carry over an additional \$10,000 of the unused amount from the immediately preceding fiscal year. The amendment also allowed for the State of Louisiana to take a first mortgage on a parcel of land at Burnside in conjunction with entering into a \$1,500 Economic Development Loan Program ("EDLOP") with the Louisiana Economic Development Commission. On April 12, 2012, the Company received the loan proceeds.

The EDLOP loan has an interest rate of 3.82 percent and is payable in five annual installments of \$300 plus accrued interest beginning on March 15, 2013. The agreement has a jobs credit provision that would waive part of and up to the entire loan, including interest, if the Company maintains at least 243 jobs at the refinery during the term of the loan.

On December 23, 2011, the Company and the holders of its ABL Facility entered into Amendment No. 3 of the ABL Facility which revised the definition of EBITDA in the agreement and reset the monthly EBITDA covenant levels during 2012.

The ABL Facility also provides for the issuance of letters of credit, with a maximum of \$15,000. The fee for such letters of credit is 2.75 percent per annum. At June 30, 2012 and December 31, 2011, there were no outstanding borrowings on the ABL Facility. The available borrowings on the ABL Facility were reduced by Letters of Credit outstanding as of June 30, 2012 and December 31, 2011 of \$6,061.

#### **Note 6 - Notes Payable**

Notes payable, consisting of the Term Loan and Security Agreement (the "Term Loan") (described in detail below) issued to private investment funds and the EDLOP loan (described in Note 5 above) as of June 30, 2012 amounted to \$125,646 and \$1,500, respectively. Both loans, as described below, are classified as a current liability on the consolidated balance sheet at June 30, 2012. Notes payable classified as long term debt at December 31, 2011 consisted solely of the Term Loan and amounted to \$124,378.

Accrued interest on the Term Loan was \$4,475 and \$4,488 as of June 30, 2012 and December 31, 2011, respectively. Notes payable interest expense, including interest expense with any related parties for the six months ended June 30, 2012, and 2011 was \$10,581, and \$10,320, respectively. For the six months ended June 30, 2012 and the year ended December 31, 2011, the effective interest rate for the Term Loan payable was 16.8 percent and 16.32 percent, respectively.

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During May 2012, the Company notified the holders of its ABL Facility that it may be out of compliance with the EBITDA provision at the close of the second quarter 2012. On July 18, 2012, the Company and the holders of the ABL Facility entered into Amendment No. 5 to the ABL agreement which waives the EBITDA provision within the ABL Facility for the June through August 2012 reporting periods. The amendment also requires to Company to maintain \$12,000 in excess availability during the waiver period. Due to the cross default provision within the Term Loan and Security Agreement, under ASC 470-10-45 the Company was required to reclassify the Term Loan from long term debt to a current liability on the consolidated balance sheet as of June 30, 2012. These same rules required the Company to reclassify the EDLOP loan to a current liability as well. The Company intends to negotiate a modification to the EBITDA provision by the end of the waiver period. If the Company is unable to successfully renegotiate the EBITDA provision in the ABL Facility by the end of the waiver period, that event would trigger a cross default on its long term debt, which could result in the Term Loan becoming due and payable. If the Term Loan were to become due and payable, the Company would have to repay the loan at face value plus any prepayment premiums in effect, which includes approximately \$4,354 of unamortized original issue discount which is not included in the carrying value of the Term Loan as of June 30, 2012.

On March 1, 2010, the Company completed a refinancing of its Senior Secured Subordinated Notes due November 1, 2010 and Subordinated Term Note due November 30, 2010 (collectively the "Old Notes") with the incurrence of a new four year Term Loan due March 2, 2014 with a principal amount of \$110,000 and issued at 95 percent of the principal amount with Bank of New York Mellon as agent for certain lenders in the Term Loan.

The new Term Loan has a 14 percent interest rate, payable quarterly. In addition, a detachable five year warrant was issued to purchase 1,850,000 shares of the Company's common stock for \$3.00 per share. The Term Loan also contains certain usual and customary covenants, restrictions on capital expenditures and collateral amounts.

The detachable warrants associated with the Old Notes remain exercisable immediately with an amendment extending the expiration date from November 1, 2011 to March 1, 2015. After the refinancing, outstanding warrants for purchase of the Company's common stock totaled 4,783,333 with an average exercise price of \$4.51 per share. The valuation of the new warrants issued with the Term Loan and the amended value of the warrants associated to the Old Notes resulted in \$2,100 and \$1,265, respectively being recorded as additional paid in capital. See Note 19 for detailed warrant information related to the Company's debt.

On May 6, 2011, the Company entered into Amendment No. 1 of the Term Loan Agreement with the lenders of the Term Loan. The original Term Loan of \$110,000 is now referred as Term A Loan. The amendment to the Term Loan Agreement provided for an additional loan ("Term B Loan") with a face value of \$30,000 that matures on March 2, 2014 and was borrowed at a 5 percent original issue discount. The Term B Loan also bears interest at 14 percent per annum, payable in cash quarterly. The Term B Loan is pre-payable at par by the Company after March 1, 2012, with all other terms and conditions (including inter-creditor agreements) remaining substantially the same as the original Term Loan. In addition, the Term Loan Agreement was also amended to revise the capital spending limitations for 2011 and 2012 and thereafter, and allow for the State of Louisiana to

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take a first mortgage on a parcel of land at Burnside in conjunction with entering into a \$1,500 Economic Development Loan Program which the Company received the proceeds from on April 12, 2012.

On June 2, 2011 the Company used \$10,000 of the gross proceeds from the sale of the Burnside marine terminal (see Note 15) to pay down at face \$7,857 of the Term A Loan and \$2,143 of Term B Loan as required under the Term Loan agreement.

Under the Company's ABL Facility and Term Loan agreements, a change in control of greater than 35 percent of the Company's common stock may result in an event of default.

Any person selling shares of the Company's common stock must notify the broker-dealer executing the transaction if such sale or quotation is being submitted or published directly or indirectly on behalf of a director or officer of the Company or a person that is directly or indirectly the beneficial owner of more than 10 percent of the Company's common stock, and the basis for any exemption under the federal securities laws for such sale. Since approximately 81.8 percent of the Company's Stockholders are held in "street" name as of June 30, 2012, the identity of many of the beneficial owners of our common stock and their holdings are not known to the Company. However, based on public filings to the SEC by certain registered managed investment companies of Form N-Q through October 6, 2012 with an effective date of June 30, 2012, the Company was able to identify the UBS Willow Fund, LLC as an additional beneficial owner owning more than 5 percent of the Company's stock. Based on SEC filings by registered management investment companies on Form N-Q for the quarter ended June 30, 2012, the Company believes it has identified 37.5 percent of its stockholders as of June 30, 2012. Because the Company is not subject to the reporting obligations of the Securities Exchange Act, no requirement exists for stockholders who own more than 5 percent of its shares to file notification with the Company or the SEC. As such, since December 31, 2008, the Company has been unable to verify if any of the Term Loan holders are a related party as defined by the SEC. Of the Company's 4,630,995 outstanding debt related warrants, 3,690,121 are held by Wayzata as of June 30, 2012. If Wayzata were to exercise these warrants in full, the shares issuable upon exercise of the warrants would represent approximately 16.6 percent of the Company's outstanding shares after giving effect to such exercise. Any such shares would be in addition to shares of the Company's common stock owned outright by Wayzata.

**Note 7 - Lease Obligations**

The Company has executed various operating lease agreements for office and plant equipment and barge fleeting rights. During the six months ended June 30, 2012 and 2011, the Company charged \$24 and \$28 respectively, to lease expense under these agreements.

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The future minimum lease payments under operating leases are as follows:

Years ending December 31	Amount
2012	\$ 103
2013	81
2014	9
2015	<u>2</u>
Total	<u><u>\$ 195</u></u>

**Note 8 - Derivatives**

The Company is exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of future earnings and cash flows, which are managed through the use of derivatives. All derivative financial instruments are reported in the balance sheet at fair value.

In particular, commodity options and forward contracts (of which both are designated as cash flow hedges) are used to manage price risk associated with forecasted purchases of natural gas and the sale of aluminum sow, respectively.

For cash flow hedges, the effective portion of the gain or loss on the derivative instrument is included as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction is recognized in earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

For fair value hedges, the gain or loss on the derivative instrument is offset against the loss or gain on the related hedged item recognized in current earnings. Generally, the Company enters into hedging relationships such that changes in the fair value or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives.

Any gains or losses recognized on derivatives that are not designated as hedging instruments or for which the Company has elected not to apply hedge accounting are recognized in current year earnings.

In April 2011, the Company entered into a series of forward fixed price financial sales contracts of which approximately 3,000 tons per month were designed to mitigate any exposure from declines in the LME from April 2011 through December 2011. Also in April 2011, the Company entered in to another series of forward fixed price financial sales contracts for the purpose of hedging an additional 1,500 tons per month from April 2012 through December 2012.

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On November 15, 2011, the Company and Glencore agreed to cancel the existing forward financial sales contracts (described in the preceding paragraph) effective January 1, 2012 with Glencore agreeing to pay \$23,000. The cancellation resulted in a \$15,362 increase to the fourth quarter 2011 revenue and in accordance with ASC 815-40, the fair value of the forward contracts accounted for as cash flow hedges at the date of cancellation equal to \$4,964 (net of an income tax provision of \$2,673) was recorded in other comprehensive income. The gain represents the excess of the fair value over the contract price as of the date of cancellation. The fair value of the cash flow hedge included in other comprehensive income will be recognized in the consolidated statement of operations when the original cash flows hedged occur during the year 2012. Glencore remitted the \$23,000 in cash ratably over the first quarter of 2012.

During April 2012 the Company unwound its remaining forward pre priced sales contracts with two other customers for a total of \$4,900 which the Company received in April 2012.

