KAISER ALUMINUM CORP
Form 10-Q
April 22, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

[ ] 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	94-3030279
(State of incorporation)	(I.R.S. Employer Identification No.)
27422 Portola Parkway, Suite 200 Foothill Ranch, California	92610-2831
(Address of principal executive offices)	(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 þ No o
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 þ No o
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 þ Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of April 18, 2016, there were 17,982,909 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2016	December 31, 2015
	(In millions of dollars, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$70.7	$ 72.5
Short-term investments	10.0	30.0
Receivables:		
Trade receivables – net	138.8	116.7
Other	8.6	6.1
Inventories	210.6	219.6
Prepaid expenses and other current assets[1]	9.1	56.7
Total current assets	447.8	501.6
Property, plant and equipment – net	504.5	495.4
Deferred tax assets – net[1, 2]	197.5	163.3
Intangible assets – net	30.1	30.5
Goodwill	37.2	37.2
Other assets[1]	19.5	19.6
Total	$1,236.6	$ 1,247.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$70.2	$ 76.7
Accrued salaries, wages and related expenses	33.9	39.8
Other accrued liabilities	56.5	52.7
Short-term capital leases	0.1	0.1
Total current liabilities	160.7	169.3
Net liabilities of Salaried VEBA	18.7	19.0
Deferred tax liabilities	2.1	2.1
Long-term liabilities	72.5	87.5
Long-term debt[1]	194.8	194.6
Total liabilities	448.8	472.5
Commitments and contingencies – Note 7		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized at both March 31, 2016 and December 31, 2015; no shares were issued and outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock, par value $0.01, 90,000,000 shares authorized at both March 31, 2016 and at December 31, 2015; 22,307,219 shares issued and 17,986,521 shares outstanding at March 31, 2016; 22,291,180 shares issued and 18,053,747 shares outstanding at December 31, 2015	0.2	0.2
Additional paid in capital[2]	1,037.2	1,037.3
Retained earnings[2]	34.1	15.8
Treasury stock, at cost, 4,320,698 shares at March 31, 2016 and 4,237,433 shares at December 31, 2015, respectively	(252.9)	(246.5)
Accumulated other comprehensive loss	(30.8)	(31.7)

Total stockholders' equity	787.8	775.1
Total	$1,236.6	$ 1,247.6

[1] See Note 1 for discussion of our adoption of ASU 2015-03, ASU 2015-15 and ASU 2015-17 (as defined in Note 1).
[2] See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09 (as defined in Note 1).
The accompanying notes to interim consolidated financial statements are an integral part of these statements.

1

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENTS OF CONSOLIDATED INCOME (LOSS) (UNAUDITED)

	Quarter Ended March 31,	
	2016	2015
	(In millions of dollars, except share and per share amounts)	
Net sales	$343.2	$371.7
Costs and expenses:		
Cost of products sold:		
Cost of products sold, excluding depreciation and amortization and other items	262.0	302.3
Lower of cost or market inventory write-down	4.9	—
Unrealized (gain) loss on derivative instruments	(4.0)	4.5
Depreciation and amortization	8.7	8.0
Selling, general, administrative, research and development:		
Selling, general, administrative, research and development	26.1	22.7
Net periodic postretirement benefit cost relating to Salaried VEBA	0.8	0.6
(Gain) loss on removal of Union VEBA net assets – Note 5	(0.1)	492.2
Total selling, general, administrative, research and development	26.8	515.5
Total costs and expenses	298.4	830.3
Operating income (loss)	44.8	(458.6)
Other (expense) income:		
Interest expense	(3.7)	(9.8)
Other income, net	0.3	0.4
Income (loss) before income taxes	41.4	(468.0)
Income tax (provision) benefit	(15.1)	175.8
Net income (loss)	$26.3	$(292.2)
Net income (loss) per common share:		
Basic	$1.47	$(16.85)
Diluted	$1.44	$(16.85)
Weighted-average number of common shares outstanding (in thousands):		
Basic	17,864	17,344
Diluted	18,200	17,344
Dividends declared per common share	$0.45	$0.40

