

KAISER ALUMINUM CORP
Form 10-Q
October 24, 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 September 30, 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

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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 October 21, 2014, there were 17,791,518 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

	September 30, 2014 (Unaudited)	December 31, 2013
	(In millions of dollars, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$212.3	\$169.5
Short-term investments	100.1	129.5
Receivables:		
Trade, less allowance for doubtful receivables of \$0.8 at September 30, 2014 and December 31, 2013	132.4	119.8
Other	10.4	13.4
Inventories	211.3	214.4
Prepaid expenses and other current assets	156.4	44.2
Total current assets	822.9	690.8
Property, plant, and equipment – net	442.9	429.3
Net assets of VEBAs	430.3	406.0
Deferred tax assets – net (including deferred tax liability relating to the VEBAs of \$161.5 at September 30, 2014 and \$152.4 at December 31, 2013)	26.7	69.1
Intangible assets – net	32.5	33.7
Goodwill	37.2	37.2
Other assets	23.8	104.8
Total	\$1,816.3	\$1,770.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$89.3	\$62.9
Accrued salaries, wages, and related expenses	37.2	42.7
Other accrued liabilities	131.7	44.8
Current portion of long-term debt	170.2	—
Short-term capital leases	0.1	0.2
Total current liabilities	428.5	150.6
Deferred tax liability	1.2	1.2
Long-term liabilities	60.9	146.4
Long-term debt	225.0	388.5
Total liabilities	715.6	686.7
Commitments and contingencies – Note 7		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized at both September 30, 2014 and December 31, 2013; no shares were issued and outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, par value \$0.01, 90,000,000 shares authorized at both September 30, 2014 and at December 31, 2013; 21,196,901 shares issued and 17,829,629 shares outstanding at September 30, 2014; 21,103,700 shares issued and 18,147,017 shares outstanding at December 31, 2013	0.2	0.2

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Additional paid in capital	1,026.9	1,023.1	
Retained earnings	271.1	233.8	
Treasury stock, at cost, 3,367,272 shares at September 30, 2014 and 2,956,683 shares at December 31, 2013, respectively	(181.1) (152.2)
Accumulated other comprehensive loss	(16.4) (20.7)
Total stockholders' equity	1,100.7	1,084.2	
Total	\$1,816.3	\$1,770.9	

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)			
	(In millions of dollars, except share and per share amounts)			
Net sales	\$338.9	\$319.9	\$1,018.1	\$986.2
Costs and expenses:				
Cost of products sold:				
Cost of products sold, excluding depreciation and amortization and other items	280.4	259.5	838.8	784.6
Unrealized losses (gains) on derivative instruments	3.6	(1.5)	—	3.4
Depreciation and amortization	8.0	6.9	23.1	20.9
Selling, administrative, research and development, and general:				
Selling, administrative, research and development, and general	19.0	19.0	61.3	62.5
Net periodic pension benefit income relating to VEBAs (includes accumulated other comprehensive income reclassifications related to VEBA of \$2.1 and \$1.3 for the quarters ended September 30, 2014 and September 30, 2013, respectively, and \$6.6 and \$4.1 for the nine months ended September 30, 2014 and September 30, 2013, respectively)	(6.0)	(5.6)	(17.7)	(16.9)
Total selling, administrative, research and development, and general	13.0	13.4	43.6	45.6
Other operating charges, net	1.3	—	1.5	—
Total costs and expenses	306.3	278.3	907.0	854.5
Operating income	32.6	41.6	111.1	131.7
Other (expense) income:				
Interest expense	(9.7)	(8.8)	(27.7)	(27.1)
Other income, net (includes accumulated other comprehensive income reclassifications for realized gains on available for sale securities of \$0.0 and \$0.2 for the quarters ended September 30, 2014 and September 30, 2013, respectively, and \$0.2 and \$0.8 for the nine months ended September 30, 2014 and September 30, 2013, respectively)	2.2	2.9	5.9	3.1
Income before income taxes	25.1	35.7	89.3	107.7
Income tax provision (includes aggregate income tax expense from reclassification items of \$(0.8) and \$(0.5) for the quarters ended September 30, 2014 and September 30, 2013, respectively, and \$(2.4) and \$(1.3) for the nine months ended September 30, 2014 and September 30, 2013, respectively)	(9.2)	(10.3)	(33.1)	(30.2)
Net income	\$15.9	\$25.4	\$56.2	\$77.5
Earnings per common share, Basic:				
Net income per share	\$0.90	\$1.37	\$3.15	\$4.09
Earnings per common share, Diluted:				
Net income per share	\$0.85	\$1.34	\$3.02	\$4.02

Weighted-average number of common shares outstanding (in thousands):

Basic	17,707	18,548	17,853	18,915
Diluted	18,619	19,058	18,592	19,267

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 COMPREHENSIVE INCOME

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)			
	(In millions of dollars)			
Net income	\$15.9	\$25.4	\$56.2	\$77.5
Other comprehensive income:				
VEBAs:				
Reclassification adjustments:				
Amortization of net actuarial (gains) losses	(0.5	) 0.3	(1.4	) 1.0
Amortization of prior service cost	2.6	1.0	8.0	3.1
Other comprehensive income relating to VEBAs	2.1	1.3	6.6	4.1
Available for sale securities:				
Unrealized (gains) losses on available for sale securities	(0.2	) 0.4	0.1	0.9
Reclassification adjustments:				
Reclassification of unrealized gains upon sale of available for sale securities	—	(0.2	) (0.2	) (0.8
Other comprehensive (loss) income relating to available for sale securities	(0.2	) 0.2	(0.1	) 0.1
Foreign currency translation adjustment	0.1	(0.3	) 0.2	0.5
Other comprehensive income, before tax	2.0	1.2	6.7	4.7
Income tax expense related to items of other comprehensive income	(0.7	) (0.6	) (2.4	) (1.6
Other comprehensive income, net of tax	1.3	0.6	4.3	3.1
Comprehensive income	\$17.2	\$26.0	\$60.5	\$80.6