During the third quarter ending September 30, 2011, the Company purchased a series of forward natural gas call options equal to 50 and 41 percent of the Company's natural gas purchases (which are not subject to any price restrictions) for the years 2012 and 2013, respectively, for the alumina refinery. On December 29, 2011, the Company entered into a series of put and call options which negated the aforementioned gas call options, and in addition provides a lower minimum and maximum price to hedge natural gas purchases. At inception, no premium was paid for these new options. During January and April 2012, the Company entered into additional options contracts (including swaps) with the same counterparty for the years 2012, 2013 and part of 2014. Due to a sharp decrease in natural gas prices during the first quarter of 2012, the recorded value for these natural gas options as of June 30, 2012 was a liability of \$1,359. These options are expected to mitigate exposure to any increases in natural gas prices above the current contracted maximum price in the years 2012, 2013 and part of 2014. As of June 30, 2012, the Company had outstanding forward options contracts related to the purchase of natural gas in the quantity of 5,750,000 MMBTU of natural gas.

In accordance with ASC 815, the Company accounts for these contracts and call options as cash flow hedges.

The fair value of derivatives held is as follows:

	As of June 30, 2012		As of December 31, 2011	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments - Commodity contracts	\$ -	\$ 1,359	\$ -	\$ 804

The short term portion of liability derivatives are reported as other accrued liabilities and totaled \$1,150 and \$680 at June 30, 2012 and December 31, 2011, respectively. The long term portion of liability derivatives is included in other liabilities and totaled \$209 and \$124 at June 30, 2012 and December 31, 2011, respectively.

For the six months ended June 30, 2012, the Company reclassified \$1,655 (net of an income tax provision of \$891) from other comprehensive income in the consolidated statement of operations attributable to

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derivative instruments (see Note 20). For the six months ended June 30, 2012 the amounts of gain or loss recognized in the income statement attributable to derivative instruments and related hedged items and their locations in the statement of operations are as follows:

	Amount of loss recognized in other comprehensive income	Amount of gain (loss) reclassified from other comprehensive income and reported in the consolidated statement of operations as:	
	6/30/2012	6/30/2012	
Forward contracts	\$ -	\$ 2,546	Sales
Commodity contracts	(549)	(757)	Cost of sales
	\$ (549)	\$ 1,789	

**Note 9 –Commitments and Contingencies**

**Contracts**

On September 16, 2009, the Company and Columbus Southern Power Company and Ohio Power Company (collectively "AEP") executed a new power agreement. For calendar years 2010 through 2018, the Public Utilities Commission of Ohio ("PUCO") approved the link of the Company's electric rate to the price of aluminum as reported on the LME, but modified the agreement to include a maximum annual electric discount for the Company of \$60,000 annually for the years 2010 and 2011. For the year 2012, the annual maximum amount is \$54,000 which is reduced by \$10,000 each year thereafter from 2013 until phased out by 2018. Commencing in 2013, Ormet may use, in any current year, any unused portion of the maximum discount from previous years, subject to the discount limit in the current year. On a monthly basis, the maximum discount cannot exceed 12.5 percent of such annual limit. This discount will be subject to reduction if employment levels at the Hannibal facility fall below 601 employees. For the six months ended June 30, 2012, the Company's recognized average cost of electricity consumed was \$39.84 per MWh, while the cash cost was \$33.06 per MWh.

On December 9, 2010, the Company entered into a bauxite purchase contract with Vale International, SA, who subsequently sold its bauxite and alumina business to Norsk Hydro ASA ("Hydro"), for the second half of 2011 and the year 2012. The bauxite, produced by Mineracão Rio do Norte ("MRN") (which is partially owned by Hydro), will supply a major portion of its requirements for the Burnside alumina refinery. The Burnside alumina refinery consumes approximately 1.2 million tons of bauxite annually when operating at capacity. The contract is non cancellable by either party; therefore the Company will be required to purchase the full amount dictated by the contract. The price is based on the 'MRN Formula Price', which considers changes in the price of alumina and aluminum. The Company received approximately 235,000 tons in 2011, and expects to receive 1,072,000 tons in 2012. On March 1, 2011, the Company and the United Steel Workers of America ("USW") entered into a new collective bargaining agreement that will cover hourly workers at the Burnside, LA alumina refinery. The agreement has an expiration date of December 31, 2014.

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In June, 2011, the Company and the USW agreed to and the USW membership ratified on June 8, 2011 a new five year collective bargaining agreement covering the USW employees at the Hannibal, OH smelter which will expire on December 31, 2016.

In April 2011, the Company entered into a series of forward fixed price financial sales contracts of which approximately 3,000 tons per month were designed to mitigate any exposure from declines in the LME from April 2011 through December 2011. Also in April 2011, the Company entered into another series of forward fixed price financial sales contracts for the purpose of hedging an additional 1,500 tons per month from April 2012 through December 2012 (See Note 8). From the period of October 2011 through December 2011 approximately 80 percent of the metal units available to be pre-priced were locked in at an array of prices with an additional 17 percent of the metal units available being hedged.

On November 25, 2011, the Company and Glencore executed a three year metal supply agreement where the Company will sell Glencore a significant portion of its production beginning on April 1, 2012 and ending March 31, 2015. The agreement allows the Company to pre price a portion of the metal for a fee. In a separate agreement dated November 15, 2011, the Company and Glencore agreed to cancel the existing forward financial sales contracts described in the preceding paragraph (See Note 8) effective January 1, 2012. As of December 31, 2011 approximately 14 percent of the metal units available to be pre-priced from January to December 2012 have been locked in at an array of prices.

On December 2, 2011 the Company and another commodity trader executed a three year metal supply agreement that commences in April 2012 that is also priced on the average LME price for the month of production. The agreement allows the Company, at its option, to pre price nearly all of the metal during the term of the agreement.

These new and other existing sales agreements pre sell approximately 97 percent of the Company's six pot line production for 2012 and in excess of 82 percent of the six pot line production for the years 2013 through March, 2015. As of June 30, 2012, there are no pre priced contracts in place.

### **Environmental matters**

In 1995, the Predecessor Company (Ormet Corporation prior to filing in 2004 and emerging from bankruptcy in 2005) reached an agreement in the form of a consent decree with the U.S. Environmental Protection Agency (USEPA) under which the Predecessor Company had been remediating a contaminated site located on its smelter property at Hannibal, Ohio. On December 5, 2007, the Company and the USEPA reached agreement regarding financial assurance concerning the 1995 Consent Decree. This agreement requires that the Company establish a series of irrevocable letters of credit ("LC") totaling \$3,400 no later than December 21, 2009. During December 2009, the USEPA agreed to extend the December 31, 2009 deadline for the final LC posting until March 31, 2010, which was extended again on March 26, 2010 until May 31, 2010. On May 28, 2010 the USEPA agreed to allow the Company to stop treatment of site groundwater (which will not be effective until an amendment to the consent decree and record of decision is issued) and agreed to an extension until July 30,

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2010 to allow the Company to submit a reduced Operating and Maintenance (“O&M”) cost plan and request a reduced financial assurance amount, which was submitted on time by the Company. The LC deadline was extended again until December 31, 2010. Subsequently, the USEPA was unable to complete the Consent Order change for internal reasons by December 31, 2010 and has extended the deadline several times. On March 26, 2012 USEPA signed an Explanation of Significant Differences (ESD) changing the consent decree to allow the shutdown of the treatment plant and authorize the request for a reduction in the financial assurance amount to move forward. The USEPA has not yet responded to the financial assurance reduction allowing a reduction in the LC’s. On August 28, 2012, the USEPA extended the current deadline for increasing the LC to October 30, 2012 which is intended to allow the USEPA time to approve the financial assurance reduction and correspondingly reduce the amount of LC’s.

For the six months ended June 30, 2012, and 2011, charges (in excess of accrued expenses) totaled \$149 and \$152, respectively, in remediation costs. As a result of the ESD noted above, the Company reduced its estimated liability for the above smelter site by \$1,391 as of March 31, 2012. The estimated liability at June 30, 2012 and December 31, 2011 is \$776 and \$2,272, respectively. The Company believes the remaining liability amount is sufficient to satisfy its future obligations for maintenance and operating costs.

As a result of inspections at the idled alumina refinery performed by the Company during the fourth quarter of 2010, it was discovered that asbestos remediation would be required at the facility due to earlier storm damage. Accordingly, the Company recorded an asbestos remediation liability of \$3,249 as of December 31, 2010. The Company began remediation work in the beginning of the second quarter of 2011 and paid approximately \$2,147 in remediation costs for the year ended December 31, 2011. During 2011, the Company reduced its estimate of remediation costs by approximately \$1,000. As of June 30, 2012 and December 31, 2011, the estimated remaining asbestos remediation liability was \$102.

On May 9, 2011, the Company agreed to an Administrative Order on Consent (“AOC”) with the Louisiana Department of Environmental Quality. The AOC establishes guidelines under which Ormet will initiate the establishment and funding of a trust fund to provide financial assurance for the closure and post-closure costs of the red mud lakes in conjunction with renewing its solid waste permit at the alumina refinery in Burnside, LA. After the initial 48 month funding, which will total \$201, the Company will be required to make an annual payment to be calculated according to a formula defined in specific Louisiana environmental regulations each year thereafter. While funding is scheduled to commence in May 2013, the Company may suspend payments to the trust fund if the Company demonstrates compliance to a financial assurance test as codified under applicable Louisiana environmental statute.

### **Asset Retirement Obligations**

ASC 410-20-35 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company’s asset retirement obligations consist of costs related to the disposal of certain spent pot lining associated with the Hannibal, OH smelter. While management believes the ARO recorded represent reasonable estimates of these

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future costs, such estimates are subject to change due to a number of factors, including changes in regulatory requirements and costs of labor and materials.