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

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

	Quarter Ended March 31,	
	2016	2015
	(In millions of dollars)	
Net income (loss)	$26.3	$(292.2)
Other comprehensive income:		
VEBAs:		
Reclassification adjustments:		
Amortization of net actuarial loss	0.1	0.3
Amortization of prior service cost	1.0	0.7
Removal of obligation relating to Union VEBA	—	106.6
Other comprehensive income relating to VEBAs	1.1	107.6
Available for sale securities:		
Reclassification of unrealized loss upon sale of available for sale securities	—	0.1
Other comprehensive income relating to available for sale securities	—	0.1
Foreign currency translation gain on Canadian pension plan	0.1	—
Unrealized gain on foreign currency cash flow hedges	0.2	—
Foreign currency translation gain	—	0.1
Other comprehensive income, before tax	1.4	107.8
Income tax expense related to items of other comprehensive income	(0.5)	(40.9)
Other comprehensive income, net of tax	0.9	66.9
Comprehensive income (loss)	$27.2	$(225.3)

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	(In millions of dollars, except share and per share amounts)						
BALANCE, December 31, 2015	18,053,747	$ 0.2	$ 1,036.5	$ 15.9	$ (246.5)	$ (31.7)	$ 774.4
Cumulative-effect adjustment[1]	—	—	0.8	(0.1)	—	—	0.7
BALANCE, January 1, 2016	18,053,747	$ 0.2	$ 1,037.3	$ 15.8	$ (246.5)	$ (31.7)	$ 775.1
Net income	—	—	—	26.3	—	—	26.3
Other comprehensive income, net of tax	—	—	—	—	—	0.9	0.9
Issuance of common shares to employees upon vesting of restricted stock units and performance shares	51,373	—	—	—	—	—	—
Cancellation of employee non-vested shares	(172)	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(35,162)	—	(2.7)	—	—	—	(2.7)
Repurchase of common stock	(83,265)	—	—	—	(6.4)	—	(6.4)
Cash dividends on common stock ($0.45 per share)	—	—	—	(8.2)	—	—	(8.2)
Amortization of unearned equity compensation	—	—	2.6	—	—	—	2.6
Dividends on unvested equity awards that were canceled	—	—	—	0.2	—	—	0.2
BALANCE, March 31, 2016	17,986,521	$ 0.2	$ 1,037.2	$ 34.1	$ (252.9)	$ (30.8)	$ 787.8

1. See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09 (as defined in Note 1).

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
	(In millions of dollars)	
Cash flows from operating activities:		
Net income (loss)	$26.3	$(292.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property, plant and equipment	8.3	7.6
Amortization of definite-lived intangible assets	0.4	0.4
Amortization of debt discount and debt issuance costs	0.3	3.2
Deferred income taxes – Note 4	15.1	(176.7)
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest[1]	—	(1.0)
Non-cash equity compensation[1]	2.6	2.1
Lower of cost or market write-down	4.9	—
Non-cash unrealized (gain) loss on derivative instruments	(4.0)	4.5
Non-cash defined benefit net periodic benefit cost relating to Salaried VEBA	0.8	0.6
Non-cash loss on removal of Union VEBA net assets[2]	—	446.7
Other non-cash changes in assets and liabilities	0.3	0.3
Changes in operating assets and liabilities:		
Trade and other receivables	(24.6)	(18.3)
Inventories, excluding lower of cost or market write-down	4.1	(3.3)
Prepaid expenses and other current assets	(2.2)	(2.4)
Accounts payable	1.9	0.4
Accrued liabilities[2]	21.2	19.1
Annual variable cash contributions to VEBAs[2]	(19.5)	(13.7)
Long-term assets and liabilities, net[2]	(14.6)	30.1
Net cash provided by operating activities	21.3	7.4
Cash flows from investing activities[3]:		
Capital expenditures	(25.9)	(11.3)
Proceeds from disposition of available for sale securities	20.0	84.0
Net cash (used in) provided by investing activities	(5.9)	72.7
Cash flows from financing activities[3]:		
Payment of capital lease liability	—	(0.1)
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	—	1.0
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(2.7)	(2.5)
Repurchase of common stock	(6.3)	(28.2)
Cash dividends paid to stockholders	(8.2)	(7.1)
Net cash used in financing activities	(17.2)	(36.9)
Net (decrease) increase in cash and cash equivalents during the period	(1.8)	43.2
Cash and cash equivalents at beginning of period	72.5	177.7
Cash and cash equivalents at end of period	$70.7	$220.9