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

	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
(Unaudited)							
(In millions of dollars, except for shares)							
BALANCE, December 31, 2013	18,147,017	\$ 0.2	\$1,023.1	\$233.8	\$(152.2)	\$ (20.7)	\$1,084.2
Net income	—	—	—	56.2	—	—	56.2
Other comprehensive income, net of tax	—	—	—	—	—	4.3	4.3
Issuance of non-vested shares to employees and non-employee directors	119,536	—	—	—	—	—	—
Issuance of common shares to non-employee directors	2,969	—	0.2	—	—	—	0.2
Issuance of common shares to employees upon vesting of restricted stock units and performance shares	44,895	—	—	—	—	—	—
Cancellation of employee non-vested shares	(40,503)	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(33,696)	—	(2.4)	—	—	—	(2.4)
Repurchase of common stock	(410,589)	—	—	—	(28.9)	—	(28.9)
Cash dividends on common stock (\$1.05 per share)	—	—	—	(19.1)	—	—	(19.1)
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	—	—	0.8	—	—	—	0.8
Amortization of unearned equity compensation	—	—	5.2	—	—	—	5.2
Dividends on unvested equity awards that were canceled	—	—	—	0.2	—	—	0.2
BALANCE, September 30, 2014	17,829,629	\$ 0.2	\$1,026.9	\$271.1	\$(181.1)	\$ (16.4)	\$1,100.7

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED CASH FLOWS

	Nine Months Ended September 30, 2014 2013 (Unaudited) (In millions of dollars)	
Cash flows from operating activities:		
Net income	\$56.2	\$77.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	21.9	19.6
Amortization of definite-lived intangible assets	1.2	1.3
Amortization of debt discount and debt issuance costs	8.8	8.2
Deferred income taxes	29.6	40.9
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	(0.8)	(1.0)
Non-cash equity compensation	5.4	6.1
Non-cash unrealized (gains) losses on derivative positions	(3.6)	2.3
Non-cash impairment charges	1.5	—
Losses on disposition of property, plant and equipment	0.1	0.2
Gain on disposition of available for sale securities	—	(0.4)
Non-cash net periodic pension benefit income relating to VEBAs	(17.7)	(16.9)
Other non-cash changes in assets and liabilities	0.5	(4.6)
Changes in operating assets and liabilities:		
Trade and other receivables	(9.6)	(6.7)
Inventories	3.1	(21.9)
Prepaid expenses and other current assets ¹	(0.9)	0.1
Accounts payable	28.7	8.7
Accrued liabilities ¹	(2.8)	7.7
Annual variable cash contributions to VEBAs	(16.0)	(20.0)
Payable to affiliate	—	(7.9)
Long-term assets and liabilities, net ¹	(1.9)	(2.6)
Net cash provided by operating activities	103.7	90.6
Cash flows from investing activities:		
Capital expenditures	(39.6)	(47.0)
Purchase of available for sale securities	(53.4)	(201.8)
Proceeds from disposition of available for sale securities	82.2	170.7
Change in restricted cash	(0.7)	0.7
Net cash used in investing activities	(11.5)	(77.4)
Cash flows from financing activities:		
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	0.8	1.0
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(2.4)	(2.4)
Repurchase of common stock	(28.7)	(43.9)
Cash dividend paid to stockholders	(19.1)	(17.3)
Cash dividend returned to the Company	—	0.6
Net cash used in financing activities	(49.4)	(62.0)
Net increase (decrease) in cash and cash equivalents during the period	42.8	(48.8)

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Cash and cash equivalents at beginning of period	169.5	273.4
Cash and cash equivalents at end of period	\$212.3	\$224.6

¹ Excludes the reclassification of derivatives relating to the Convertible Notes from long-term to current as the amounts have no impact on cash flow - see Note 3 and Note 9.

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
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, automotive, general engineering, 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 business unit.

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. The excess of current cost over the stated LIFO value of inventory at September 30, 2014 and December 31, 2013 was \$32.7 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 September 30, 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 \$0.3 and \$1.0 during the quarters ended September 30, 2014 and September 30, 2013, respectively. The amount of interest expense capitalized as construction in progress was \$2.2 and \$2.1 for the nine months ended September 30, 2014 and September 30, 2013, respectively. The Company recorded impairment charges of \$1.3 and \$1.5 during the quarter and nine months ended September 30, 2014, respectively, to reflect the scrap value of idled assets it determined not to deploy for future use. Asset impairment charges are included in Other operating charges, net, in the Statements of Consolidated Income and are included in the Fabricated Products segment.

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. For the quarters ended September 30, 2014 and September 30, 2013, the Company recorded depreciation expense of \$7.4 and \$6.3, respectively, relating to the Company's operating facilities in its Fabricated Products segment. For the nine months ended September 30, 2014 and September 30, 2013, the Company recorded depreciation expense of \$21.5 and \$19.3, respectively, relating to the Company's operating facilities in its Fabricated Products

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)

segment. An immaterial amount of depreciation expense was also recorded relating to the Company's All Other business unit for all periods presented in this Report.

New Accounting Pronouncements. Accounting Standards Update 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. The Company's adoption of ASU 2013-11 in the first quarter of 2014 did not have a material impact on its financial statements.

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), was issued in May 2014. ASU 2014-09 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. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The Company expects to adopt ASU 2014-09 for the fiscal year ending December 31, 2017 and the Company will continue to assess the impact on its financial statements.

ASU No. 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period - Consensus of the FASB Emerging Issues Task Force ("ASU 2014-12"), was issued in June 2014. ASU 2014-12 requires an entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Additionally, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved, and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered; if the performance target becomes probable of being achieved before the end of the requisite service period, then the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. Finally, the total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest, and should be adjusted to reflect those awards that ultimately vest. The Company expects to adopt ASU 2014-12 for the fiscal year ending December 31, 2015 and the Company does not expect the adoption of ASU 2014-12 to have a material impact on its financial statements.

ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), was issued in August 2014 and sets forth guidance regarding management's responsibility to (1) evaluate whether there is substantial doubt about an organization's ability to continue as a going concern, and (2) provide related footnote disclosures. ASU 2014-15 requires management to assess the Company's ability to continue as a going concern by incorporating and expanding upon certain principles that currently exist in U.S. auditing standards. Specifically, this update provided a definition of the term "substantial doubt," and added new Subtopic 205-40, Presentation of Financial Statements-Going Concern, which (1) requires an evaluation every reporting period, including interim periods, (2) sets forth principles for considering the mitigating effect of management's plans, (3) mandates certain disclosures when substantial doubt is alleviated as a result of the consideration of management's plans, (4) mandates an express statement, and other disclosures, when substantial doubt is not alleviated, and (5) requires an assessment for a period of one year after the

date that the financial statements are issued, or are available to be issued. The Company expects to adopt ASU 2014-15 for the fiscal year ending December 31, 2016 and the Company does not expect the adoption of ASU 2014-15 to have a material impact on its financial statements.

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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)

2. Supplemental Balance Sheet Information

	September 30, 2014	December 31, 2013
Cash and Cash Equivalents.		
Cash and money market funds	\$35.4	\$57.7
Commercial paper	176.9	111.8
Total	\$212.3	\$169.5
Trade Receivables - Net.		
Billed trade receivables	\$132.2	\$120.2
Unbilled trade receivables	1.0	0.4
Trade receivables, gross	133.2	120.6
Allowance for doubtful receivables	(0.8	) (0.8
Trade receivables - net	\$132.4	\$119.8
Inventories.		
Finished products	\$64.9	\$72.5
Work-in-process	70.5	75.9
Raw materials	56.0	47.2
Operating supplies and repair and maintenance parts	19.9	18.8
Total	\$211.3	\$214.4
Prepaid Expenses and Other Current Assets.		
Current derivative assets – Notes 8 and 9	\$101.6	\$2.0
Current deferred tax assets	47.8	36.7
Short-term restricted cash	0.3	0.3
Prepaid taxes	1.0	—
Other	5.7	5.2
Total	\$156.4	\$44.2
Property, Plant and Equipment - Net.		
Land and improvements	\$22.8	\$22.6
Buildings and leasehold improvements	62.4	53.0
Machinery and equipment	500.0	425.6
Construction in progress	18.1	66.0
Active property, plant and equipment, gross	603.3	567.2
Accumulated depreciation	(160.4	) (137.9
Property, plant and equipment - net	\$442.9	\$429.3

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)

Other Assets.		
Derivative assets – Notes 8 and 9	\$0.2	\$79.8
Restricted cash	10.0	9.3
Deferred financing costs	6.3	8.9
Deferred compensation plan assets	7.2	6.5
Other	0.1	0.3
Total	\$23.8	\$104.8
Other Accrued Liabilities.		
Current derivative liabilities – Notes 8 and 9	\$101.9	\$1.8
Uncleared cash disbursements	6.6	9.6
Accrued income taxes and taxes payable	6.3	4.3
Accrued annual VEBA contribution	—	16.0
Short-term environmental accrual – Note 7	3.3	2.8
Accrued interest	10.3	3.7
Short-term deferred revenue	0.2	—
Other	3.1	6.6
Total	\$131.7	\$44.8
Long-Term Liabilities.		
Derivative liabilities – Notes 8 and 9	\$0.6	\$84.3
Income tax liabilities	5.0	5.0
Workers' compensation accruals	23.0	23.3
Long-term environmental accrual – Note 7	16.9	20.0
Long-term asset retirement obligations	4.3	4.0
Deferred compensation liability	7.6	7.0
Long-term deferred revenue	0.6	—
Long-term capital leases	0.1	0.1
Other long-term liabilities	2.8	2.7
Total	\$60.9	\$146.4
Long-Term Debt — Note 3.		
Senior notes	\$225.0	\$225.0
Cash convertible senior notes	—	163.5
Total	\$225.0	\$388.5

3. Debt and Credit Facility

Senior Notes

In May 2012, the Company issued \$225.0 principal amount of 8.25% unsecured 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 each of the quarters ended September 30, 2014 and September 30, 2013, and \$14.5 for each of the nine months ended September 30, 2014 and September 30, 2013. A portion of the interest relating to the Senior Notes was capitalized as Construction in progress. See Note 3 of Notes to Consolidated Financial Statements included in Part II, Item 8.

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“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% unsecured Cash Convertible Senior Notes due April 1, 2015 (the “Convertible Notes”). 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:

	September 30, 2014	December 31, 2013		
Principal amount	\$175.0	\$175.0		
Less: unamortized issuance discount	(4.8	) (11.5)
Carrying amount, net of discount	\$170.2	\$163.5		
	Quarter Ended	Nine Months Ended		
	September 30,	September 30,		
	2014	2013	2014	2013
Contractual coupon interest	\$2.0	\$2.0	\$5.9	\$5.9
Amortization of discount	2.3	2.0	6.7	6.0
Amortization of deferred financing costs	0.3	0.3	0.9	0.9
Total interest expense ¹	\$4.6	\$4.3	\$13.5	\$12.8

¹ A portion of the interest relating to the Convertible Notes was capitalized as Construction in progress.

The Convertible Notes’ conversion rate is subject to adjustment based on the occurrence of certain events, including, but not limited to, the payment of quarterly cash dividends on the Company’s common stock in excess of \$0.24 per share. As of September 30, 2014, the conversion rate was 20.8862 shares per \$1,000 principal amount of the Convertible Notes and the equivalent conversion price was approximately \$47.88 per share, reflecting cumulative adjustments for quarterly dividends paid in excess of \$0.24 per share.

Holders may convert their Convertible Notes at any time on or after January 1, 2015 and, in certain limited circumstances, before January 1, 2015. Pursuant to one of the early conversion provisions, if the Company's closing stock price exceeds 130% of the conversion price for 20 trading days during the final 30 consecutive trading days of a quarter, holders may convert the Convertible Notes during the following quarter. An immaterial amount of Convertible Notes was presented for conversion during the second and third quarters of 2014 pursuant to this provision. Because this provision was also triggered at September 30, 2014, holders may present Convertible Notes for early conversion during the fourth quarter of 2014.