The current portion of the liability is \$1,839 and \$1,761 at June 30, 2012 and December 31, 2011, respectively and is recorded in accrued liabilities in the accompanying consolidated balance sheet. The remaining non-current portion is \$4,929 and \$4,821 at June 30, 2012 and December 31, 2011, respectively and is included in other long-term liabilities in the accompanying consolidated balance sheet. The ARO is estimated at fair value employing a discounted cash flow approach using a credit-adjusted risk-free discount rate in effect when the liability is incurred (which was 7.0 percent at initial recognition). Additionally, the Company capitalized asset retirement costs of approximately \$6,859 upon recognition of the ARO in 2010 by increasing the carrying amount of the related long-lived assets and is depreciating these assets over their remaining useful life of 54 months. The reconciliation of the ARO obligation is presented below:

	<u>6/30/2012</u>	<u>12/31/2011</u>
Beginning balance ARO liability	\$ 6,582	\$ 6,859
Additional liability incurred	351	1,348
ARO liabilities settled	(394)	(1,557)
Accretion Expense	229	462
Change in estimated liability	-	(530)
Ending balance, ARO liability	<u>\$ 6,768</u>	<u>\$ 6,582</u>

The alumina refinery at Burnside, LA has a solid waste site to handle the red mud surface impoundment for bauxite tailings. This site occupies approximately 400 acres of the 1,100 acres available surrounding the refinery. When the alumina facility reaches the end of its useful life, the Company will have an obligation to maintain the integrity of the solid waste site. The Company believes that its ability to utilize the remaining 700 acres of land, make the useful life of the alumina refinery indeterminable and therefore an indeterminate settlement date for the establishment of an obligation associated with the red mud lakes. Since the Company has decided to restart the Burnside alumina facility, the assumptions related to the need to establish an asset retirement obligation for the solid waste site could change in the future.

### **Legal Proceedings**

Various lawsuits, claims, and proceedings have been or may be instituted or asserted against the Company, including those pertaining to environmental, product liability, labor, safety, and health matters, including significant asbestos claims. Management believes that the disposition of any such matters will not have a material effect on the Company's financial condition or will be covered by insurance except for approximately \$525 and \$1,425, which has been recorded as a liability as of June 30, 2012 and December 31, 2011, respectively.

The Company was a party to a series of rate filings seeking Seams Elimination Cost Adjustments ("SECA") before the Federal Energy Regulatory Commission ("FERC") by various transmission owners. On May

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21, 2010, FERC issued an order affirming in part and reversing in part the Administrative Law Judge's initial decision. As a result, under the FERC's order, the Company's estimated financial obligation for the filings would be a de minimis amount. Several parties have sought rehearing of FERC's order. However, no party challenged FERC's ruling on the issue that reduced the Company's estimated financial obligation for the filings from approximately \$6,100 to the current de minimis amount. Following a FERC decision on rehearing, appeals to a United States Court of Appeals are possible. The Company has recorded a de minimis contingent liability in anticipation of a future settlement of this issue.

On November 12, 2009, AEP filed an appeal to the Supreme Court of the State of Ohio ("State Supreme Court") regarding the PUCO orders approving the Company's contract with AEP. On May 24, 2011, the State Supreme Court issued its non appealable opinion which denied AEP's claim.

On March 30, 2012, AEP filed an amended Electric Service Plan proposal ("ESP II Modified"). Under ESP II Modified, Ormet's 2012 GS-4 tariff rate would increase over its 2011 GS-4 tariff rate, before application of any discount, by approximately \$5.09 per MWH or \$22,170 annually. In ESP II Modified, AEP also proposed to further defer the collection from customers of the past fuel costs associated with the Phase-In Recovery Rider ("PIRR"), the mechanism for recovering the deferred fuel cost balances. The PIRR proposal would further increase Ormet's annual rates by approximately \$13,200 beginning in June 2013. Ormet challenged the proposal, and hearings were held in May and June of 2012 at the PUCO. A decision on the ESP II Modified proposal, as well as the proceeding addressing Ormet's challenge of the PIRR itself, is expected in the near future. There can be no assurance that the final determination of this matter will not result in a significant increase in the base rate that the Company pays.

**Note 10 - Self-insurance**

The Company is partially self-insured for health, medical, dental, vision, prescription drug, and workers' compensation for the benefit of substantially all employees. Health and medical protection in excess of a minimum specific self-insured amount is provided under a group health and medical reinsurance policy. The maximum specific liability for health and medical for the Company is limited to approximately \$500 per employee via a stop loss insurance policy. The maximum specific liability for workers' compensation not covered by insurance is approximately \$1,000 per claimant in 2012 and 2011. The contingent liability of the Company for additional claims, for which it would be liable, before the reinsurance policy pays claims, was approximately \$2,163 and \$2,289 at June 30, 2012 and December 31, 2011, respectively. The Company has also accrued \$4,341 and \$4,392 for known claims at June 30, 2012 and December 31, 2011, respectively to be paid in 2012 and later years. Expenses incurred under the plans, including administrative fees, for the six months ended June 30, 2012 and 2011 were \$8,543 and \$6,410, respectively.

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**Note 11 - Retirement Plans**

**Defined Benefit Plans**

The three defined benefit plans maintained by the Company which are under a single master trust, cover substantially all existing hourly employees with a start date prior to June 1, 2006 and salaried employees with a start date prior to April 15, 2007. The plan covering salaried employees generally provides benefits based on years of credited service and average earnings. Plans covering hourly employees generally provide benefits based on years of service and a specific benefit amount per years of service. All plans use annual measurement dates of December 31. The Company funds the plans in a range defined by the minimum and maximum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

As a result of negotiations of the new collective bargaining agreement in 2006, the Burnside and Hannibal Hourly defined benefit plans were closed to new participants as of June 1, 2006. Existing hourly participants of the plan at June 1, 2006 continue to earn credited years of service; however, the benefit rate in effect at June 1, 2006 will remain unchanged for future years. The salaried plan was closed to new participants as of April 15, 2007.

Net periodic benefit cost related to the defined benefit pension plans included the following:

	<u>Six months ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Net periodic benefit cost:		
Service cost	\$ 1,788	\$ 2,070
Interest cost	10,506	11,760
Expected return on plan assets	(11,720)	(13,496)
Amortization of prior service cost	40	40
Recognition of actuarial losses	6,366	3,488
Net periodic benefit cost	<u>\$ 6,980</u>	<u>\$ 3,862</u>

**Other retirement savings plans**

The Company maintains three other retirement savings plans qualified under Internal Revenue Code Section 401(k) covering substantially all of its employees. Each plan contains its own distinct contribution features. For the six months ended June 30, 2012 and 2011, the Company incurred charges of approximately \$207 and \$130, respectively, representing the Company's fixed and discretionary matching contributions to certain plans.

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**Defined Benefit Plan Contributions**

The Company contributed \$12,796 to its pension plan during the six months ended June 30, 2012 of the total expected contribution of approximately \$26,262 for 2012.

All contributions to the Plan are made by the Company. The Company contributes such amounts, as determined on an actuarial basis, to provide the Plan with assets sufficient to meet the projected benefits to be paid to plan participants. No participant contributions are permitted or required.

The following benefit payments, which reflect future service, as appropriate, are expected to be paid:

Fiscal Year	Benefit payments
2012	\$ 33,302
2013	33,169
2014	32,936
2015	32,665
2016	32,457
2017 -2021	158,463

**Note 12- Multi-employer defined benefit plans**

In addition to the defined benefit plans, effective July 1, 2006, all hourly employees were eligible to participate in a USW sponsored multi-employer defined benefit pension plan. As a result, the Company is obligated to make monthly contributions to this plan based on the number of hours worked by its hourly employees. The risks of participating in these multi-employer plans are different from single employer plans in the following aspects:

- Assets contributed to the multi-employer plan by the Company may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to the plan, the underfunded obligations of the plan may be borne by the remaining participating employers;
- If the Company stops participating in a multi-employer plan, the Company may be required to pay that plan an amount based on the underfunded status of the plan, which is referred to as a withdrawal liability.

The Company contributed \$692 and \$689, to the USW sponsored plan for the six months ended June 30, 2012, and 2011, respectively. See Note 12, Exhibit B in the Information and Disclosure Statements for the year ended December 31, 2011 for more detailed disclosure, which can be viewed in the Investors section in the

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Company's website at [www.ormet.com](http://www.ormet.com).

In 2007, the Company recorded a \$2,220 expense to provide for the withdrawal liability from another multi-employer defined benefit pension plan associated with the International Longshoremen's Association at the Burnside Terminal facility. The Company was notified in 2008 that the withdrawal liability was \$1,800 and during the second quarter of 2008 began to make payments based on an amortized payment schedule at 4.6 percent interest of 13 quarterly payments with the final payment occurring on May 31, 2011.

**Note 13 - Postretirement Health Plan**

The Company sponsors two plans which covered all eligible hourly and salaried retirees. Based on negotiated collective bargaining agreements, the Company is required to make fixed periodic contributions into the Voluntary Employee Beneficiary Association ("VEBA") trust for its retired hourly employees.

