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KAISER ALUMINUM CORP

Form 10-Q

April 25, 2019

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**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, 2019

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: 1-09447

**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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 22, 2019, there were 16,123,168 shares of common stock of the registrant outstanding.

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**KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES**  
**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	March 31, 2019	December 31, 2018
	(In millions of dollars, except share and per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$115.3	\$125.6
Short-term investments	22.3	36.7
Receivables:		
Trade receivables, net	195.8	179.8
Other	22.4	25.6
Contract assets	58.4	54.9
Inventories	233.9	215.1
Prepaid expenses and other current assets	23.0	18.9
Total current assets	671.1	656.6
Property, plant and equipment, net	610.9	611.8
Operating lease assets	27.4	—
Deferred tax assets, net	22.4	35.9
Intangible assets, net	31.7	32.4
Goodwill	44.0	44.0
Other assets	40.3	38.6
Total	\$1,447.8	\$1,419.3
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$124.4	\$121.4
Accrued salaries, wages and related expenses	28.2	40.1
Other accrued liabilities	51.6	44.0
Total current liabilities	204.2	205.5
Long-term portion of operating lease liabilities	26.6	—
Net liabilities of Salaried VEBA	32.5	32.4
Deferred tax liabilities	4.2	4.2
Long-term liabilities	61.8	66.4
Long-term debt	370.6	370.4
Total liabilities	699.9	678.9
Commitments and contingencies – Note 7		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized at both March 31, 2019 and December 31, 2018; no shares were issued and outstanding at March 31, 2019 and December 31, 2018	—	—
Common stock, par value \$0.01, 90,000,000 shares authorized at both March 31, 2019 and at December 31, 2018; 22,547,626 shares issued and 16,134,547 shares outstanding at March 31, 2019; 22,471,705 shares issued and 16,234,603 shares outstanding at December 31, 2018	0.2	0.2
Additional paid in capital	1,056.7	1,059.3
Retained earnings	168.0	150.2
	(437.9 )	(420.5 )

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Treasury stock, at cost, 6,413,079 shares at March 31, 2019 and 6,237,102 shares at December 31, 2018, respectively

Accumulated other comprehensive loss	(39.1 )	(48.8 )
Total stockholders' equity	747.9	740.4
Total	\$1,447.8	\$1,419.3

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

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

	Quarter Ended	
	March 31,	
	2019	2018
	(In millions of dollars, except share and per share amounts)	
Net sales	\$395.2	\$388.0
Costs and expenses:		
Cost of products sold, excluding depreciation and amortization and other items	315.1	316.7
Depreciation and amortization	11.9	10.5
Selling, general, administrative, research and development	25.2	23.6
Other operating charges, net	—	0.1
Total costs and expenses	352.2	350.9
Operating income	43.0	37.1
Other income (expense):		
Interest expense	(5.7 )	(5.6 )
Other income, net – Note 9	0.5	0.1
Income before income taxes	37.8	31.6
Income tax provision	(9.8 )	(5.9 )
Net income	\$28.0	\$25.7
Net income per common share:		
Basic	\$1.74	\$1.54
Diluted	\$1.71	\$1.51
Weighted-average number of common shares outstanding (in thousands):		
Basic	16,108	16,707
Diluted	16,372	17,031

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 (UNAUDITED)**

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In millions of dollars)</b>	
Net income	\$28.0	\$25.7
Other comprehensive income (loss), net of tax – Note 8:		
Defined benefit pension plan and Salaried VEBA	1.1	1.2
Available for sale securities	(0.2 )	(0.2 )
Cash flow hedges	8.8	(9.3 )
Other comprehensive income (loss), net of tax	9.7	(8.3 )
Comprehensive income	\$37.7	\$17.4