1 See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09.

[2] See Note 5 for the impact of removing the Union VEBA (defined in Note 5) net assets.
[3] See Note 12 for the supplemental disclosure on non-cash transactions.
The accompanying notes to interim consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
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, 2015. Unless the context otherwise requires, references in these notes to interim consolidated financial statements - unaudited to "Kaiser Aluminum Corporation," "we," "us," "our," "the Company" and "our Company" refer collectively to Kaiser Aluminum Corporation and its subsidiaries.
Organization and Nature of Operations. Kaiser Aluminum Corporation specializes in the production of semi-fabricated specialty aluminum products, such as aluminum plate and sheet and extruded and drawn products, primarily used in aerospace/high strength, automotive, general engineering and other industrial end market applications. Our business is organized into one operating segment, Fabricated Products. See Note 11 for additional information regarding our reportable segment and business unit.
Principles of Consolidation and Basis of Presentation. The accompanying unaudited consolidated financial statements include the accounts of our 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 ("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 our interim periods are not necessarily indicative of the results of operations that may be achieved for the entire 2016 fiscal year. The financial information as of December 31, 2015 is derived from our audited consolidated financial statements and footnotes for the year ended December 31, 2015 included in our Annual Report on Form 10-K. See New Accounting Pronouncements below for a discussion of new accounting pronouncements we adopted during the quarter ended March 31, 2016 requiring cumulative-effect adjustments that impacted our consolidated financial statements and footnotes for the year ended December 31, 2015.
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 our 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 our consolidated financial position and results of operations.
Inventories. Inventories are stated at the lower of cost or market value. On March 31, 2016, we recorded an inventory write-down of $4.9 million to reflect the net realizable value as of that date. The net realizable value reflected commitments as of that date from customers to purchase our inventory at prices that exceeded the Midwest Transaction Price ("Midwest Price"), which reflects the primary aluminum supply/demand dynamics in North America, reduced by an approximate normal profit margin. If we encounter a further decrease in our net realizable value of inventory, we may be subject to additional inventory lower of cost or market value adjustments.
Finished products, work-in-process and raw material inventories are stated on the last-in, first-out ("LIFO") basis. At March 31, 2016, after adjusting for the inventory write down discussed above, the stated LIFO value of the inventory represented its net realizable value (less a normal profit margin) and exceeded the current cost of our inventory by $17.7 million. Additionally, during the quarter ended March 31, 2016, we decremented a prior year, higher cost LIFO layer, which resulted in an insignificant charge. The excess of current cost over the stated LIFO value of inventory at December 31, 2015 was $24.1 million. 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 our inventories at March 31, 2016 and December 31, 2015 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 $0.9 million and $0.3 million during the quarters ended March 31, 2016 and March 31, 2015, respectively.

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

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 and other items, but is included in Depreciation and amortization on the Statements of Consolidated Income (Loss). For the quarters ended March 31, 2016 and March 31, 2015, we recorded depreciation expense of $8.2 million and $7.5 million, respectively, relating to our operating facilities in the Fabricated Products segment. An immaterial amount of depreciation expense was also recorded within All Other for all periods presented in this Report.

We classify assets as held for sale only when an asset is being actively marketed and expected to sell within 12 months. Assets held for sale are initially measured at the lesser of the assets' carrying amount and the fair value less costs to sell.

Foreign Currency Risk Management. From time to time, we enter into foreign currency forward contracts to protect the value of anticipated foreign currency expenses associated with cash commitments for equipment purchases. These derivative instruments are designated and qualify for cash flow hedge accounting and are adjusted to current market values each reporting period. Both realized and unrealized periodic gains and losses of derivative instruments designated as cash flow hedges are deferred in Accumulated other comprehensive income until depreciation on the underlying equipment commences. Upon commencement, realized gains and losses are recorded in Net income (loss) as an adjustment to depreciation expense in the period in which depreciation is recognized on the underlying equipment. Depending on the time to maturity and asset or liability position, the carrying values of cash flow hedges are included in Prepaid expenses and other current assets, Other assets, Other accrued liabilities or Long-term liabilities. We report the effective portion of our cash flow hedges in the same financial statement line item as changes in the fair value of the hedged item.

