

KAISER ALUMINUM CORP
Form 10-Q
April 25, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____
to _____

Commission File Number: 0-52105

KAISER ALUMINUM CORPORATION
(Exact name of registrant as specified in its charter)
Delaware
(State of incorporation)

94-3030279
(I.R.S. Employer
Identification No.)

27422 Portola Parkway, Suite
200 Foothill Ranch, California
(Address of principal executive
offices)

92610-2831
(Zip Code)

(949) 614-1740

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Edgar Filing: KAISER ALUMINUM CORP - Form 10-Q

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 17, 2014, there were 18,030,319 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

PART I

<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 4. Controls and Procedures</u>	<u>49</u>

PART II

<u>Item 1. Legal Proceedings</u>	<u>51</u>
<u>Item 1A. Risk Factors</u>	<u>51</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>51</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>51</u>
<u>Item 5. Other Information</u>	<u>52</u>
<u>Item 6. Exhibits</u>	<u>52</u>

<u>SIGNATURES</u>	<u>54</u>
-------------------	-----------

<u>INDEX OF EXHIBITS</u>	<u>55</u>
--------------------------	-----------

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in millions of dollars, except share and per share amounts)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$185.6	\$169.5
Short-term investments	104.5	129.5
Receivables:		
Trade, less allowance for doubtful receivables of \$0.8 at March 31, 2014 and December 31, 2013	123.5	119.8
Other	11.7	13.4
Inventories	203.1	214.4
Prepaid expenses and other current assets	48.6	44.2
Total current assets	677.0	690.8
Property, plant, and equipment – net	436.7	429.3
Net asset of VEBAs	414.1	406.0
Deferred tax assets – net (including deferred tax liability relating to the VEBAs of \$155.4 at March 31, 2014 and \$152.4 at December 31, 2013)	59.2	69.1
Intangible assets – net	33.3	33.7
Goodwill	37.2	37.2
Other assets	108.5	104.8
Total	\$1,766.0	\$1,770.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$72.3	\$62.9
Accrued salaries, wages, and related expenses	33.2	42.7
Other accrued liabilities	37.1	44.8
Short-term capital lease	0.2	0.2
Total current liabilities	142.8	150.6
Deferred tax liability	1.2	1.2
Long-term liabilities	149.0	146.4
Long-term debt	390.7	388.5
Total liabilities	683.7	686.7
Commitments and contingencies – Note 7		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized at both March 31, 2014 and December 31, 2013; no shares were issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Common stock, par value \$0.01, 90,000,000 shares authorized at both March 31, 2014 and at December 31, 2013; 21,171,683 shares issued and 18,030,600 shares outstanding at March 31, 2014; 21,103,700 shares issued and 18,147,017 shares outstanding at December 31, 2013	0.2	0.2
Additional paid in capital	1,023.6	1,023.1
Retained earnings	243.2	233.8

Edgar Filing: KAISER ALUMINUM CORP - Form 10-Q

Treasury stock, at cost, 3,141,083 shares at March 31, 2014 and 2,956,683 shares at December 31, 2013, respectively	(164.9) (152.2)
Accumulated other comprehensive loss	(19.8) (20.7)
Total stockholders' equity	1,082.3	1,084.2	
Total	\$1,766.0	\$1,770.9	

The accompanying notes to consolidated financial statements are an integral part of these statements.

1

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
 STATEMENTS OF CONSOLIDATED INCOME (UNAUDITED)
 (in millions, except share and per share amounts)

	Quarter Ended	
	March 31,	
	2014	2013
Net sales	\$335.1	\$337.4
Costs and expenses:		
Cost of products sold:		
Cost of products sold, excluding depreciation and amortization and other items	282.9	263.6
Unrealized (gains) losses on derivative instruments	(2.0) 0.7
Depreciation and amortization	7.4	7.0
Selling, administrative, research and development, and general:		
Selling, administrative, research and development, and general	20.3	21.7
Net periodic pension benefit income relating to VEBAs (includes accumulated other comprehensive income reclassifications related to VEBA of \$2.5 and \$1.4 for the quarters ended March 31, 2014 and March 31, 2013, respectively)	(5.6) (5.6
Total selling, administrative, research and development, and general	14.7	16.1
Total costs and expenses	303.0	287.4
Operating income	32.1	50.0
Other (expense) income:		
Interest expense	(8.8) (9.3
Other income, net (includes accumulated other comprehensive income reclassifications for realized gains on available for sale securities of \$0.1 and \$0.4 for the quarters ended March 31, 2014 and March 31, 2013, respectively)	1.9	1.0
Income before income taxes	25.2	41.7
Income tax provision (includes aggregate income tax expense from reclassification items of \$(0.9) and \$(0.4) for the quarters ended March 31, 2014 and March 31, 2013, respectively)	(9.4) (8.2
Net income	\$15.8	\$33.5
Earnings per common share, Basic:		
Net income per share	\$0.88	\$1.75
Earnings per common share, Diluted:		
Net income per share	\$0.85	\$1.73
Weighted-average number of common shares outstanding (in thousands):		
Basic	17,921	19,143
Diluted	18,514	19,366