The carrying amount of the Convertible Notes, net of discount, was included in the Consolidated Balance Sheet as Current portion of long-term debt as of September 30, 2014.

Convertible Note Hedge Transactions. In March 2010, the Company purchased cash-settled call options (the “Call Options”) that have an exercise price equal to the conversion price of the Convertible Notes and an expiration date that is the same as the maturity or on the earlier conversion date of the Convertible Notes. If the Company exercises the Call Options, the aggregate amount of cash it would receive from the counterparties to the Call Options would cover the aggregate amount of cash that the Company would be required to pay to the holders of the converted Convertible Notes, less the principal amount thereof. Contemporaneous with the purchase of the Call Options, the Company also sold net-share-settled warrants (the “Warrants”) which are exercisable on a prorated basis for 120 trading days commencing July 1, 2015 relating to approximately 3.7 million shares of the Company’s common stock. The Call

Option and the Warrants have anti-dilution provisions substantially similar to the Convertible Notes. At September 30, 2014, the exercise prices were \$47.88 per share and \$60.80 per share for the Call Options and the Warrants, respectively, reflecting cumulative adjustments for quarterly dividends paid in excess of \$0.24 per share.

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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 on Form 10-K for the year ended December 31, 2013 for additional information regarding the Convertible Notes, the Call Options and the Warrants.

See “Fair Values of Financial Assets and Liabilities - All Other Financial Assets and Liabilities” in Note 9 for information relating to the estimated fair value of the Senior Notes and Convertible Notes.

Revolving Credit Facility

The Company’s credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the other financial institutions party thereto (the “Revolving Credit Facility”) provides the Company with a \$300.0 funding commitment through September 30, 2016. The Company had \$271.0 of borrowing availability under the Revolving Credit Facility at September 30, 2014, based on the borrowing base determination then in effect. At September 30, 2014, there were no borrowings under the Revolving Credit Facility and \$7.7 was being used to support outstanding letters of credit, leaving \$263.3 of net borrowing availability. The interest rate applicable to any overnight borrowings under the Revolving Credit Facility would have been 4.0% at September 30, 2014.

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 on Form 10-K for the year ended December 31, 2013 for additional information regarding the Revolving Credit Facility.

4. Income Tax Matters

The provision for incomes taxes, for each period presented, consisted of the following:

	Quarter Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Domestic	\$9.2	\$14.7	\$32.2	\$41.1
Foreign	—	(4.4)	0.9	(10.9)
Total	\$9.2	\$10.3	\$33.1	\$30.2

The income tax provision for the quarters ended September 30, 2014 and September 30, 2013 was \$9.2 and \$10.3, reflecting an effective tax rate of 36.7% and 28.9%, respectively. There was no material difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended September 30, 2014.

The difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended September 30, 2013 was primarily the result of a decrease from a bilateral advance pricing agreement between Canada and the U.S. (the “Advance Pricing Agreement”) of \$2.7, resulting in a 7.7% decrease in the effective rate.

The income tax provision for the nine months ended September 30, 2014 and September 30, 2013 was \$33.1 and \$30.2, reflecting an effective tax rate of 37.0% and 28.1%, respectively. There was no material difference between the effective tax rate and the projected blended statutory tax rate for the nine months ended September 30, 2014.

The difference between the effective tax rate and the projected blended statutory tax rate for the nine months ended September 30, 2013 was primarily the result of (i) a decrease in unrecognized tax benefits, including interest and penalties, of \$7.7, resulting in a 7.1% decrease in the effective tax rate due to an audit settlement with the Canada Revenue Agency Competent Authority on February 28, 2013 for the 1998-2004 tax years and (ii) a decrease from the Advance Pricing Agreement of \$2.7, resulting in a 2.5% decrease in the effective rate.

The audit settlement and the Advance Pricing Agreement with Canada resulted in a cash tax benefit of \$10.6, which represents amounts previously paid against Canadian accrued taxes. As of September 30, 2014, \$7.9 has been received by the Company, with the remaining \$2.7 expected to be received within the next 12 months.

The Company’s gross unrecognized benefits relating to uncertain tax positions were \$3.7 and \$3.8 at September 30, 2014 and December 31, 2013, respectively, of which, \$2.6 and \$2.7 will go through the Company’s income tax provision and thus impact the effective tax rate at September 30, 2014 and December 31, 2013, respectively, if and

when the gross unrecognized tax benefits are recognized.

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The Company expects its gross unrecognized tax benefits to be reduced by \$1.5 within the next 12 months. See Note 6 of Notes to Consolidated Financial Statements included in Part II, Item 8. "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information regarding income taxes.

5. Employee Benefits

Pension and Similar Benefit Plans. The Company has provided 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 International Association of Machinists and certain other unions at certain of the Company's 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 the Company's London, Ontario facility, and (iv) a non-qualified, unfunded, unsecured plan of deferred compensation for key employees who would otherwise suffer a loss of benefits under the Company's defined contribution plan. See Note 7 and Note 8 of Notes to Consolidated Financial Statements included in Part II, Item 8. "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information with respect to the Company's benefit plans.

VEBA Postretirement Medical Obligations. Certain retirees receive medical coverage through participation in a voluntary employees beneficiary association ("VEBA") for the benefit of certain union retirees, their surviving spouses and eligible dependents (the "Union VEBA") or a VEBA that provides benefits for certain other eligible retirees, their surviving spouses and eligible dependents (the "Salaried VEBA" and, together with the Union VEBA, the "VEBAs"). The Union VEBA is managed by four trustees, two of which are appointed by the Company and two of which are appointed by the USW. Its assets are managed by an independent fiduciary. The Salaried VEBA is managed by trustees who are independent of the Company.

The Company has no ownership interest in the assets of the VEBAs nor any obligation to fund their liabilities. The benefits paid by the VEBAs to the plan participants are made at the sole discretion of the respective VEBA trustees and are outside the Company's control. The Company's only financial obligations to the VEBAs are (i) an annual variable cash contribution (described below) and (ii) reimbursement of annual administrative expenses of the VEBAs up to \$0.3 in the aggregate. Nevertheless, the Company accounts for the VEBAs as defined benefit postretirement plans with the maximum benefits payable equal to the total of the current VEBA assets and any future variable contributions from the Company and earnings thereon.