In order to qualify for hedge accounting treatment, derivative instruments must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the instrument contract. Hedge effectiveness is assessed periodically. Any derivative instrument not designated as a hedge, or so designated but ineffective, is adjusted to market value and recognized in net income immediately. If a cash flow hedge ceases to qualify for hedge accounting treatment, the derivative instrument would continue to be carried on the balance sheet at fair value until settled and future adjustments to the derivative instrument's fair value would be recognized in Net income (loss) immediately. If a forecasted equipment purchase was no longer probable to occur, amounts previously deferred in Accumulated other comprehensive income (loss) would be recognized immediately in Net income (loss). See Note 8 for additional information.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintained strict counterparty credit guidelines and entered into hedges only with major financial institutions that are investment grade or better. We do not have significant exposure to any one counterparty and management believes the risk of loss is remote and in any event would not be material. Additionally, we do not require collateral under these agreements.

New Accounting Pronouncements. Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), was issued in April 2015. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in an entity's balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of being presented as a deferred charge in the balance sheet. The recognition and measurement guidance for debt issuance costs is not affected by ASU 2015-03. During the quarter ended March 31, 2016, we retrospectively adopted ASU 2015-03, which resulted in a reclassification of $3.2 million of debt issuance costs related to our Senior Notes (as defined in Note 3) from Other assets to Long-term debt as of December 31, 2015.

ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ("ASU 2015-15") was issued in August 2015 to address the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements.

The recognition and measurement guidance for debt issuance costs is not affected by ASU 2015-15. Our adoption of this ASU in the first quarter of 2016 did not have a material impact on our consolidated financial statements.
ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ("ASU 2015-07"), was issued in May 2015. This ASU removes the requirement to categorize within the fair value hierarchy table investments without readily determinable fair values in entities that elect to measure fair value using net asset value per share ("NAV") or its equivalent. ASU 2015-07 requires that these investments continue to be shown in the fair value disclosure in order to allow the disclosure to reconcile to the investment amount presented in the balance sheet. Our retrospective adoption of this ASU in the first quarter of 2016 did not have a material impact on our consolidated financial statements.

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

ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"), was issued in August 2015. ASU 2015-14 defers the effective date of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which was issued in May 2014 and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, by one year for all entities and permits early adoption on a limited basis. We expect to adopt ASU 2014-09 for the fiscal year ending December 31, 2018 and will continue to assess the impact of the adoption on our consolidated financial statements; however, based on our assessments to date, we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), was issued in November 2015. ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. This ASU does not, however, change the existing requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount. During the quarter ended March 31, 2016, we early adopted this ASU on a prospective basis. As such, prior periods were not retrospectively adjusted.

ASU No. 2016-02, Leases (Topic 842): Amendments to the Financial Accounting Standards Board Accounting Standards Codification ("ASU 2016-02"), was issued in February 2016. Under ASU 2016-02, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). ASU 2016-02 becomes effective for us in the first quarter of 2019. We are currently evaluating whether to early adopt the standard and what impact it will have on our consolidated financial statements, which we expect will be material.

ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), was issued in March 2016. ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. The accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation and the accounting for forfeitures is also changing. ASU 2016-09 becomes effective for us in the first quarter of 2017. We early adopted ASU 2016-09 during the quarter ended March 31, 2016. See Note 4 and Note 6 for a discussion on the impact of our adoption of ASU 2016-09.