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (UNAUDITED)
 (in millions)

	Quarter Ended		
	March 31,		
	2014	2013	
Net income	\$15.8	\$33.5	
Other comprehensive income:			
VEBAs			
Reclassification adjustments:			
Amortization of net actuarial (gain) loss	(0.3) 0.3	
Amortization of prior service cost	2.8	1.1	
Other comprehensive income relating to VEBAs	2.5	1.4	
Available for sale securities			
Unrealized gain on available for sale securities	0.1	0.3	
Reclassification adjustments:			
Reclassification of unrealized gain upon sale of available for sale securities	(0.1) (0.4)
Other comprehensive income (loss) relating to available for sale securities	—	(0.1)
Foreign currency translation adjustment	0.2	0.4	
Other comprehensive income, before tax	2.7	1.7	
Income tax expense related to items of other comprehensive income	(1.8) (0.5)
Other comprehensive income, net of tax	0.9	1.2	
Comprehensive income	\$16.7	\$34.7	

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
 STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY (UNAUDITED)
 (in millions, except share and per share amounts)

	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
BALANCE, December 31, 2013	18,147,017	\$ 0.2	\$1,023.1	\$233.8	\$(152.2)	\$ (20.7)	\$1,084.2
Net income	—	—	—	15.8	—	—	15.8
Other comprehensive income, net of tax	—	—	—	—	—	0.9	0.9
Issuance of non-vested shares to employees	55,613	—	—	—	—	—	—
Issuance of common shares to employees upon vesting of restricted stock units and performance shares	43,562	—	—	—	—	—	—
Cancellation of employee non-vested shares	(323)	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(30,869)	—	(2.2)	—	—	—	(2.2)
Repurchase of common stock	(184,400)	—	—	—	(12.7)	—	(12.7)
Cash dividends on common stock (\$0.35 per share)	—	—	—	(6.4)	—	—	(6.4)
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	—	—	0.7	—	—	—	0.7
Amortization of unearned equity compensation	—	—	2.0	—	—	—	2.0
BALANCE, March 31, 2014	18,030,600	\$ 0.2	\$1,023.6	\$243.2	\$(164.9)	\$ (19.8)	\$1,082.3

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)
(in millions)

	Quarter Ended	
	March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 15.8	\$ 33.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	7.0	6.6
Amortization of definite-lived intangible assets	0.4	0.4
Amortization of debt discount and debt issuance costs	2.9	2.7
Deferred income taxes	8.7	15.3
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	(0.7)	(0.8)
Non-cash equity compensation	2.0	2.6
Non-cash unrealized (gains) losses on derivative positions	(2.9)	0.3
Gain on disposition of available for sale securities	—	(0.5)
Non-cash net periodic pension benefit income relating to VEBAs	(5.6)	(5.6)
Other non-cash changes in assets and liabilities	0.1	(2.4)
Changes in operating assets and liabilities:		
Trade and other receivables	(2.2)	(23.6)
Inventories	11.3	(13.3)
Prepaid expenses and other current assets	(2.3)	(2.3)
Accounts payable	10.4	9.9
Accrued liabilities	(1.4)	0.5
Annual variable cash contribution to VEBAs	(16.0)	(20.0)
Payable to affiliate	—	4.4
Long-term assets and liabilities, net	(0.4)	(1.4)
Net cash provided by operating activities	27.1	6.3
Cash flows from investing activities:		
Capital expenditures	(15.4)	(9.3)
Purchase of available for sale securities	—	(85.6)
Proceeds from disposition of available for sale securities	25.0	85.2
Net cash provided by (used) in investing activities	9.6	(9.7)
Cash flows from financing activities:		
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	0.7	0.8
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(2.2)	(2.2)
Repurchase of common stock	(12.7)	(14.7)
Cash dividend paid to stockholders	(6.4)	(5.9)
Net cash used in financing activities	(20.6)	(22.0)
Net increase (decrease) in cash and cash equivalents during the period	16.1	(25.4)
Cash and cash equivalents at beginning of period	169.5	273.4
Cash and cash equivalents at end of period	\$ 185.6	\$ 248.0