Under this accounting treatment, the funding status of the VEBAs is reflected as a net asset or liability on the Company's Consolidated Balance Sheets, but such net asset or liability has no impact on the Company's cash flow or liquidity. The only impact that the VEBAs have on the Company's cash flow or liquidity is with respect to the Company's obligations to make an annual variable cash contribution and to reimburse a portion of the VEBAs' administrative expenses. The amount of annual variable cash contribution to be made by the Company is determined as follows: 10% of the first \$20.0 of annual cash flow (as defined; in general terms, the principal elements of cash flow are earnings before interest expense, provision for income taxes, and depreciation and amortization less cash payments for, among other things, interest, income taxes, and capital expenditures), plus 20% of annual cash flow (as defined) in excess of \$20.0. Such payments may not exceed \$20.0 annually, and payments are allocated between the Union VEBA and the Salaried VEBA at 85.5% and 14.5%, respectively. Amounts owing by the Company to the VEBAs are recorded on the Company's Consolidated Balance Sheets at the end of each year in Other accrued liabilities (until paid in cash), with a corresponding increase in Net assets of VEBAs, a decrease in Net liabilities of VEBAs, or a combination thereof. The annual variable cash contributions with respect to 2013 and 2012 totaled \$16.0 and \$20.0 at December 31, 2013 and December 31, 2012, respectively, and were paid during the subsequent first quarters.

Components of Net Periodic Pension Benefit (Income) Cost. The Company's results of operations included the following impacts associated with the VEBAs and the Canadian defined benefit plan: (i) charges for service rendered by employees; (ii) a charge for accretion of interest; (iii) a benefit for the return on plan assets; and (iv) amortization of net gains or losses on assets, prior service costs associated with plan amendments and actuarial differences. Net periodic pension benefit cost related to the Canadian defined benefit plan was not material for the quarter and nine months ended September 30, 2014 and September 30, 2013. The following table presents the components of net periodic pension benefit income for the VEBAs and charges relating to all other employee benefit plans for the quarter and nine months ended September 30, 2014 and September 30, 2013:

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	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
VEBAs:				
Service cost	\$0.6	\$0.6	\$1.7	\$1.9
Interest cost	4.2	3.6	12.5	10.9
Expected return on plan assets	(12.9)	(11.1)	(38.5)	(33.8)
Amortization of prior service cost	2.6	1.0	8.0	3.1
Amortization of net actuarial (gain) loss	(0.5)	0.3	(1.4)	1.0
Total net periodic pension benefit income relating to VEBAs	(6.0)	(5.6)	(17.7)	(16.9)
Deferred compensation plan	—	0.4	0.6	0.8
Defined contribution plans	1.3	1.3	6.8	6.6
Multiemployer pension plans	0.8	0.9	2.6	2.6
Total	\$(3.9)	\$(3.0)	\$(7.7)	\$(6.9)

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

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Fabricated Products	\$2.0	\$2.2	\$8.9	\$8.8
All Other	(5.9)	(5.2)	(16.6)	(15.7)
Total	\$(3.9)	\$(3.0)	\$(7.7)	\$(6.9)

For all periods presented, the net periodic pension benefit income relating to the VEBAs are included as Net periodic pension benefit income relating to VEBAs 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, administrative, research and development, and general.

See Note 7 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information with respect to the VEBAs and key assumptions used with respect to the Company's pension plans and key assumptions made in computing the net obligation of each VEBA.

6. Employee Incentive Plans

Short-Term Incentive Plans ("STI Plans")

The Company has annual short-term incentive compensation plans for senior management and certain other employees payable at the Company's election in cash, shares of common stock, or a combination of cash and shares of common stock. Amounts earned under the 2013 STI plan were based primarily on the economic value added ("EVA") of the Company's Fabricated Products business, adjusted for certain safety and individual performance factors. EVA, as defined by the Company's STI Plans, is the excess of the Company's adjusted pre-tax operating income for a particular year over a pre-determined percentage of the adjusted net assets of the immediately preceding year, measured over a one-year period. Amounts, if any, that will be earned under the 2014 STI plan are based on the Company's 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 under the 2014 STI plan were determined based on the EVA of the Company's Fabricated Products business. Most of the Company's production facilities have similar programs for both hourly and salaried employees.

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Total costs relating to STI Plans were recorded as follows, for each period presented:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cost of products sold, excluding depreciation and amortization and other items	\$1.3	\$1.0	\$3.8	\$3.4
Selling, administrative, research and development, and general	1.6	2.4	6.1	8.9
Total costs recorded in connection with STI Plans	\$2.9	\$3.4	\$9.9	\$12.3

The following table presents the allocation of the charges detailed above, by segment:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Fabricated Products	\$2.2	\$2.4	\$7.6	\$8.6
All Other	0.7	1.0	2.3	3.7
Total costs recorded in connection with STI Plans	\$2.9	\$3.4	\$9.9	\$12.3

Long-Term Incentive Programs (“LTI Programs”)

General. Officers and other key employees of the Company or one or more of its subsidiaries, as well as directors of the Company, are eligible to participate in the Kaiser Aluminum Corporation Amended and Restated 2006 Equity and Performance Incentive Plan (as amended, the “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 September 30, 2014, 774,851 common shares were available for additional awards under the Equity Incentive Plan. Non-vested Common Shares, Restricted Stock Units and Performance Shares. The Company grants non-vested common shares to its non-employee directors, executive officers and other key employees. The Company also grants restricted stock units to certain employees. The restricted stock units have rights similar to the rights of non-vested common shares, and the employee will receive one common share for each restricted stock unit upon the vesting of the restricted stock unit. In addition to non-vested common shares and restricted stock units, the Company also grants performance shares to executive officers and other key employees. Performance shares granted prior to 2014 are subject to performance requirements pertaining to the Company’s EVA as set forth in each year’s LTI Program, measured over a three-year performance period. EVA, as defined in the Company’s LTI Programs, is the excess of the Company’s adjusted pre-tax operating income for a particular year over a pre-determined percentage of the adjusted net assets of the immediately preceding year. The number of performance shares, if any, that will ultimately vest under the prior year programs and result in the issuance of common shares depends on the average annual EVA achieved for the specified three-year performance period. Performance shares granted in 2014 are subject to market-based requirements pertaining to the Company’s total shareholder return (“TSR”) over a three-year performance period compared to the TSR of a specified group of peer companies. The number of performance shares, if any, that will ultimately vest under the 2014-2016 LTI program and result in the issuance of common shares depends on the percentile ranking of the Company’s TSR compared to the group of peer companies.