2. Supplemental Balance Sheet Information

	March 31, 2016	December 31, 2015
	(In millions of dollars)	
Cash and Cash Equivalents		
Cash and money market funds	$34.5	$ 40.3
Commercial paper	36.2	32.2
Total	$70.7	$ 72.5
Trade Receivables – Net		
Billed trade receivables	$139.4	$ 116.8
Unbilled trade receivables	0.2	0.7
Trade receivables, gross	139.6	117.5
Allowance for doubtful receivables	(0.8)	(0.8)
Trade receivables – net	$138.8	$ 116.7

Inventories

Finished products	$66.8	$ 79.5
Work-in-process	73.4	63.6

8

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

	March 31, 2016	December 31, 2015
	(In millions of dollars)	
Raw materials	46.7	53.4
Operating supplies and repair and maintenance parts	23.7	23.1
Total	$210.6	$ 219.6
Prepaid Expenses and Other Current Assets		
Current derivative assets – Notes 8 and 9	$1.4	$ 1.5
Current deferred tax assets[1]	—	49.6
Prepaid taxes	3.3	—
Prepaid insurance	1.1	1.9
Short-term restricted cash	0.3	0.3
Other	3.0	3.4
Total	$9.1	$ 56.7
Property, Plant and Equipment – Net		
Land and improvements	$22.7	$ 22.7
Buildings and leasehold improvements	72.5	71.8
Machinery and equipment	559.3	549.0
Construction in progress	54.8	48.5
Property, plant and equipment – gross	709.3	692.0
Accumulated depreciation	(205.1)	(196.9)
Assets held for sale	0.3	0.3
Property, plant and equipment – net	$504.5	$ 495.4
Other Assets		
Restricted cash	$10.9	$ 10.9
Deferred financing costs on Revolving Credit Facility	1.1	1.3
Deferred compensation plan assets	7.3	7.3
Derivative assets – Notes 8 and 9	0.2	0.1
Total	$19.5	$ 19.6
Other Accrued Liabilities		
Current derivative liabilities – Notes 8 and 9	$10.3	$ 14.1
Uncleared cash disbursements	10.0	8.0
Accrued income taxes and taxes payable	8.6	3.1
Accrued annual contribution to VEBAs	—	19.6
Accrued contingent contribution to Union VEBA – Note 5	17.1	—
Short-term environmental accrual – Note 7	1.3	1.6
Accrued interest	5.5	1.5
Short-term deferred revenue	0.8	1.2
Other	2.9	3.6
Total	$56.5	$ 52.7

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

	March 31, 2016	December 31, 2015
	(In millions of dollars)	
Long-Term Liabilities		
Derivative liabilities – Notes 8 and 9	$1.7	$ 2.1
Income tax liabilities	0.8	0.7
Workers' compensation accruals	24.1	21.7
Long-term environmental accrual – Note 7	16.8	17.0
Long-term asset retirement obligations	4.9	4.8
Deferred compensation liability	7.8	7.7
Long-term deferred revenue	0.3	0.3
Long-term capital leases	0.1	0.1
Long-term portion of contingent contribution to Union VEBA – Note 5	12.8	29.9
Other long-term liabilities	3.2	3.2
Total	$72.5	$ 87.5

[1] See Note 4 for discussion of our adoption of ASU 2015-17.

3. Debt and Credit Facility

Senior Notes

In May 2012, we issued $225.0 million principal amount of 8.25% unsecured senior notes due June 1, 2020 ("Senior Notes") at 100% of the principal amount. During 2015, we repurchased $27.2 million aggregate principal amount of our Senior Notes for 107.5% of the face value. As of both March 31, 2016 and December 31, 2015, $197.8 million aggregate principal amount of our Senior Notes remained outstanding. Interest expense, including amortization of deferred financing costs, relating to the Senior Notes was $4.3 million and $4.8 million for the quarters ended March 31, 2016 and March 31, 2015, respectively. A portion of the interest relating to the Senior Notes was capitalized as construction in progress. We may redeem the Senior Notes at our option in whole or part at any time on or after June 1, 2016 at a redemption price of 104.125% of the principal amount, declining to 102.0625% of the principal amount on or after June 1, 2017 and declining further to 100% of the principal amount on or after June 1, 2018, in each case plus any accrued and unpaid interest.

The fair value of the outstanding Senior Notes at March 31, 2016 and December 31, 2015 was approximately $205.7 million and $207.3 million, respectively. See Note 9 for information relating to the estimated fair value of the Senior Notes.