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
(in millions of dollars, except share and per share amounts and as otherwise indicated)

1. Summary of Significant Accounting Policies

This Quarterly Report on Form 10-Q (this "Report") should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Organization and Nature of Operations. Kaiser Aluminum Corporation (together with its subsidiaries, unless the context otherwise requires, the "Company") specializes in the production of semi-fabricated specialty aluminum products, such as aluminum sheet and plate and extruded and drawn products, primarily used in aerospace/high strength, general engineering, automotive, and other industrial end market applications. The Company has one operating segment, Fabricated Products. See Note 11 for additional information regarding the Company's reportable segment and its other business units.

Principles of Consolidation and Basis of Presentation. The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and are prepared in accordance with United States generally accepted accounting principles ("GAAP") and the rules and regulations of the Securities and Exchange Commission (the "SEC") applicable for interim periods and, therefore, do not include all information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the Company's interim periods are not necessarily indicative of the results of operations that may be achieved for the entire 2014 fiscal year. The financial information as of December 31, 2013 is derived from the Company's audited consolidated financial statements and footnotes for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company's consolidated financial position and results of operations.

Inventories. Inventories are stated at the lower of cost or market value. Finished products, work-in-process and raw material inventories are stated on the last-in, first-out ("LIFO") basis. During the quarter ended March 31, 2014, the Company decremented a prior year, higher cost LIFO layer which resulted in a \$1.8 charge. The excess of current cost over the stated LIFO value of inventory at March 31, 2014 and December 31, 2013 was \$11.1 and \$0.4, respectively. Other inventories, principally operating supplies and repair and maintenance parts, are stated at average cost. Inventory costs consist of material, labor and manufacturing overhead, including depreciation. Abnormal costs, such as idle facility expenses, freight, handling costs and spoilage, are accounted for as current period charges. All of the Company's inventories at March 31, 2014 and December 31, 2013 were included in the Fabricated Products segment (see Note 2 for the components of inventories).

Property, Plant, and Equipment – Net. Property, plant and equipment is recorded at cost (see Note 2). Construction in progress is included within Property, plant, and equipment – net on the Consolidated Balance Sheets. Interest related to the construction of qualifying assets is capitalized as part of the construction costs. The aggregate amount of interest capitalized is limited to the interest expense incurred in the period. The amount of interest expense capitalized as construction in progress was \$1.1 and \$0.4 during the quarters ended March 31, 2014 and March 31, 2013, respectively.

Depreciation is computed using the straight-line method at rates based on the estimated useful lives of the various classes of assets. Capital lease assets and leasehold improvements are depreciated on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term. Depreciation expense is not included in Cost of products sold, excluding depreciation and amortization, but is included in Depreciation and amortization on the

Statements of Consolidated Income. For the quarters ended March 31, 2014 and March 31, 2013, the Company recorded depreciation expense of \$6.8 and \$6.5, respectively, relating to the Company's operating facilities in its Fabricated Products segment. An immaterial amount of depreciation expense was also recorded relating to the Company's Corporate and Other business unit for all periods presented in this Report.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
 NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(In millions of dollars, except share and per share amounts and as otherwise indicated)

New Accounting Pronouncements.

ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. (“ASU 2013-11”), was issued in July 2013. ASU 2013-11 requires an entity to present in the financial statements an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset resulting from a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, when the above situation is not available at the reporting date or the tax law of the applicable jurisdiction does not require the entity to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. An entity is required to adopt ASU 2013-11 for annual and interim periods beginning after December 15, 2013. The Company’s adoption of ASU 2013-11 in the first quarter of 2014 did not have a material impact on its financial statements.