During the first quarter of 2014, a portion of the performance shares granted under the 2011-2013 LTI program vested (see “Summary of Activity” below). The vesting of performance shares and resulting issuance and delivery of common shares, if any, under the 2012-2014, 2013-2015 and 2014-2016 LTI programs will occur in 2015, 2016 and 2017, respectively. Holders of performance shares do not receive voting rights through the ownership of such shares. See Note 9 of Notes to Consolidated Financial Statements included in Part II, Item 8. “Financial Statements and Supplementary Data” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 for additional information with respect to the Equity Incentive Plan and the detailed vesting requirements for the different

types of equity awards described above.

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Non-cash Compensation Expense. Compensation expense relating to all awards under the Equity Incentive Plan is included in Selling, administrative, research and development, and general. Non-cash compensation expense by type of award under LTI Programs were as follows, for each period presented:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Service-based non-vested common shares and restricted stock units	\$0.5	\$0.9	\$2.8	\$3.4
Performance shares	—	0.5	1.0	2.5
Market-based shares	0.4	—	1.4	—
Total non-cash compensation expense	\$0.9	\$1.4	\$5.2	\$5.9

The following table presents the allocation of the charges detailed above, by segment:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Fabricated Products	\$0.5	\$0.5	\$2.6	\$1.7
All Other	0.4	0.9	2.6	4.2
Total non-cash compensation expense	\$0.9	\$1.4	\$5.2	\$5.9

Unrecognized Gross Compensation Cost Data. The following table presents unrecognized gross compensation cost data as of September 30, 2014:

	Unrecognized gross compensation costs, by award type	Expected period (in years) over which the remaining gross compensation costs will be recognized, by award type
Service-based non-vested common shares and restricted stock units	\$6.5	2.3
Performance shares	\$2.3	1.3
Market-based shares	\$5.0	2.4

Summary of Activity. A summary of the activity with respect to non-vested common shares, restricted stock units and performance shares for the nine months ended September 30, 2014 is as follows:

	Non-Vested Common Shares		Restricted Stock Units		Performance Shares		Performance Shares (Market-Based)	
	Shares	Weighted-Average Grant-Date Fair Value per Share	Units	Weighted-Average Grant-Date Fair Value per Unit	Shares	Weighted-Average Grant-Date Fair Value per Share	Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding at December 31, 2013	143,967	\$ 51.09	5,472	\$ 51.03	562,554	\$ 49.26	—	\$ —
Granted	119,536	66.41	2,235	67.42	—	—	160,868	83.18
Vested	(64,493)	52.20	(2,350)	46.83	(42,545)	47.21	—	—

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Forfeited	(40,503)	60.21	—	—	(28,613)	51.44	(10,645)	83.18
Canceled	—	—	—	—	(137,820)	46.65	—	—
Outstanding at September 30, 2014	158,507	\$ 59.86	5,357	\$ 59.71	353,576	\$ 50.35	150,223	\$ 83.18

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A summary of select activity with respect to non-vested common shares, restricted stock units and performance shares for the nine months ended September 30, 2013 is as follows:

	Non-Vested Common Shares		Restricted Stock Units		Performance Shares	
	Shares	Weighted-Average Grant-Date Fair Value per Share	Units	Weighted-Average Grant-Date Fair Value per Unit	Shares	Weighted-Average Grant-Date Fair Value per Share
Granted	76,336	\$ 58.65	2,600	\$ 57.70	175,317	\$ 57.75
Vested	(90,233)	\$ 42.31	(2,311)	\$ 42.74	(34,192)	\$ 34.84

Stock Options. The Company has fully-vested stock options from a one-time issuance in 2007. There were 18,606 and 20,791 fully-vested options outstanding as of September 30, 2014 and December 31, 2013, respectively, in each case exercisable to purchase common shares at \$80.01 per share and having a remaining contractual life of 2.50 and 3.25 years, respectively. The average fair value of the options granted was \$39.90. No options were granted or exercised and 2,185 options were forfeited during the nine months ended September 30, 2014.

Vested Stock. From time to time, the Company issues common shares to non-employee directors electing to receive common shares in lieu of all or a portion of their annual retainer fees. The fair value of these common shares is based on the fair value of the shares at the date of issuance and is immediately recognized in earnings as a period expense. For each nine months period ended September 30, 2014 and September 30, 2013, the Company recorded \$0.2 relating to common shares granted to non-employee directors in lieu of all or a portion of their annual retainer fees.

Under the Equity Incentive Plan, participants may elect to have the Company withhold common shares to satisfy minimum statutory tax withholding obligations arising in connection with the exercise of stock options and vesting of non-vested shares, restricted stock units and performance shares. Any such shares withheld are canceled by the Company on the applicable vesting dates or earlier dates when service requirements are satisfied, which correspond to the times at which income to the employee is recognized. When the Company withholds these common shares, the Company is required to remit to the appropriate taxing authorities the fair value of the shares withheld as of the vesting date. During the nine months ended September 30, 2014 and September 30, 2013, 33,696 and 40,075 common shares, respectively, were withheld and canceled for this purpose. The withholding of common shares by us could be deemed a purchase of the common shares.

7. Commitments and Contingencies

Commitments. The Company has a variety of financial commitments, including purchase agreements, forward foreign exchange and forward sales contracts, indebtedness (and related Call Options and Warrants) and letters of credit (see Note 3 and Note 8).