Revolving Credit Facility

Our credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the other financial institutions party thereto ("Revolving Credit Facility") provides us with a $300.0 million funding commitment through December 2020. We had $299.1 million of borrowing availability under the Revolving Credit Facility at March 31, 2016, based on the borrowing base determination then in effect. At March 31, 2016, there were no borrowings under the Revolving Credit Facility and $7.3 million was being used to support outstanding letters of credit, leaving $291.8 million of net borrowing availability. The interest rate applicable to any overnight borrowings under the Revolving Credit Facility would have been 3.75% at March 31, 2016.

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

4. Income Tax Matters

The provision for (benefit from) incomes taxes for each period presented consisted of the following (in millions of dollars):

	Quarter Ended March 31,	
	2016	2015
Domestic	$14.9	$(175.8)
Foreign	0.2	—
Total	$15.1	$(175.8)

The income tax provision (benefit) for the quarters ended March 31, 2016 and March 31, 2015 was $15.1 million and $(175.8) million, reflecting an effective tax rate of 36.5% and 37.6%, respectively. The difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended March 31, 2016 was due to (i) a decrease of $0.7 million for the recognition of excess tax benefits from stock compensation, resulting in a 1.7% decrease to the blended statutory tax rate, which was partially offset by (ii) an increase of $0.3 million to the valuation allowance for certain state net operating losses, resulting in a 0.7% increase to the blended statutory tax rate. There was no material difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended March 31, 2015.

The $175.8 million income tax benefit for the quarter ended March 31, 2015 included a $184.4 million tax benefit that was recorded as a result of removing the Union VEBA net assets and related deferred tax liabilities from our consolidated financial statements. See Note 5 for disclosure regarding employee benefits.

Our gross unrecognized benefits relating to uncertain tax positions were $1.7 million at March 31, 2016 and December 31, 2015, respectively, of which, $0.6 million would be recorded through our income tax provision and thus impact the effective tax rate at March 31, 2016 and December 31, 2015, respectively, if the gross unrecognized tax benefits were to be recognized.

We do not expect our gross unrecognized tax benefits to significantly change within the next 12 months.

ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, was issued and early adopted in March 2016. ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized (i.e., through a reduction in income taxes payable) before we can recognize them and therefore, we have recorded a cumulative-effect adjustment of $0.7 million through Retained earnings and Deferred tax assets – net during the quarter ended March 31, 2016 to record excess tax benefits not previously recognized.

5. Employee Benefits

Pension and Similar Benefit Plans. We provide contributions to: (i) multi-employer pension plans sponsored by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union AFL-CIO, CLC ("USW") and the International Association of Machinists and certain other unions at certain of our production facilities; (ii) defined contribution 401(k) savings plans for hourly bargaining unit employees and salaried and certain hourly non-bargaining unit employees; (iii) a defined benefit plan for salaried employees at our London, Ontario (Canada) facility; and (iv) a non-qualified, unfunded, unsecured plan of deferred compensation for key employees who would otherwise suffer a loss of benefits under our defined contribution plan.

VEBA Postretirement Obligations. Certain eligible retirees participate in a voluntary employees' beneficiary association ("VEBA") that provides healthcare and medical cost reimbursement benefits for eligible retirees represented by certain unions and their surviving spouse and eligible dependents (the "Union VEBA") or a VEBA that provides healthcare related benefits for certain other eligible retirees and their surviving spouse and eligible dependents (the "Salaried VEBA" and, together with the Union VEBA, "VEBAs"). The Union VEBA covers certain qualifying bargaining unit retirees and future retirees. The Salaried VEBA covers certain retirees who retired prior to the 2004 termination of the prior plan and employees who were hired prior to February 2002 and have subsequently retired or will retire with the requisite age and service.

Our primary financial obligation to the VEBAs is to make an annual variable cash contribution based on the contribution formula discussed in Note 6 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for

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

the year ended December 31, 2015. The variable cash contribution obligation to the Union VEBA expires in September 2017, while the obligation to the Salaried VEBA has no express termination date. The variable contribution for 2015 was $19.5 million (comprised of $16.7 million to the Union VEBA and $2.8 million to the Salaried VEBA). These amounts were paid during the first quarter of 2016. We treat the Salaried VEBA as a defined benefit plan in our financial statements.