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

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

**Quarter Ended March 31, 2019**

	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, 2018	16,234,603	\$ 0.2	\$ 1,059.3	\$ 150.2	\$(420.5)	\$ (48.8)	\$ 740.4
Net income	—	—	—	28.0	—	—	28.0
Other comprehensive income, net of tax	—	—	—	—	—	9.7	9.7
Issuance of common shares to employees upon vesting of restricted stock units and performance shares	122,309	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(46,388)	—	(5.0)	—	—	—	(5.0)
Repurchase of common stock	(175,977)	—	—	—	(17.4)	—	(17.4)
Cash dividends on common stock and restricted shares and dividend equivalents on restricted stock units and performance shares <sup>1</sup>	—	—	—	(10.2)	—	—	(10.2)
Amortization of unearned equity compensation	—	—	2.4	—	—	—	2.4
BALANCE, March 31, 2019	16,134,547	\$ 0.2	\$ 1,056.7	\$ 168.0	\$(437.9)	\$ (39.1)	\$ 747.9

<sup>1</sup> Dividends declared per common share were \$0.60 during the quarter ended March 31, 2019.

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

**KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES**  
**STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY CONTINUED (UNAUDITED)**

**Quarter Ended March 31, 2018**

	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, 2017	16,773,586	\$ 0.2	\$1,055.9	\$85.5	\$(358.6)	\$ (36.7 )	\$746.3
Cumulative-effect adjustment	—	—	—	10.5	—	(0.4 )	10.1
BALANCE, January 1, 2018	16,773,586	\$ 0.2	\$1,055.9	\$96.0	\$(358.6)	\$ (37.1 )	\$756.4
Net income	—	—	—	25.7	—	—	25.7
Other comprehensive loss, net of tax	—	—	—	—	—	(8.3 )	(8.3 )
Issuance of common shares to employees upon vesting of restricted stock units and performance shares	135,134	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(68,029 )	—	(6.9 )	—	—	—	(6.9 )
Repurchase of common stock	(58,155 )	—	—	—	(6.1 )	—	(6.1 )
Cash dividends on common stock and restricted shares and dividend equivalents on restricted stock units and performance shares <sup>1</sup>	—	—	—	(10.0 )	—	—	(10.0 )
Amortization of unearned equity compensation	—	—	2.8	—	—	—	2.8
BALANCE, March 31, 2018	16,782,536	\$ 0.2	\$1,051.8	\$111.7	\$(364.7)	\$ (45.4 )	\$753.6

<sup>1</sup> Dividends declared per common share were \$0.55 during the quarter ended March 31, 2018.

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)**

	Quarter Ended	
	March 31,	
	2019	2018
	(In millions of dollars)	
Cash flows from operating activities <sup>1</sup> :		
Net income	\$28.0	\$25.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	11.2	10.1
Amortization of definite-lived intangible assets	0.7	0.4
Amortization of debt discount and debt issuance costs	0.3	0.3
Deferred income taxes	10.4	7.9
Non-cash equity compensation	2.4	2.8
Gain on disposition of available for sale securities	(0.3 )	(1.1 )
Non-cash asset impairment charge	—	0.1
Other non-cash changes in assets and liabilities	3.6	8.1
Changes in operating assets and liabilities:		
Trade and other receivables	(12.8 )	(23.0 )
Contract assets	(3.5 )	(1.9 )
Inventories	(18.8 )	(9.6 )
Prepaid expenses and other current assets	(3.4 )	(2.2 )
Accounts payable	7.4	32.0
Accrued liabilities	(0.4 )	(7.3 )
Annual variable cash contributions to VEBAs	(2.1 )	(15.7 )
Long-term assets and liabilities, net	0.1	(0.5 )
Net cash provided by operating activities	22.8	26.1
Cash flows from investing activities <sup>1</sup> :		
Capital expenditures	(13.6 )	(19.7 )
Purchase of available for sale securities	(18.1 )	—
Proceeds from disposition of available for sale securities	32.7	100.3
Net cash provided by investing activities	1.0	80.6
Cash flows from financing activities <sup>1</sup> :		
Repayment of finance lease	(0.3 )	(0.2 )
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(5.0 )	(6.9 )
Repurchase of common stock	(18.5 )	(5.7 )
Cash dividends and dividend equivalents paid	(10.2 )	