Refer to Note 10 of Notes to Consolidated Financial Statements included in Part II, Item 8. "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for information relating to minimum rental commitments under operating leases and purchase obligations. There were no material changes to such scheduled rental commitments and purchase obligations as of September 30, 2014.

Environmental Contingencies. The Company is subject to a number of environmental laws and regulations, to potential fines or penalties assessed for alleged breaches of the environmental laws and regulations, and to potential claims based upon such laws and regulations.

The Company has established procedures for regularly evaluating environmental loss contingencies. The Company's environmental accruals represent the Company's undiscounted estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, existing requirements, currently available facts, existing technology, and the Company's assessment of the likely remediation actions to be taken.

In 2012, the Company submitted a final feasibility study to the Washington State Department of Ecology ("Washington State Ecology") that included recommendations for remediation alternatives primarily to address the historical use of

oils containing polychlorinated biphenyls, ("PCBs") at the Company's Spokane (Trentwood), Washington facility. The Company also signed an amended work order in 2012 with Washington State Ecology allowing certain remediation activities to begin the

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initiation of a treatability study in regards to proposed PCB remediation methods. The Company began implementation of certain approved sections of the work plan during the third quarter of 2013 and continues to work with Washington State Ecology in developing the implementation work plans, which are subject to Washington State Ecology approval.

During 2013, at the request of the Ohio Environmental Protection Agency (the "OEPA"), the Company initiated an investigational study of its Newark, Ohio facility related to historical on-site waste disposal. As this work continues and progresses to a risk assessment and feasibility study, the Company will establish and update estimates for probable and estimable remediations, if any. The actual and final cost for remediation will not be fully determinable until a final feasibility study is submitted and accepted by the OEPA and work plans are prepared, which is expected to occur in the next 18 to 24 months.

At September 30, 2014, the Company's environmental accrual of \$20.2 represented the Company's estimate of the incremental remediation cost based on proposed alternatives in the final feasibility study related to the Company's Spokane (Trentwood), Washington facility and currently available facts with respect to its Newark, Ohio facility and certain other locations owned or formally owned by the Company. In accordance with approved and proposed remediation action plans, the Company expects that the implementation and ongoing monitoring could occur over a period of 30 or more years.

As additional facts are developed, feasibility studies are completed, draft remediation plans are modified, necessary regulatory approvals for the implementation of remediation are obtained, alternative technologies are developed, and/or other factors change, there may be revisions to management's estimates, and actual costs may exceed the current environmental accruals. The Company believes at this time that it is reasonably possible that undiscounted costs associated with these environmental matters may exceed current accruals by amounts that could be, in the aggregate, up to an estimated \$24.9 over the remediation period. It is reasonably possible that the Company's recorded estimate may change in the next 12 months. Refer to Note 10 of Notes to Consolidated Financial Statements included in Part II, Item 8. "Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for information relating to environmental contingencies.

Other Contingencies. The Company is party to various lawsuits, claims, investigations, and administrative proceedings that arise in connection with past and current operations. The Company evaluates such matters on a case-by-case basis, and its policy is to vigorously contest any such claims it believes are without merit. The Company accrues for a legal liability when it is both probable that a liability has been incurred and the amount of the loss is reasonably estimable. Quarterly, in addition to when changes in facts and circumstances require it, the Company reviews and adjusts these accruals to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information, and events pertaining to a particular case. While uncertainties are inherent in the final outcome of such matters and it is presently impossible to determine the actual cost that may ultimately be incurred, management believes that it has sufficiently accrued for such matters and that the ultimate resolution of pending matters will not have a material impact on the Company's consolidated financial position, operating results, or liquidity.

8. Derivative Financial Instruments and Related Hedging Programs

Overview. In conducting its business, the Company enters into derivative transactions, including forward contracts and options, to limit its economic (i.e., cash) exposure resulting from (i) metal price risk related to its sale of fabricated aluminum products and the purchase of metal used as raw material for its fabrication operations, (ii) energy price risk relating to fluctuating prices of natural gas and electricity used in its production processes, and (iii) foreign currency requirements with respect to its foreign subsidiaries and cash commitments for equipment purchases denominated in foreign currency. Additionally, in connection with the issuance of the Convertible Notes, the Company purchased cash-settled Call Options relating to the Company's common stock to limit its exposure to the cash conversion feature of the Convertible Notes (see Note 3).

The Company's derivative activities are overseen by the Hedging Committee, which is composed of the chief executive officer, the chief financial officer, the chief accounting officer, the vice president of metal risk and other officers and employees selected by the chief executive officer. The Hedging Committee meets regularly to review derivative positions and strategy and reports to the Company's Board of Directors on the scope of its activities.

Hedges of Operational Risks. The Company's pricing of fabricated aluminum products is generally intended to lock in a conversion margin (representing the value added from the fabrication process(es)) and to pass through metal price fluctuations to its customers. However, in certain instances the Company enters into firm-price arrangements with its customers for stipulated volumes to be delivered in the future. Because the Company generally purchases primary and secondary aluminum

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on a floating price basis, the volume that it has committed to sell to its customers under a firm-price arrangement creates metal price risk for the Company. The Company uses third-party hedging instruments to limit exposure to metal price risk related to firm-price customer sales contracts. See Note 9 for additional information regarding the Company's material derivative positions relating to hedges of operational risk, and their respective fair values. A majority of the Company's derivative contracts relating to hedges of operational risks contain liquidity based thresholds that could require the Company to provide additional collateral in the event the Company's liquidity were to fall below specified levels. To minimize the exposure to additional collateral requirements related to its liability hedge positions, the Company allocates hedging transactions among its counterparties, uses options as part of its hedging activities, or both. The aggregate fair value of the Company's derivative instruments that were in a net liability position was \$1.7 and \$1.6 at September 30, 2014 and December 31, 2013, respectively.

The Company regularly reviews the creditworthiness of its derivative counterparties and does not expect to incur significant loss from the failure of any counterparties to perform under any agreements.