Company contributions to the Hannibal, Ohio hourly VEBA are contractually required through May 31, 2018. Company funding of the salary VEBA is required by a Board of Directors resolution through May 31, 2018. The current collective bargaining agreement requires within fifteen days after the Company releases its quarterly financial statements a variable contribution, when applicable, equal to 5 percent of the Company's "profits" (as defined in the Hannibal Collective Bargaining Agreement) are to be made to the Hannibal hourly VEBA. During 2007, the collective bargaining agreement was amended and the scheduled 2008 Company contributions (including the aforementioned 5 percent profit sharing contribution) to the Hannibal hourly VEBA were deferred until 2010 and 2011. In conjunction with the extension of the collective bargaining agreement through May 31, 2011, the scheduled 2008 Company contributions to the Hannibal hourly VEBA that were further deferred until 2011 and 2012 and payment commenced in January 2011. Company contributions to the Burnside, Louisiana hourly VEBA commenced on January 1, 2007 and ended December 31, 2010. The Company had also agreed to make a payment to the hourly VEBA if a sale of the Company occurred or if the Company's stock was listed on a national exchange. On July 17, 2007, the Company settled this provision by contributing the net proceeds of \$12,675 from the sale of 1,000,000 common stock options (which such options expired on June 1, 2011) at an option price of \$10 per share to the Hannibal hourly VEBA. The Company's only obligation is to fund the VEBAs as described above. On June 3, 2012, the Company and the USW agreed to defer the remaining 2008 hourly VEBA trust contributions (noted above) and the regular monthly hourly VEBA trust contributions due from June 2012 through December 2012. The deferred amounts plus a modification fee will be repaid evenly over a twenty four month period beginning January 2013. The total amount deferred, including the modification fee, amounts to approximately \$5,948.

As of June 30, 2012 and December 31, 2011, the estimated obligation excluding any profit sharing contributions of the hourly VEBA was \$40,231 and \$42,689, respectively. Prior to the 2012 deferral noted above, the Company contributed (excluding any potential profit sharing contributions) \$3,732 during the first six months of 2012 and contributed \$8,958, for the year 2011 to the hourly VEBA trust. The Company contributed an additional \$3,910 (including \$461 of the 2008 deferral) for the year ended December 31, 2011 and contributed \$2,440 and \$1,343 for the six months ended June 30, 2012 and 2011 (including \$230 each year for the 2008 deferral), respectively to the Hannibal hourly VEBA related to the 5 percent profit sharing contribution. As noted

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above, the 2008 profit based contribution and remaining 2012 contributions have been deferred. As of June 30, 2012 and December 31, 2011 accrued profit sharing contributions to the Hannibal, Ohio hourly VEBA were \$269 and \$2,022, respectively and are included in other accrued liabilities and other liabilities.

As of June 30, 2012 and December 31, 2011, the estimated obligation of the Salary VEBA was \$4,473 and \$4,784, respectively. The Company expects to contribute \$900 in 2012 and contributed \$900 in 2011 to the Salary VEBA trust.

Expenses associated with the above described VEBA plans totaled \$1,414 and \$1,586 for the six months ended June 30, 2012 and 2011, respectively.

**Note 14 - Income Taxes**

The provision for income taxes for the six months ended June 30 consists of the following:

	<u>6/30/2012</u>	<u>As Adjusted 6/30/2011</u>
Income tax (benefit) expense, computed at 35.43 percent and 35.0 percent of pretax income for 2012 and 2011, respectively	\$ (8,223)	\$ 7,680
Valuation allowance	-	(117,663)
Total income tax benefit continuing operations	(8,223)	(109,983)
Income tax expense from discontinued operations, computed at 35.0 percent	-	5,908
Total income tax benefit	<u>\$ (8,223)</u>	<u>\$ (104,075)</u>

The tax (benefit) or expense above is attributable to deferred income tax (benefit) expense.

The details of the deferred tax asset for the periods ending are as follows:

	<u>6/30/2012</u>	<u>12/31/2011</u>
Total long term deferred tax liabilities	\$ (6,591)	\$ (6,591)
Total current deferred tax assets (Note 4)	9,031	9,150
Total long term deferred tax assets	159,092	151,926
Valuation allowance recognized for deferred tax assets	(1,611)	(1,611)
Total	<u>\$ 159,921</u>	<u>\$ 152,874</u>

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Deferred tax liabilities result principally from accelerated methods of depreciation and other asset basis differences resulting from fresh start accounting. Deferred tax assets result from recognition of expenses for financial reporting purposes that are not deductible for tax purposes until paid. Also included with deferred tax assets are federal income tax net operating losses and charitable contribution carry forwards of approximately \$205,333 as of December 31, 2011 that are available to offset future taxable income. The availability of the net operating loss is limited under Internal Revenue Code Section 382 due to a change in control that occurred in May 2007. Net operating losses of \$76,070 as of December 31, 2011 are subject to an annual Section 382 limitation of approximately \$12,585. The Company has not utilized a portion of the previous annual limitations leaving an unutilized cumulative annual limitation of approximately \$38,107 as of December 31, 2011.

The Company analyzed the impact of ASC 740-10, *Uncertain Tax Positions*, and determined it did not impact current and deferred income tax expense for 2011 or previous years open to audit with the various taxing jurisdictions.

**Note 15 - Discontinued Operations**

During 2007, the Company discontinued operations at its marine terminal facility. Property and equipment with a net book value at March 31, 2011 of \$3,016 was considered held for sale and had been reclassified from property and equipment.

On May 11, 2011 the Company and Impala Warehousing (US) LLC, a wholly owned subsidiary of Trafigura entered into an Asset Purchase Agreement for the sale of its Burnside, Louisiana marine terminal assets and certain specified parcels of land. The closing occurred on June 2, 2011. At the closing, a separate Terminal Services Agreement ("TSA") was executed which will provide loading and unloading services to the Burnside alumina refinery. The TSA has an initial term of 30 years. The gross proceeds of the sale were approximately \$28,000 of which (as described in Note 6) \$10,000 was allocated to reduce at face value the Company's long term debt in accordance with the terms of the Company's Term Loan and Security Agreement.

As of June 30, 2012 and December 31, 2011, the Company has no rolling mill or marine terminal assets deemed assets of discontinued operations. In conjunction with the sale of the terminal and adjacent specified parcels of land (which such land was part of the alumina refinery), the Company allocated \$17,064 of the total gain of \$22,891 to the income from discontinued operations in the Consolidated Statement of Operations which was recorded during the second fiscal quarter ending June 30, 2011. The Company incurred expenses from discontinued operations of \$6,091 (including a provision for income taxes of \$5,908) during 2011 up until the sale of the marine terminal on June 2, 2011. These expenses consisted primarily of employee legacy costs and costs to maintain asset integrity.

**Note 16 - Supplemental Cash Flow Information**

Cash paid for interest totaled \$9,326 and \$8,220 for the six months ended June 30, 2012 and 2011, respectively. A significant non cash event for the six months ending June 30, 2012 and 2011 was an increase in the ARO liability of \$351 and \$466, respectively, related to the disposal of spent pot lining material.

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**Note 17 - Fair Value of Financial Instruments**

At June 30, 2012 and December 31, 2011, the Company had financial instruments that were valued as follows:

**Short-term Financial Instruments** - The fair values of short-term financial instruments, including cash, restricted cash, trade accounts receivable and payable, other receivables, and accrued liabilities approximate the instruments carrying amounts in the accompanying consolidated financial statements due to their short maturity.

**Notes payable**- Based on borrowing rates available to the Company, the carrying value of the notes payable at June 30, 2012 and December 31, 2011 approximates \$127,146 and \$124,378 respectively.

**Cash flow hedges**- The Company has call options for natural gas which have a carrying value of \$33 and \$50 as of June 30, 2012 and December 31, 2011, respectively. The Company also has a series of forward options and swaps for natural gas (described in Note 8) with a different counter party whose fair value is recorded as a liability of \$1,359 and \$804 on the consolidated balance sheet at June 30, 2012 and December 31, 2011, respectively. Fair value is determined based on the Henry Hub index or similar yield curves that are observable at commonly quoted intervals. Based on the Fair Value Hierarchy described below, these natural gas options and swaps have been classified as Level 2.

Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The Fair Value hierarchy according to GAAP consists of three levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). These three levels are described below:

- Level 1 consists of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 consists of inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 consists of inputs that are both significant to the fair value measurement and unobservable.

**Note 18 - Capital Stock**

At June 30, 2012, and December 31, 2011 common stock consists of 50,000,000 authorized shares of \$0.001 par value stock of which there were 18,662,272 shares issued and outstanding. The Company also has authorized 1,000,000 shares of preferred stock with no par value. There was no outstanding preferred stock at

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June 30, 2012 and December 31, 2011.

The Company's stock is subject to a registration rights agreement. Among other things, the agreement provides the parties thereto (including their transferees) with the right to make two demands that their sales of "registrable shares" (as defined in the registration rights agreement) be registered under applicable federal securities laws through the filing of a registration statement with the SEC. The first demand requires at least 13 percent of the aggregate number of shares of common stock of the Company and that the demand is for a number of shares having a market value equal to at least \$20,000. The second demand requires at least 5 percent of the aggregate number of shares of common stock of the Company and the number of shares has a market value equal to at least \$10,000. In the event of a demand, subject to restrictions in the agreement, the other parties to the agreement may be able to register their shares for resale as well.

The registration rights under the registration rights agreement are transferable in connection with a sale of Company common stock. To facilitate such transfers, the Company has agreed to make available to the parties of the registration rights agreement and their prospective transferees, certain information relating to the Company as may be necessary to enable the party to make sales of Company common stock pursuant to Rule 144A under the Securities Act of 1933. There has been no demand for registration as of June 30, 2012.

On May 3, 2011, 152,338 warrants associated with the Old Notes were exercised by a holder not related to Wayzata with the Company receiving \$457 which was recorded as additional paid in capital during the second fiscal quarter ending June 30, 2011. At June 30, 2012 and December 31, 2011 and as a result of the warrants exercised, outstanding warrants for purchase of the Company's common stock total 4,030,995 shares with an average exercise price of \$3.00 per share expiring March 1, 2015 and 600,000 warrants with an exercise price of \$15.00 per share also expiring on March 1, 2015.