In the quarter ended March 31, 2015, after determining that our obligation to make annual variable contributions to the Union VEBA would expire as of September 2017, we terminated defined benefit plan accounting for the Union VEBA. This resulted in a non-cash loss of $307.8 million, net of a $184.4 million tax benefit, as we removed the Union VEBA net assets and related deferred tax liabilities from our Consolidated Balance Sheet. We have recorded the estimated liability for the remaining variable cash contributions in Other accrued liabilities and Long-term liabilities (see Note 2). Our aggregate estimate of $29.9 million for the amounts due for the 2016 variable cash contribution (to be paid in 2017) and the variable contribution for the first nine months of 2017 (to be paid in 2018) is subject to change based on our actual cash flow for each respective calendar year. We review the estimated liability quarterly and reflect any changes in our Operating income (loss).

Components of Net Periodic Benefit Cost. Our results of operations included the following impacts associated with the Canadian defined benefit plan and the Salaried VEBA: (a) charges for service rendered by employees; (b) a charge for accretion of interest; (c) a benefit for the return on plan assets; and (d) amortization of net gains or losses on assets, prior service costs associated with plan amendments and actuarial differences. Net periodic benefit cost related to the Canadian defined benefit plan was not material for the quarters ended March 31, 2016 and March 31, 2015. The following table presents the components of net periodic benefit cost for the Salaried VEBA and charges relating to all other employee benefit plans for the periods presented (in millions of dollars):

	Quarter Ended March 31,	
	2016	2015
Salaried VEBA:		
Service cost[1]	$—	$—
Interest cost	0.7	0.7
Expected return on plan assets	(1.0)	(1.1)
Amortization of prior service cost	1.0	0.7
Amortization of net actuarial loss	0.1	0.3
Total net periodic postretirement benefit cost relating to Salaried VEBA	0.8	0.6
(Gain) loss on removal of Union VEBA net assets	(0.1)	492.2
Other employee benefit plans:		
Deferred compensation plan	0.1	0.4
Defined contribution plans	4.0	4.0
Multiemployer pension plans	1.1	0.9
Total other employee benefit plans	$5.2	$5.3
Total	$5.9	$498.1

[1] The service cost was insignificant for all periods presented.

The following table presents the allocation of the charges (income) detailed above, by reportable segment and business unit (in millions of dollars – see Note 11):

	Quarter Ended March 31,	
	2016	2015
Fabricated Products	$4.7	$4.6

All Other	1.2	493.5
Total	$5.9	$498.1

12

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

For all periods presented, Net periodic postretirement benefit cost relating to the Salaried VEBA and the (Gain) loss on removal of Union VEBA net assets were included within All Other. Further, substantially all of the Fabricated Products segment's employee benefits related charges are in Cost of products sold, excluding depreciation and amortization and other items with the remaining balance in Selling, general, administrative, research and development ("SG&A and R&D").

6. Employee Incentive Plans

Short-Term Incentive Plans ("STI Plans")

We have annual short-term incentive compensation plans for senior management and certain other employees payable at our election in cash, shares of common stock, or a combination of cash and shares of common stock. Amounts earned under STI Plans are based on our adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), modified for certain safety, quality, delivery, cost and individual performance factors. The Adjusted EBITDA targets are determined based on the economic value added ("EVA") of our Fabricated Products business. Most of our production facilities have similar programs for both hourly and salaried employees. As of March 31, 2016, we had a liability of $4.9 million recorded within Accrued salaries, wages and related expenses for estimated probable future payments relating to the first quarter performance period of our 2016 STI Plans.

Long-Term Incentive Programs ("LTI Programs")

General. Executive officers and other key employees of the Company, as well as non-employee directors of the Company, are eligible to participate in the Kaiser Aluminum Corporation Amended and Restated 2006 Equity and Performance Incentive Plan (as amended, "Equity Incentive Plan"). Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the Equity Incentive Plan, a total of 2,722,222 common shares have been authorized for issuance under the Equity Incentive Plan. At March 31, 2016, 603,810 common shares were available for additional awards under the Equity Incentive Plan.