During the nine months ended September 30, 2014 and September 30, 2013, total fabricated products shipments that contained firm-price terms were (in millions of pounds) 109.3 and 87.2, respectively. At September 30, 2014, the Fabricated Products segment held contracts for the delivery of fabricated aluminum products that had the effect of creating price risk on anticipated purchases of aluminum for the remainder of 2014 and 2015, totaling approximately (in millions of pounds) 41.1 and 18.3, respectively.

Hedges Relating to the Convertible Notes. As described in Note 3, the Company issued Convertible Notes in the aggregate principal amount of \$175.0 in March 2010. The conversion feature of the Convertible Notes can only be settled in cash and must be bifurcated from the Convertible Notes and treated as a separate derivative instrument for financial reporting purposes. In order to offset the cash flow risk associated with the Bifurcated Conversion Feature, the Company purchased Call Options, which are accounted for as derivative instruments. The Company expects that the realized gain, if any, from the Call Options will substantially offset the realized loss, if any, of the Bifurcated Conversion Feature upon maturity of the Convertible Notes. However, because assumptions used to determine the fair values of the Call Option and the Bifurcated Conversion Feature are not identical, net unrealized mark-to-market gains and losses on the two derivatives are recorded from quarter to quarter. See Note 9 for additional information regarding the fair values of the Call Options and the Bifurcated Conversion Feature.

Realized and Unrealized Gains and Losses. Realized and unrealized gains (losses) associated with all derivative contracts consisted of the following, for each period presented:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Realized gains (losses):				
Aluminum	\$3.1	\$(2.0)	) \$5.2	\$(3.6)
Natural Gas	(0.1)	) (0.5)	) 1.1	(1.3)
Electricity	0.1	0.3	0.1	0.2
Foreign Currency	—	(0.1)	) —	(0.1)
Total realized gains (losses)	\$3.1	\$(2.3)	) \$6.4	\$(4.8)
Unrealized (losses) gains:				
Hedges of operational risk:				
Aluminum	\$(1.0)	) \$1.7	\$1.3	\$(4.5)
Natural Gas	(1.6)	) —	(1.0)	) 0.8
Electricity	(1.0)) (0.3)) (0.3)) 0.3
Foreign Currency	0.1	0.1	—	—
Total hedges of operational risk	(3.5)) 1.5	—	(3.4)

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Call Options relating to the Convertible Notes	12.9	31.0	19.8	27.9	
Bifurcated Conversion Feature of the Convertible Notes	(10.7) (29.4) (16.2) (26.8)
Total unrealized (losses) gains	\$(1.3) \$3.1	\$3.6	\$(2.3)

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The following table summarizes the Company's material derivative positions at September 30, 2014:

Aluminum	Maturity Period (month/year)	Notional Amount of contracts (mmlbs)
Fixed price purchase contracts	10/14 through 12/15	45.5
Fixed price sales contracts	10/14 through 12/14	0.5
Midwest premium swap contracts ¹	10/14 through 12/15	44.8
Natural Gas ²	Maturity Period (month/year)	Notional Amount of contracts (mmbtu)
Fixed price purchase contracts	10/14 through 12/16	6,040,000
Electricity ³	Maturity Period (month/year)	Notional Amount of contracts (Mwh)
Fixed price purchase contracts	10/14 through 12/15	230,425
Hedges Relating to the Convertible Notes	Contract Period (month/year)	Notional Amount of contracts (Common Shares)
Bifurcated Conversion Feature ⁴	3/10 through 3/15	3,655,085
Call Options ⁴	3/10 through 3/15	3,655,085

¹ Regional premiums represent the premium over the London Metal Exchange price for primary aluminum which is incurred on the Company's purchases of primary aluminum.

As of September 30, 2014, the Company had Henry Hub NYMEX-based hedge positions in place to cover exposure to fluctuations in prices for approximately 82%, 81% and 47% of the expected natural gas purchases for the remainder of 2014, 2015 and 2016, respectively.

³ As of September 30, 2014, the Company had Mid-C International Commodity Exchange-based hedge positions in place to cover exposure to fluctuations in prices for approximately 46% and 45% of the expected electricity purchases for the remainder of 2014 and 2015, respectively.

The Bifurcated Conversion Feature represents the cash conversion feature of the Convertible Notes. The Call Options expire on the maturity or earlier conversion of the Convertible Notes and have an exercise price equal to the conversion price of the Convertible Notes, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Convertible Notes. Although the fair value of the Call Options is derived from a notional number of shares of the Company's common stock, the Call Options may only be settled in cash.

⁴ The Company enters into derivative contracts with counterparties, some of which are subject to enforceable master netting arrangements and some of which are not. The Company reflects the fair value of its derivative contracts on a gross basis on the Consolidated Balance Sheets (see Note 2).

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The following tables present offsetting information regarding the Company's derivatives by type of counterparty as of September 30, 2014:

Derivative Assets and Collateral Held by Counterparty

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Counterparty (with Netting Agreements)	\$ 1.6	\$ —	\$ 1.6	\$0.9	\$—	\$0.7
Counterparty (without Netting Agreements) ¹	99.8	—	99.8	—	—	99.8
Counterparty (with partial Netting Agreements)	0.4	—	0.4	0.4	—	—
Total	\$ 101.8	\$ —	\$ 101.8	\$ 1.3	\$—	\$ 100.5

Derivative Liabilities and Collateral Held by Counterparty

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Net Amount
Counterparty (with Netting Agreements)	\$(2.3)	\$ —	\$(2.3)	\$(0.9)	\$—	\$(1.4)
Counterparty (without Netting Agreements) ¹	(99.5)	—	(99.5)	—	—	(99.5)
Counterparty (with partial Netting Agreements)	(0.7)	—	(0.7)	(0.4)	—	(0.3)
Total	\$(102.5)	\$ —	\$(102.5)	\$(1.3)	\$—	\$(101.2)

¹ Such amounts include the fair value of the Bifurcated Conversion Feature and Call Options at September 30, 2014 (see Note 9).

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The following tables present offsetting information regarding the Company's derivatives by type of counterparty as of December 31, 2013:

Derivative Assets and Collateral Held by Counterparty

Counterparty (with Netting Agreements)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	