**Note 19- Stock Option / Restricted Stock Units Plans**

During 2007, the Company adopted a stock-based compensation plan for certain employees. Under the plan as amended, the Company may grant options for up to 2,000,000 shares of common stock. The maximum term of the options is 10 years from the date of grant and they vest either immediately or over a three-year period (see details below).

In May 2008, the Company's Board of Directors ("Board") approved 560,000 option grants for senior management as part of an annual compensation review. These options have a three year vesting period and an exercise price of \$7.58 based on the average closing price per share of the Company's common stock that occurred from May 19, 2008 through May 23, 2008, and a term of 10 years. A portion of these shares, 10,000, were forfeited in 2009 as a result of a participant's separation from the Company.

On March 12, 2009, the Board approved 550,000 option grants for senior management as part of an annual compensation review. On September 28, 2009, the Board issued these new options to senior management, upon the surrender of the option grants of 550,000 shares granted to senior management in 2007.

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These new grants will vest ratably over three years (one third each on December 31, 2009, 2010, and 2011) and are exercisable upon vesting. The exercise price of \$1.22 per share was based on the Company's average closing stock price from September 28, 2009 through October 2, 2009. These options expire on September 28, 2019.

On December 14, 2009, the Board granted 280,000 options to senior management with a strike price of \$1.92 per share, which was based on the average closing price of the Company's stock from December 15, 2009 through December 21, 2009. These options will vest over three years, with one third each on December 31, 2009, 2010 and 2011. The options expire on December 14, 2019 and are exercisable upon vesting.

On August 25, 2011, the Board granted 75,000 options to a member of senior management with an exercise price of \$5.18 per share, which was based on the average closing price of the Company's stock from August 19, 2011 through August 25, 2011. These options will vest ratably over three years, one third each on August 25, 2012, August 25, 2013 and August 25, 2014. These options are exercisable upon vesting and expire on August 24, 2021.

On March 14, 2012, the Board granted 340,000 options to senior management with a strike price of \$5.31 per share, which was based on the average closing price of the Company's stock from March 20, 2012 through March 26, 2012. These options will vest over three years, with one third each on March 14, 2013, 2014 and 2015. The options expire on March 14, 2022 and are exercisable upon vesting.

As of June 30, 2012 and December 31, 2011, there was \$894 and \$199, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the management option plan. The remaining cost is expected to be recognized over the next three years. The Company recognized compensation costs of \$116 and \$363 related to the management option plan for the six months ended June 30, 2012 and 2011, respectively.

The fair value of each option award is estimated on the date of grant using a Black Scholes option valuation model that uses the weighted average assumptions noted in the following table. Expected volatilities are based on historical volatility of comparable companies. As the Company has no historical data, management has concluded to use a safe harbor methodology to estimate the option exercise within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Range of expected volatility	40.00%
Expected term (in years)	6
Risk free rate	2.00%-3.85%

In May 2008, as part of a redesigned non-employee directors compensation program developed with the assistance of a nationally recognized compensation consultant, which redesign was intended to significantly reduce the cash component of the director's compensation, the Board approved the grant of 102,243 restricted

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stock units ("RSUs") for non-employee directors, having a value of \$775 in the aggregate (with the number of restricted stock units to be set by reference to the per share price of \$7.58 that was the average closing price per share of the Company's common stock that occurred from May 19, 2008 through May 23, 2008). These RSUs were fully vested by May 23, 2010. Shares underlying the RSUs will not be delivered until the director's separation from service.

The fair value of each RSU awarded is estimated using the same method as the option awards described above. The weighted average grant-date fair value of the restricted units granted was \$7.58 per share.

As of December 31, 2010, all compensation costs related to the original 102,243 units issued under the restricted stock unit plan have been recognized.

Due to the significant dilution that would occur as a result of the Company's current low stock price, on April 3, 2009, the Board voted to terminate the restricted stock unit plan for non employee directors for 2009 and 2010 only. The Board then adopted a compensation plan, in addition to any past plan and not in lieu thereof, to consist of (i) the annual cash retainers and cash chair supplements, payable quarterly, as the sole form of directors' compensation program for 2009 and (ii) a cash retainer component in an amount equal to 50 percent of the sum of the annual retainer and chair supplement, if any, with such retainer to be paid 40 percent (of such 50 percent) at the end of the fourth quarter of 2009 and 60 percent (of such 50 percent) payable at the end of the fourth quarter of 2010. On October 26, 2010, the Board voted to continue the suspension of the RSU's and continue the cash compensation program for 2011. On December 23, 2011, the Board extended the program for 2012 as described below. For the six months ended June 30, 2012 and 2011, the Company recognized \$343 and \$330, respectively in Directors compensation under the plan.

Based on a study performed by an independent compensation consultant during July 2011, on December 13, 2011, the Board voted to approve the annual grant of 5,000 RSUs each to non-employee directors, to be released quarterly, based on the Ormet average closing price for its common stock for the period December 9 through December 15, 2011. Unless a director prior to December 23, 2011 opted to receive an award of RSUs, he would continue to receive the entire fixed value award for equity grants for 2012 payable in cash in quarterly installments. The grant date for such RSUs will be the first day of each quarter. For the six months ending June 30, 2012, the Company issued 2,500 RSUs at a cost of \$14 under this plan.

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A summary of outstanding stock options and warrants is shown below:

Description of holder	Quantity of shares	Shares Exercisable as of June 30, 2012	Exercise price	Expiration Date (s)
Options:				
Certain Management	1,795,000	1,380,000	\$ 3.90 *	July 1, 2017 through March 14, 2022
Certain Board of Directors	16,000	16,000	\$ 17.86 *	April 4, 2017 through November 6, 2017
Total options	<u>1,811,000</u>	<u>1,396,000</u>		
Warrants:				
Holders of extinguished debt:				
Senior subordinated secured note	2,180,995	2,180,995	\$ 3.00	March 1, 2015
Subordinated term note	600,000	600,000	\$ 15.00	March 1, 2015
Term Note holders	<u>1,850,000</u>	<u>1,850,000</u>	\$ 3.00	March 1, 2015
Total Warrants	<u>4,630,995</u>	<u>4,630,995</u>		
Board of Directors Members - RSU	104,743	-	\$ -	Issuable only at resignation
* Weighted average				

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**Note 20- Other Comprehensive Income**

The details of the adjustments and tax benefit (expense) allocated to each component of other comprehensive income for the three and six months ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30,					
	2012			2011		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
Defined benefit pension plans:						
Change in unrecognized net actuarial loss	\$ 3,152	\$ (1,116)	\$ 2,036	\$ 1,745	\$ (611)	\$ 1,134
Adjusted prior service cost	20	(6)	14	20	(7)	13
Defined benefit pension plan - Net	3,172	(1,122)	2,050	1,765	(618)	1,147
(Gain) loss on derivatives:						
Recognized gain during period	(2,546)	891	(1,655)	-	-	-
Unrealized gain arising during the period	1,789	(633)	1,156	5,014	(1,755)	3,259
Total other comprehensive income	<u>\$ 2,415</u>	<u>\$ (864)</u>	<u>\$ 1,551</u>	<u>\$ 6,779</u>	<u>\$ (2,373)</u>	<u>\$ 4,406</u>

	Six Months Ended June 30,					
	2012			2011		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
Defined benefit pension plans:						
Change in unrecognized net actuarial loss	\$ 6,366	\$ (2,254)	\$ 4,112	\$ 3,488	\$ (1,221)	\$ 2,267
Adjusted prior service cost	40	(14)	26	40	(14)	26
Defined benefit pension plan - Net	6,406	(2,268)	4,138	3,528	(1,235)	2,293
(Gain) loss on derivatives:						
Recognized gain during period	(2,546)	891	(1,655)	-	-	-
Unrealized (loss) gain arising during period	(549)	194	(355)	5,014	(1,755)	3,259
Total other comprehensive income	<u>\$ 3,311</u>	<u>\$ (1,183)</u>	<u>\$ 2,128</u>	<u>\$ 8,542</u>	<u>\$ (2,990)</u>	<u>\$ 5,552</u>

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Accumulated other comprehensive loss is composed of the following:

	Defined Benefit Pension Liability Adjustments	Unrealized Gains (Losses) on Derivatives	Recognized Gains on Derviatives	Total
Balance January 1, 2011	\$ (120,004)	\$ -	\$ -	\$ (120,004)
2011 change	(29,653)	4,441	-	(25,212)
Balance December 31, 2011	(149,657)	4,441	-	(145,216)
2012 change	4,138	(355)	(1,655)	2,128
Balance June 30, 2012	\$ (145,519)	\$ 4,086	\$ (1,655)	\$ (143,088)

**Note 21 - Change in Accounting Estimate**

Based on the Company's assessment of its supplies inventory, management made a change in the estimated value of the existing operating supplies inventory as of June 30, 2011 and increased the excess and obsolete reserve of operating supplies inventory at the Hannibal smelter to 70 percent of its gross carrying value at that time. In conjunction with the anticipated restart of the Burnside alumina refinery, the raw material inventory at Burnside that had been previously recorded as other long term assets and fully reserved as of December 31, 2010, was reclassified to current inventory as of June 30, 2011. The change in supplies inventory reserve at the Hannibal smelter resulted in a decrease to the value of the raw materials and supplies inventory on the consolidated balance sheet and corresponding increase to the cost of sales on the consolidated statement of operations of \$2,654 for the quarter ending June 30, 2011. The reclassification of the Burnside raw material inventory to current inventory and removal of the reserve on raw material inventory resulted in a net increase to the value of the inventory on the consolidated balance sheet and a corresponding decrease to the cost of sales on the consolidated statement of operations of \$5,901 for the quarter ending June 30, 2011.