Non-vested Common Shares and Restricted Stock Units. We grant non-vested common shares and restricted stock units to our non-employee directors, executive officers and other key employees. The restricted stock units have rights similar to the rights of non-vested common shares and each restricted stock unit that becomes vested entitles the recipient to receive one common share. For both non-vested common shares and restricted stock units, the service period is generally one year for non-employee directors and three years for executive officers and other key employees.

In addition to non-vested common shares and restricted stock units, we grant performance shares to executive officers and other key employees. Each performance share that becomes vested entitles the recipient to receive one common share. Performance shares granted in 2014 and 2015 ("TSR-Based Performance Shares") are subject to performance conditions pertaining to our total shareholder return ("TSR") over a three-year performance period compared to the TSR of a specified group of peer companies. The number of TSR-Based Performance Shares that will ultimately vest under both the 2014-2016 and 2015-2017 LTI Plans and result in the issuance of common shares ranges between 0% to 200% of the target number of underlying common shares (constituting approximately one-half of the maximum payout) and depends on the percentile ranking of our TSR compared to the group of peer companies. Performance shares granted in 2016 consist of TSR-Based Performance Shares and performance shares subject to performance requirements ("CP-Based Performance Shares") pertaining to our cost performance as set forth in the 2016 LTI Program. The number of CP-Based Performance Shares that will ultimately vest and result in the issuance of common shares ranges between 0% to 200% of the target number of underlying common shares (constituting approximately one-half of the maximum payout) and depends on the average annual cost performance achieved for the specified three-year performance period.

During the first quarter of 2016, performance shares granted in 2013 ("EVA-Based Performance Shares") under the 2013-2015 LTI Program became fully vested (see "Summary of Activity" below). The EVA-Based Performance Shares were subject to performance conditions pertaining to our EVA performance, measured over the three-year performance period. The number of EVA-Based Performance Shares that vested and resulted in the issuance of common shares was dependent on the average annual EVA achieved for the specified three-year performance period.

The vesting of performance shares resulting in the issuance and delivery of common shares, if any, under the 2014-2016 and 2015-2017 LTI Programs will occur in 2017 and 2018, respectively.
ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, was issued and early adopted in March 2016. ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they

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

occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. As such, we recorded a cumulative-effect adjustment of $0.8 million during the quarter ended March 31, 2016 to reduce our December 31, 2015 Retained earnings and increase our December 31, 2015 Additional paid in capital balances. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. We are now required to present excess tax benefits as an operating activity (combined with other income tax cash flows) on the statement of cash flows rather than as a financing activity, and we have adopted this change prospectively. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the statement of cash flows, which is where we had previously classified these items. This change, therefore, did not impact our financial statements.

Non-Cash Compensation Expense. Compensation expense relating to all awards under the Equity Incentive Plan is included in SG&A and R&D. Non-cash compensation expense by type of award under LTI Programs was as follows for each period presented (in millions of dollars):

	Quarter Ended March 31,	
	2016	2015
Non-vested common shares and restricted stock units	$1.1	$1.1
EVA-Based Performance Shares	0.3	0.4
TSR-Based Performance Shares	1.1	0.6
CP-Based Performance Shares	$0.1	$—
Total non-cash compensation expense	$2.6	$2.1

The following table presents the allocation of the charges detailed above, by segment (in millions of dollars):

	Quarter Ended March 31,	
	2016	2015
Fabricated Products	$0.8	$0.7
All Other	1.8	1.4
Total non-cash compensation expense	$2.6	$2.1

Unrecognized Gross Compensation Cost Data. The following table presents unrecognized gross compensation cost data by type of award as of March 31, 2016:

	Unrecognized gross compensation costs (in millions of dollars)	Expected period (in years) over which the remaining gross compensation costs will be recognized
Non-vested common shares and restricted stock units	$ 8.3	2.3
CP-Based Performance Shares	$ 4.7	2.9
TSR-Based Performance Shares	$	