2. Supplemental Balance Sheet Information

	March 31, 2014	December 31, 2013
Cash and Cash Equivalents.		
Cash and money market funds	\$68.5	\$57.7
Commercial paper	117.1	111.8
Total	\$185.6	\$169.5
Trade Receivables.		
Billed trade receivables	\$124.1	\$120.2
Unbilled trade receivables	0.2	0.4
Trade receivables, gross	124.3	120.6
Allowance for doubtful receivables	(0.8) (0.8
Trade receivables, net	\$123.5	\$119.8
Inventories.		
Finished products	\$65.9	\$72.5
Work-in-process	66.9	75.9
Raw materials	51.5	47.2
Operating supplies and repair and maintenance parts	18.8	18.8
Total	\$203.1	\$214.4
Prepaid Expenses and Other Current Assets.		
Current derivative assets – Notes 8 and 9	\$4.1	\$2.0
Current deferred tax assets	36.7	36.7
Short-term restricted cash	0.3	0.3
Prepaid taxes	2.8	—
Prepaid expenses	4.7	5.2
Total	\$48.6	\$44.2

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
 NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(In millions of dollars, except share and per share amounts and as otherwise indicated)

Property, Plant and Equipment - Net.		
Land and improvements	\$22.8	\$22.6
Buildings and leasehold improvements	54.2	53.0
Machinery and equipment	455.3	425.6
Construction in progress	49.3	66.0
Property, plant and equipment, gross	581.6	567.2
Accumulated depreciation	(144.9) (137.9
Total	\$436.7	\$429.3
Other Assets.		
Derivative assets – Notes 8 and 9	\$84.2	\$79.8
Restricted cash	9.3	9.3
Deferred financing costs	8.2	8.9
Deferred compensation plan assets	6.6	6.5
Other	0.2	0.3
Total	\$108.5	\$104.8
Other Accrued Liabilities.		
Current derivative liabilities – Notes 8 and 9	\$2.0	\$1.8
Uncleared cash disbursements	10.5	9.6
Accrued income taxes and taxes payable	7.6	4.3
Accrued annual VEBA contribution	—	16.0
Short-term environmental accrual – Note 7	3.6	2.8
Accrued interest	10.3	3.7
Other	3.1	6.6
Total	\$37.1	\$44.8
Long-term Liabilities.		
Derivative liabilities – Notes 8 and 9	\$87.7	\$84.3
Income tax liabilities	4.9	5.0
Workers' compensation accruals	23.4	23.3
Long-term environmental accrual – Note 7	18.9	20.0
Long-term asset retirement obligations	4.1	4.0
Deferred compensation liability	7.2	7.0
Long-term capital lease	0.1	0.1
Other long-term liabilities	2.7	2.7
Total	\$149.0	\$146.4
Long-term Debt. — Note 3		
Senior notes	\$225.0	\$225.0
Cash convertible senior notes	165.7	163.5
Total	\$390.7	\$388.5

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
 NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 (In millions of dollars, except share and per share amounts and as otherwise indicated)

3. Long-Term Debt and Credit Facility

Senior Notes

In May 2012, the Company issued \$225.0 principal amount of 8.25% Senior Notes due June 1, 2020 (the "Senior Notes") at 100% of the principal amount. Interest expense, including amortization of deferred financing costs, relating to the Senior Notes was \$4.8 for both quarters ended March 31, 2014 and March 31, 2013. A portion of the interest relating to the Senior Notes is capitalized as Construction in progress. See Note 3 of Notes to Consolidated Financial Statements included in Part II, Item 8. "Financial Statements and Supplementary Data" in the Company's Annual Report Form 10-K for the year ended December 31, 2013 for additional information regarding the Senior Notes.

Cash Convertible Senior Notes

Convertible Notes. In March 2010, the Company issued \$175.0 principal amount of 4.50% Cash Convertible Senior Notes due April 1, 2015 (the "Convertible Notes"). The Convertible Notes are unsecured obligations of the Company. The Convertible Notes are not convertible into the Company's common stock or any other securities, but instead will be settled in cash. The Company accounts for the cash conversion feature of the Convertible Notes as a separate derivative instrument (the "Bifurcated Conversion Feature") with the fair value on the issuance date equaling the original issue discount for purposes of accounting for the debt component of the Convertible Notes. The following tables provide additional information regarding the Convertible Notes:

	March 31, 2014	December 31, 2013
Principal amount	\$ 175.0	\$ 175.0
Less: unamortized issuance discount	(9.3)