Also during the fourth quarter of 2011, the Company changed its method of estimating the quantity of molten metal pad in its pots by revising the factor amount of pounds of aluminum per vertical inch of molten metal in each pot. Management believes the new method of estimation provides a more accurate measure of determining the amount and value of its in process metal inventory. The change resulted in a decrease to the value of the in process inventory on the consolidated balance sheet and a corresponding increase to the cost of sales on the consolidated statement of operations amounting to \$1,394 for the quarter and year ending December 31, 2011.

**Note 22 – Prior Period Adjustment**

As of December 31, 2010 the Company had recorded a valuation allowance of \$117,220 against its deferred income tax assets due to the uncertainty of realizing their benefit. As of June 30, 2011, Company management estimated that it was more likely than not the Company will be able to utilize the full benefit of the

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deferred tax assets and accordingly eliminated the valuation allowance as of June 30, 2011. The Company in its consolidated financial statements for the three and six months ended June 30, 2011 applied \$42,001 of the reversal to the accumulated pension plan loss within the accumulated other comprehensive loss portion of the consolidated balance sheet. For the year ended December 31, 2011, this amount was recalculated to be \$42,444 and, according to GAAP, reclassified and recorded as a non cash deferred income tax benefit from continuing operations in the consolidated statement of operations. As such, the consolidated financial statements for the three and six months ended June 30, 2011 have been adjusted to conform to the basis of presentation for the year ended December 31, 2011.

Presented below is the effect of the prior period adjustment for the reclassification of the deferred income tax benefit in the consolidated financial statements for the three and six months ended June 30, 2011:

**Consolidated Statement of Operations**

	Three Months Ended 6/30/2011		
	Original	Adjustment	As Adjusted
	Amount		
Deferred income tax benefit	\$ (67,539)	\$ (42,444)	\$ (109,983)
Income from continuing operations	\$ 83,730	\$ 42,444	\$ 126,174
Net Income	\$ 94,919	\$ 42,444	\$ 137,363
Income per share from continuing operations	\$ 4.50	\$ 2.28	\$ 6.78
Net income per share	\$ 5.10	\$ 2.28	\$ 7.38

	Six Months Ended 6/30/2011		
	Original	Adjustment	As Adjusted
	Amount		
Deferred income tax benefit	\$ (67,539)	\$ (42,444)	\$ (109,983)
Income from continuing operations	\$ 89,483	\$ 42,444	\$ 131,927
Net Income	\$ 100,454	\$ 42,444	\$ 142,898
Income per share from continuing operations	\$ 4.82	\$ 2.29	\$ 7.11
Net income per share	\$ 5.41	\$ 2.29	\$ 7.70

**Consolidated Statement of Cash Flows**

	Six Months Ended 6/30/2011		
	Original	Adjustment	As Adjusted
	Amount		
Net Income	\$ 100,454	\$ 42,444	\$ 142,898
Unrealized income tax benefit	\$ (61,631)	\$ (42,444)	\$ (104,075)

**Exhibit A**  
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**Note 23- Subsequent Events**

Faced with declining LME prices compared to 2011 and higher electric power prices, the Company has reduced operations and has taken other measures to mitigate these developments. As of October 16, 2012 the Company's utilization of its revolving credit facility totaled \$33,300 (including \$6,100 for letters of credit) with approximately \$18,200 of remaining availability (net of a \$6,000 availability reserve). The Company's liquidity will continue to be pressured because the 2012 contractual discounts that the Company received from its power supplier were fully utilized in August 2012 and the Company began incurring an increased rate for power consumption beginning in September 2012 as a result of an adverse ruling by the PUCO in August 2012.

In addition, the Company has engaged Evercore Group L.L.C. to assist in identifying and evaluating strategic alternatives. Representative initiatives being explored include: asset sales, new sources of funds, vendor contract re-negotiations and debt restructuring.

To that end, the Company has been in negotiations with its various constituents (i.e. Term Loan lenders, ABL lender, the USW, its electricity and other trade vendors and state government agencies). On October 12, 2012, the Company requested an expedited hearing from the PUCO. The PUCO granted the Company's request and considered, on October 17, 2012, the agreement between AEP and the Company for a deferral of AEP's power bills that would be payable in November 2012 and December 2012. These power bills, totaling approximately \$27,000 would have normally been paid twenty-one days after receipt by the Company. According to the agreement, the payment for these bills will be made in seventeen equal monthly installments beginning in January 2014 and ending in May 2015. The PUCO approved the payment deferral agreement. While this approval provides the Company significant relief, the Company's longer term liquidity will only be achieved if all constituents and the Company reach satisfactory agreements. The outcome of these remaining negotiations and the impact on the Company is uncertain at this time.

On September 28, 2012 Amendment No.3 to the Term Loan agreement was executed, which allowed the October 1, 2012 interest payment to be paid-in-kind by adding that amount to the outstanding principal balance of the Term Loan. In addition Amendments Nos. 5 and 6 were executed to the ABL Facility agreement whereby measurement of the EBITDA covenant would be waived through December 31, 2012 and the minimum excess availability is reduced from \$12,000 to \$6,000 through December 14, 2012 and then increased to \$8,000 thereafter.

As a result of the market and logistics conditions, the Company issued a Worker Adjustment and Retraining Notification Act ("WARN Act") notification to the USW, state agencies and its salaried Hannibal employees on July 19, 2012 that it may curtail up to six potlines. The Company has reduced production at the Hannibal smelter to four pot lines at the end of August 2012. As of October 1, 2012, the Company has reduced its Hannibal smelter workforce by approximately 90 employees. In addition, on September 11, 2012, the Company issued a WARN Act notification to the employees for its Burnside, Louisiana alumina refinery, indicating that a reduction in operating level may occur as a result of the smelter's lower production level.

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On July 6, 2012, the Moving Ahead for Progress in the 21st Century Act was signed into law. The legislation contained certain short term pension plan funding relief. Pending final IRS guidance on discount rates, the Company now estimates it will contribute approximately \$20,400 during the calendar year 2012 versus \$26,262 as disclosed in Note 11 above.

On August 8, 2012, the PUCO issued its ruling on the ESP II Modified ("ESP") submitted by AEP. The PUCO order granted AEP a significant increase in the tariff rate that AEP charges Ormet. The increase is capped at 12 percent. The customer rate cap applies to only items approved within the ESP. Any rate changes that arise as a result of past proceedings, including any distribution proceedings, or in subsequent proceedings are not factored into the 12 percent cap. Further, the 12 percent cap shall be normalized for equivalent usage to ensure that at no point any individual customer's bill impacts shall exceed 12 percent between September 1, 2012 and May 31, 2015. The PUCO order granted AEP an increase of \$4.71/MWh in the current rate the Company pays effective September 2012 through May 2014, before future rider modifications. Management estimates the new rates will increase the Company's cost for electricity by approximately \$20,000 annually based on six pot lines operating.

On October 4, 2012, the Company unwound all of its currently outstanding natural gas hedge instruments that had been classified as derivatives. The unwinding did not create any cash benefit or cash liability for the Company.

Jeffrey Marshall notified the Board of Directors on October 17, 2012 that he was resigning as a Director and Chairman of the Board, immediately, due to health reasons. The Board has accepted his resignation with regret and extended its thanks for his many years of service. Robert Prusak, in his capacity as Vice Chairman, will assume the duties of Chairman immediately.

**Exhibit B**  
**Ormet Corporation**  
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**Results of Operations for the three months ended June 30, 2012**

**Net Sales from Continuing Operations-** Net sales from continuing operations for the three months ended June 30, 2012 were \$152.0 million compared to \$148.1 million for the same period in 2011. Shipments in the second quarter of 2012 increased to 67,694 metric tons (“tons”) from 66,450 tons for the same period in 2011. Toll volume (included above) for the second quarter was 1,228 tons and 39,512 tons in 2012 and 2011, respectively. Selling prices associated for non toll shipments decreased by \$567 per ton for the three months ended June 30, 2012 vs. the same period 2011. The monthly average cash settlement price on the London metals Exchange (“LME”) including Midwest Premium was \$2,191/ton and \$2,785/ton during the second quarters of 2012 and 2011, respectively.

**Gross (Loss) Profit-** The gross loss for the three months ended June 30, 2012 was \$11.2 million compared to a gross profit of \$20.6 million for the same period in 2011. The sales increase of \$3.9 million from 2011 was offset in 2012 by the effect from the ending of the tolling agreements which resulted in increased usage of Company supplied alumina. In addition, higher unit costs for electric power and alumina were incurred. Electric power costs increased to \$39.97/MWh for the second quarter of 2012 compared to \$34.42/MWh in the same period 2011 amounting to \$7.5 million. Consumed anode costs decreased to \$759/ton the second quarter of 2012 from \$762/ton in the same period of 2011. Cost of sales for the three month period ended June 30, 2012 was \$163.2 million compared to \$127.5 million in 2011.

**Operating Expenses-** Operating expenses for the three months ended June 30, 2012 totaled \$5.2 million, an increase of \$0.6 million from the \$4.6 million for the same period in 2011 primarily driven by higher legal fees.

**Operating (Loss) Income-** For the three months ended June 30, 2012, the Company reported a \$16.4 million operating loss compared to an operating profit of \$21.9 million in the same period of 2011.

**Non Operating Expense-** Non operating expense totaled \$5.1 million versus non operating expenses of \$5.7 million for the three months ended June 30, 2012 and 2011, respectively, primarily due to slightly lower interest expense in 2012. In addition, the Company separately recorded a gain of \$5.8 million on the sale of vacant alumina refinery land (including a nominal purchase option for approximately 490 acres of additional land) included in the marine terminal asset sale during the 2011 period.

**Income Tax Provision-**The Company recorded an income tax benefit of \$7.6 million for the three months ended June 30, 2012. Due to the uncertainty of realizing the full benefit of its deferred income tax assets (consisting primarily of net operation loss carry forwards) the Company had recorded certain valuation reserves of \$117.2 million as of December 31, 2010. As a result of the Company’s estimation that it will now likely be able to fully utilize its tax assets, the remaining valuation allowance was reversed on June 30, 2011 and an income tax benefit (as adjusted) of \$110.0 million (net of the current income tax provision of \$7.7 million) was recorded.

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**Discontinued Operations-** Due to the sale of the Burnside marine terminal in June 2011, the Company no longer has any discontinued operations and as such, had no expense or benefit from discontinued operations for the three months ended June 30, 2012. The income of \$11.2 million (net of income tax provision of \$5.9 million at 35 percent) for the three months ended June 30, 2011 principally reflects the sale of the marine terminal assets on June 2, 2011.

**Net (Loss) Income Per Share-** The average number of shares of common stock issued and outstanding during the three months ended June 30, 2012 and 2011 was 18,662,272 and 18,607,493, respectively. The resulting loss from continuing operations and net loss for the three month period ended June 30, 2012 was \$0.74 per share compared to an income from continuing operations and net income for the three month period ended June 30, 2011 (as adjusted) of \$6.78 per share and \$7.38 per share, respectively.

**EBITDA and Adjusted EBITDA-** EBITDA for the three months ended June 30, 2012 and 2011 was a negative \$8.3 million and a positive \$46.1 million, respectively. Adjusted EBITDA was a negative \$8.1 million and a positive \$23.5 million for the three months ended June 30, 2012 and 2011, respectively. Below is the reconciliation of EBITDA and Adjusted EBITDA to net income for the three months ended June 30, 2012 and 2011:

(000's omitted)	Unaudited	
	Three months ended	
	6/30/2012	As Adjusted 6/30/2011
Consolidated net income (loss)	\$ (13,859)	\$ 137,363
Depreciation	4,375	5,034
Amortization of financing fees	276	305
Amortization of pension actuarial loss	3,172	1,775
Interest expense	5,354	5,716
Taxes	(7,605)	(104,075)
EBITDA	(8,287)	46,118
Gain on asset sales	-	(22,891)
Deferred compensation/ stock option expense	93	130
Additional accretion & imputed interest expense	113	163
Adjusted EBITDA	\$ (8,081)	\$ 23,520

The Company's definition of EBITDA (Earnings before interest, taxes, depreciation, and amortization) is consolidated net income plus an add-back for depreciation, interest expense, taxes and amortization of financing fees and pension plan actuarial loss. The Company's definition of Adjusted EBITDA is EBITDA minus the effect of any gains and losses on asset sales, adding back stock compensation expense, and imputed interest expense. EBITDA and Adjusted EBITDA are non-GAAP financial measures. Management believes that these measures are meaningful to investors because EBITDA and Adjusted EBITDA provide additional information with respect to the Company's operating

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performance and the Company's ability to meet its financial obligations. The EBITDA and Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

**Capital Expenditures-** The Company spent \$3.3 million on capital expenditures during the three months ended June 30, 2012 including \$1.8 million for relining 24 pots at Hannibal during the period. Capital expenditures at the Burnside alumina refinery amounted to an additional \$0.7 million for the three month period. Covenants in the Term Loan and Security Agreement ("Term Loan") and Amended and Restated Security Agreement ("ABL Facility") limit the Company's ability to make capital expenditures at its facilities. The limit for the year 2012 is \$45.0 million (which includes a carryover of \$10.0 million from 2011).

**Results of Operations for the six months ended June 30, 2012**

**Net Sales from Continuing Operations-** Net sales from continuing operations for the six months ended June 30, 2012 were \$290.5 million compared to \$272.3 million for the same period in 2011. Shipments in the first half of 2012 increased to 135,675 tons from 124,529 tons for the same period in 2011. Toll volume was 47,646 tons for the first six months of 2012 versus 72,299 tons for the same period in 2011. Selling prices associated for non toll shipments decreased by \$451 per ton for the first half 2012 vs. the first half 2011. The monthly average cash settlement price on the LME including the Midwest premium was \$2,273/ton and \$2,713/ton during the first six months of 2012 and 2011, respectively.

**Gross (Loss) Profit-** The gross loss for the six months ended June 30, 2012 was \$3.2 million compared to a gross profit of \$34.5 million for the same period in 2011. Cost of sales for the six month period ended June 30, 2012 was \$293.7 million compared to \$237.8 million in 2011. The ending of the tolling agreements resulted in alumina costs increasing by \$39.5 million. Higher unit costs for electricity from \$33.69/MWh for the first half of 2011 to \$39.84/MWh during the same period 2012 accounted for an additional \$13.2 million increase to cost of sales in 2012 from 2011.

**Operating Expenses-** Operating expenses for the six months ended June 30, 2012 include general and administrative expenses of \$10.0 million, an increase from the \$8.3 million for the same period in 2011 reflecting higher legal fees and increased administrative employee costs during the first six months of 2012. In addition, the Company separately recorded a gain of \$5.8 million on the sale of vacant alumina refinery land (including a nominal purchase option for approximately 490 acres of additional land) included in the marine terminal asset sale during the 2011 period.

**Operating (Loss) Income-** For the six months ended June 30, 2012, the Company reported a \$13.2 million operating loss compared to an operating profit of \$32.0 million in the same period of 2011.

**Non Operating Expense-** Non operating expense totaled approximately \$10.0 million each for the six months ended June 30, 2012 and 2011.

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**Income Tax Provision-** For the six months ended, June 30, 2012, the Company recorded an income tax benefit of \$8.2 million. Due to the uncertainty of realizing the full benefit of its deferred income tax assets (consisting primarily of net operation loss carry forwards), the Company had recorded certain valuation reserves of \$117.2 million as of December 31, 2010. As a result of the Company's estimation that it will now likely be able to fully utilize its tax assets, the remaining valuation allowance was reversed on June 30, 2011 and an income tax benefit of \$110.0 million (net of the current income tax provision of \$7.7 million) was recorded.

**Discontinued Operations-** Due to the sale of the Burnside marine terminal in June 2011, the Company no longer has any discontinued operations and as such, had no expense or benefit from discontinued operations for the six months ended June 30, 2012. The income of \$11.0 million (net of an income tax provision of \$5.9 million at 35 percent) for the six months ended June 30, 2011 principally reflects the gain on the sale of the marine terminal assets of \$11.1 million (\$17.1 million before tax provision) on June 2, 2011.

**Net (Loss) Income Per Share-** The average number of shares of common stock issued and outstanding during the six months ended June 30, 2012 and 2011 was 18,662,272 and 18,558,983, respectively. The resulting loss from continuing operations for the six month period ended June 30, 2012 was \$0.80 per share compared to a net income from continuing operations for the six month period ended June 30, 2011 (as adjusted) of \$7.11 per share. Net loss per share was \$0.80 during the six month period ended June 30, 2012 compared to a net income for the six month period ended June 30, 2011 of (as adjusted) \$7.70 per share.

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**EBITDA and Adjusted EBITDA-** EBITDA for the six months ended June 30, 2012 and 2011 was \$4.1 million and \$63.0 million, respectively. Adjusted EBITDA was \$4.4 million and \$40.7 million for the six months ended June 30, 2012 and 2011, respectively. Below is the reconciliation of EBITDA and Adjusted EBITDA to net income for the six months ended June 30, 2012 and 2011:

(000's omitted)	Unaudited Six months ended	
	6/30/2012	As Adjusted 6/30/2011
Consolidated net income (loss)	\$ (14,986)	\$ 142,898
Depreciation	9,634	9,812
Amortization of financing fees	545	518
Amortization of pension actuarial loss	6,375	3,529
Interest expense	10,716	10,320
Taxes	<u>(8,223)</u>	<u>(104,075)</u>
EBITDA	4,061	63,002
Gain on asset sales	-	(22,891)
Deferred compensation/ stock option expense	130	363
Additional accretion & imputed interest expense	<u>229</u>	<u>268</u>
Adjusted EBITDA	<u>\$ 4,420</u>	<u>\$ 40,742</u>

The Company's definition of EBITDA (Earnings before interest, taxes, depreciation, and amortization) is consolidated net income plus an add-back for depreciation, interest expense, taxes and amortization of financing fees and pension plan actuarial loss. The Company's definition of Adjusted EBITDA is EBITDA minus the effect of any gains and losses on asset sales, adding back stock compensation expense, and imputed interest expense. EBITDA and Adjusted EBITDA are non-GAAP financial measures. Management believes that these measures are meaningful to investors because EBITDA and Adjusted EBITDA provide additional information with respect to the Company's operating performance and the Company's ability to meet its financial obligations. The EBITDA and Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

**Capital Expenditures-** The Company spent \$6.9 million on capital expenditures during the six months ended June 30, 2012 including \$3.6 million for relining 46 pots at the Hannibal smelter and \$2.0 million of capital expenditures attributable to the Burnside alumina refinery. The ABL Facility limits the Company's ability to make capital expenditures at its facilities. The limit for the year 2012 is \$45.0 million and the limit for all succeeding years until the maturity of the Term Loan is \$35.0 million plus up to \$10.0 million of the unused amount from the prior year.

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**Liquidity and Capital Resources**

**Sources and Uses of Cash-** The net cash provided by operating activities was \$9.1 million for the six months ended June 30, 2012. The generation of cash was principally caused by the net loss adjusted for non-cash expenses amounting to \$7.5 million and working capital decreases of \$32.2 million driven by the collection of cash from cancelled forward sales agreements reduced by pension funding totaling \$15.6 million.

Net cash used in investing activities was \$6.9 million and was comprised of spending at the aluminum smelter and alumina refinery capital spending of \$4.9 million and \$2.0 million, respectively.

Net cash from financing activities was \$1.4 million, which were the proceeds less payment of financing fees related to the Company executing a \$1.5 million loan from the State of Louisiana Economic Development Loan program ("EDLOP loan").

The Company's cash balance at June 30, 2012 was \$6.1 million, an increase of \$3.6 million from the \$2.5 million balance at December 31, 2011.

**Liquidity-** The ongoing sources of liquidity for the Company are existing cash balances, cash flows from continuing operations and available borrowings under the ABL Facility (Note 5). As of June 30, 2012, there were no outstanding borrowings under the ABL Facility; outstanding letters of credit were \$6.1 million with remaining availability at \$48.3 million and an unrestricted cash balance of \$6.1 million.

During May 2012 the Company notified the holders of its ABL Facility that it may be out of compliance with the EBITDA provision at the close of the second quarter 2012. On July 18, 2012, the Company and the holders of the ABL Facility entered into Amendment No. 5 to the ABL agreement which waives the EBITDA provision within the ABL Facility for the June through August 2012 reporting periods. Under the terms of the amendment, the Company must maintain excess availability of at least \$12.0 million. Due to the cross default feature of the Term Loan, Generally Accepted Accounting Principles ("GAAP") rules required the Company to reclassify the Term Loan from long term debt to a current liability on the consolidated balance sheet as of June 30, 2012. These same rules required the Company to reclassify the EDLOP loan to a current liability as well, since the EDLOP loan contains a cross default feature in its terms and conditions.

Faced with declining LME prices compared to 2011 and higher electric power prices, the Company has reduced operations and has taken other measures to mitigate these developments. As of October 16, 2012 the Company's utilization of its revolving credit facility totaled \$33.3 million (including \$6.1 million for letters of credit) with approximately \$18.2 million of remaining availability (net of a \$6.0 million availability reserve). The Company's liquidity will continue to be pressured because the 2012 contractual discounts that the Company received from its power supplier were fully utilized in August 2012 and the Company began incurring an increased rate for power consumption beginning in

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September 2012 as a result of an adverse ruling by the Public Utilities Commission of Ohio (“PUCO”) in August 2012.

In addition, the Company has engaged Evercore Group L.L.C. to assist in identifying and evaluating strategic alternatives. Representative initiatives being explored include: asset sales, new sources of funds, vendor contract re-negotiations and debt restructuring.

To that end, the Company has been in negotiations with its various constituents (i.e. Term Loan lenders, ABL lender, the United Steelworkers International (“USW”), its electricity and other trade vendors and state government agencies). On October 12, 2012, the Company requested an expedited hearing from the PUCO. The PUCO granted the Company’s request and considered, on October 17, 2012, the agreement between Columbus Southern Power Company and Ohio Power Company (collectively “AEP”) and the Company for a deferral of AEP’s power bills that would be payable in November 2012 and December 2012. These power bills, totaling approximately \$27.0 million, would have normally been paid twenty-one days after receipt by the Company. According to the agreement, the payment for these bills will be made in seventeen equal monthly installments beginning in January 2014 and ending in May 2015. The PUCO approved the payment deferral agreement. While this approval provides the Company significant relief, the Company’s longer term liquidity will only be achieved if all constituents and the Company reach satisfactory agreements. The outcome of these remaining negotiations and the impact on the Company is uncertain at this time.

On September 28, 2012 Amendment No.3 to the Term Loan agreement was executed, which allowed for the October 1, 2012 interest payment to be eliminated with an increase to the then outstanding loan balance for the amount of the payment. In addition Amendments Nos. 5 and 6 were executed to the ABL Facility agreement whereby measurement of the EBITDA covenant would be waived through December 31, 2012 and the minimum excess availability would be \$6,000 through December 14, 2012 and increased to \$8,000 thereafter.

The Company intends to negotiate a modification to the EBITDA provision by the end of the waiver period. If the Company is unable to successfully renegotiate the EBITDA provision in the ABL Facility by the end of the waiver period, that event would trigger a cross default on its long term debt, which could result in the long term debt issued under the Term Loan becoming due and payable. If the Term Loan were to become due and payable, the Company would have to repay the loan at face value plus any prepayment premiums in effect, which includes approximately \$4.4 million of unamortized original issue discount interest which such interest is not included in the carrying value of the Term Loan as of June 30, 2012. This unamortized interest would then be subject to recognition in full as an addition to the Term Note carrying value on the consolidated balance sheet with a corresponding charge to interest expense on the consolidated statement of operations

Primary uses of cash are for funding the alumina refinery and aluminum smelter operations, which include raw material purchases, electricity and natural gas costs, working capital, capital expenditures, labor costs, funding of the Ormet pension plan and contractual payments to the VEBA

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Benefit Trusts. Payments to the hourly VEBA trust have been deferred for the remainder of 2012 as the result of an agreement between the Company and the union representing the Hannibal hourly employees.

Total inventory at June 30, 2012 of \$110.8 million was \$13.2 million lower than the \$124.0 million at December 31, 2011. This is principally due to a reduction in anode and bauxite inventory in the first six months of 2012, partially offset by an increase in alumina inventory as the Burnside alumina refinery ramped up production. The inventory at June 30, 2012 is principally composed of anodes totaling \$30.7 million, alumina of \$23.1 million, bauxite of \$14.2 million, caustic soda of \$10.0 million and operating materials and supplies (bath, molten pad, pot lining material, copper bars, stores and other operating supplies) totaling \$32.8 million.

The \$60 million ABL Facility is subject to a borrowing base availability calculation for accounts receivable and inventory. The calculated borrowing base availability is subject to a reserve of \$2.0 million or the amount of the upcoming quarterly pension contribution, whichever is greater. Interest is based on the London Interbank Offered Rate ("LIBOR") plus 2.75 percent, with a 2 percent minimum LIBOR rate, or the prime rate plus 0.50 percent, depending on the interest method elected. The ABL also has a commitment fee payable monthly of 0.625 percent on the unused portion of the facility from time to time.

On May 6, 2011, the Company entered into Amendment No. 1 of the Term Loan with the lenders of the Term Loan. The original Term Loan of \$110.0 million is now referred as Term A Loan. The amendment to the Term Loan provided for an additional loan ("Term B Loan") with a face value of \$30 million that matures on March 2, 2014 and was borrowed at a 5 percent original issue discount. The Term B Loan also bears interest at 14 percent per annum, payable in cash quarterly. The Term B Loan is pre-payable at face by the Company after March 1, 2012, with all other terms and conditions (including inter-creditor agreements) remaining substantially the same as the Term Loan described in Note 6. In addition, the Term Loan was also amended to revise the capital spending limitations for 2011 and 2012 and thereafter, and allow for the State of Louisiana to take a first mortgage on a parcel of land at Burnside in conjunction with entering into a \$1.5 million Economic Development Loan Program which the Company received the proceeds from on April 12, 2012.

The EDLOP loan has an interest rate of 3.82 percent and is payable in five annual installments of \$300 plus accrued interest beginning on March 13, 2013. The agreement has a jobs credit provision that would waive part of and up to the entire loan including interest if the Company maintains at least 243 jobs at the refinery during the term of the loan.

Concurrently with the amendment of the Term Loan, the Company entered into an amendment of the ABL Facility. The amendment increased the credit limit to \$60 million from \$50 million. The ABL Facility was amended to allow for the additional debt, revise the capital spending limitations for 2011 and thereafter, and allow for the State of Louisiana to take a first mortgage on a parcel of land at Burnside in conjunction with entering into the same \$1.5 million Economic Development Loan Program noted above.

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On December 23, 2011, the Company and the holders of its ABL Facility entered into Amendment No. 3 of the ABL Facility which revised the definition of EBITDA in the agreement and reset the monthly EBITDA covenant levels during 2012.

On March 28, 2012, the Company entered into Amendment No. 4 and Amendment No. 2 of its ABL Facility and Term Loan, respectively. The amendments provide for revising the terms and conditions for the Company related to the \$1.5 million Economic Development Loan.

The ABL Facility and Term Loan documents are posted in the Investor's section on the Company's website, [www.ormet.com](http://www.ormet.com).

### **Market Risks and Commodity Prices**

The Company is exposed to market price fluctuations for several major commodities that it sells and/or purchases including its aluminum ingot product, alumina, carbon anodes and electricity. The Company routinely evaluates the risks associated with the commodities it sells and/or purchases and adjusts the level of its forward sale and/or purchase commitments and takes other measures it deems appropriate. Currently, the Company's production is under sales agreements with commodity traders and is currently priced based on the average LME price for the month of production. All of the customer contracts provide for advance pricing of future sales, at the Company's option.

The Company has entered into third party forward natural gas swaps, put and call options as well as fixing prices for a portion of the natural gas in its supply agreement. Management believes these actions will mitigate exposure to any increases in natural gas prices above the current contracted maximum price in the years 2012 and 2013 and part of 2014.

### **Interest Rate Risk**

The Company's primary interest bearing debt obligations at June 30, 2012 were borrowings and interest associated with the Term Loan. Since the interest rates on the ABL Facility are based on a monthly floating rate of interest, future increases in interest rates may subject the Company to additional interest expense with respect to these borrowings when they occur. Interest expense on any amounts outstanding under the ABL Facility are calculated monthly at variable rates and are based on incremental margins over the monthly LIBOR Rate or the Prime Rate, as defined in the ABL Facility. The interest as defined in the Term Loan is payable in cash on the first day following the end of each fiscal quarter at 14 percent per annum. At June 30, 2012, the Company had no outstanding borrowings on the ABL Facility. The Company will continue to evaluate various strategies for hedging its interest rate risk. The Company's primary financial instruments are cash and short-term investments, including cash in bank accounts, Term A Loan, Term B Loan, EDLOP loan and its ABL Facility.