

KAISER ALUMINUM CORP
Form 10-K
February 21, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

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 or other jurisdiction of
incorporation or organization)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common stock, par value \$0.01
per share

Name of each exchange
on which registered
Nasdaq Stock Market
LLC

Securities registered pursuant to section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act. Yes No

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 (or for such shorter period that the registrant was

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required to file such reports), 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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2012) was approximately \$974.3 million.

As of February 13, 2013, there were 19,313,235 shares of the Common Stock of the registrant outstanding.

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Documents Incorporated by Reference. Certain portions of the registrant's definitive proxy statement related to the registrant's 2013 annual meeting of stockholders are incorporated by reference into Part III of this Report on Form 10-K.

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PART I

Item 1. Business

Forward-Looking Statements

This Annual Report on Form 10-K (this “Report”) contains statements which constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this Report, including Item 1. “Business — Business Operations,” Item 1A. “Risk Factors,” and Item 7. “Management’s Discussion and Analysis of Financial Conditions and Results of Operations.” These forward-looking statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “estimates,” “will,” “should,” “plans,” or “anticipates,” or the negative of the foregoing or other variations or comparable terminology, or by discussions of strategy.

Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary from those in the forward-looking statements as a result of various factors. These factors include: the effectiveness of management’s strategies and decisions; general economic and business conditions, including cyclical and other conditions in the aerospace and other end markets we serve; developments in technology; new or modified statutory or regulatory requirements; changing prices and market conditions; and other factors discussed in Item 1A. “Risk Factors” and elsewhere in this Report. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Readers are urged to consider these factors carefully in evaluating any forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included herein are made only as of the date of this Report, and we undertake no obligation to update any information contained in this Report or to publicly release any revisions to any forward-looking statements that may be made to reflect events or circumstances that occur, or that we become aware of, after the date of this Report except as required by law.

Availability of Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and other information with the Securities and Exchange Commission (“SEC”). You may inspect and, for a fee, copy any document that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You may also obtain the documents that we file electronically from the SEC’s website at <http://www.sec.gov>. Our filings with the SEC, as well as news releases, announcements of upcoming earnings calls and events in which management participates or hosts with members of the investment community, and an archive of webcasts of such earnings calls and investor events, and related investor presentations, are also available on our website at <http://www.kaiseraluminum.com>. Information on our website is not incorporated into this Report.

Business Overview

Founded in 1946, Kaiser Aluminum Corporation’s primary line of business is the production of semi-fabricated specialty aluminum products. At December 31, 2012, we operated 11 focused production facilities in the United States and one in Canada. Consistent with the manner in which our chief operating decision maker reviews and evaluates our business, the Fabricated Products business is treated as a single operating segment.

In addition to the Fabricated Products segment, we have two business units, Secondary Aluminum and Corporate and Other, together combined into one category and referred to herein as All Other. The Secondary Aluminum business unit sells value added products, such as ingot and billet, produced by Anglesey Aluminium Limited (“Anglesey”), in which we have a 49% equity investment and which owns and operates a secondary aluminum remelt and casting facility in Holyhead, Wales. Our Corporate and Other business unit provides general and administrative support for our operations. For purposes of segment reporting under United States generally accepted accounting principles (“GAAP”), we treat the Fabricated Products segment as its own reportable segment. All Other is not considered a reportable segment (see “Business Operations” below).

On January 1, 2012, we began reviewing the results of our primary aluminum hedging activities, which prior to January 1, 2012 had been reported in All Other, with the results of the Fabricated Products segment because we had begun to conduct such hedging activities with respect to primary aluminum solely for the Fabricated Products

segment. Accordingly, all segment information presented herein has been re-cast to reflect the inclusion of primary aluminum hedging activities in the Fabricated Products segment for all periods presented.

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Through our 12 focused production facilities in North America, we manufacture rolled, extruded, and drawn aluminum products to strategically serve four end market applications: aerospace and high strength products (which we refer to as Aero/HS products), general engineering products (which we refer to as GE products), extrusions for automotive applications (which we refer to as Automotive Extrusions), and other industrial products (which we refer to as Other products). See “Business Operations — Fabricated Products Segment” below for additional information. In 2012, we produced and shipped approximately 585.9 million pounds of semi-fabricated aluminum products from these facilities, which comprised all of our consolidated net sales of approximately \$1.4 billion.

We have long-standing relationships with our customers, which consist primarily of blue-chip companies including leading aerospace companies, automotive suppliers and metal distributors. In our served markets, we seek to be the supplier of choice by pursuing “Best in Class” customer satisfaction and offering a broad product portfolio. We have a culture of continuous improvement that is facilitated by the Kaiser Production System (“KPS”), an integrated application of the tools of Lean Manufacturing, Six Sigma and Total Productive Manufacturing. We believe KPS enables us to continuously reduce our own manufacturing costs, eliminate waste throughout the value chain, and deliver “Best in Class” customer service through consistent, on-time delivery of superior quality products on short lead times. We strive to tightly integrate the management of the operations within our Fabricated Products segment across multiple production facilities, product lines and target markets in order to maximize the efficiency of product flow to our customers.

Over the past three years, we completed two strategic acquisitions to provide complementary products to our sheet, plate, cold finish and drawn tube products, primarily for aerospace applications. In August 2010, we acquired the Florence, Alabama manufacturing facility, and related assets, of Nichols Wire, Incorporated (“Nichols”), expanding our offerings of small diameter rod, bar and wire products to our core end market applications for aerospace, general engineering and automotive applications. In January 2011, we purchased the manufacturing facility in Chandler, Arizona (the “Chandler, Arizona (Extrusion) facility”), and related assets, of Alexco, LLC (“Alexco”), which manufactures hard alloy extrusions for the aerospace industry.

Additionally, over the past six years, we have pursued significant capital spending initiatives to increase capacity and improve product capabilities, product quality, and efficiency. The most significant of these initiatives are (i) a series of investments to expand our capacity and increase thickness capability to produce aluminum heat treat plate for Aero/HS applications at our Spokane, Washington facility in order to capitalize on significant demand growth and (ii) a major investment in our Kalamazoo, Michigan facility to improve capabilities and efficiencies of our rod and bar operations and to provide capacity for future growth in extrusion applications.

Business Operations

Fabricated Products Segment

Overview

Our Fabricated Products segment produces rolled, extruded, and drawn aluminum products used principally for aerospace and defense, automotive, consumer durables, electronics, electrical, and machinery and equipment applications. As indicated above, the Fabricated Products segment focuses on products that strategically serve four end market applications, more particularly Aero/HS products, GE products, Automotive Extrusions and Other products. During 2012, 2011 and 2010, our North American manufacturing facilities produced and shipped approximately 585.9 million, 560.9 million, and 514.2 million pounds of fabricated aluminum products, respectively, which accounted for all of our total net sales for 2012, 2011 and 2010.

For information regarding net sales, operating income and total assets of the Fabricated Products segment, see Note 15 of Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data,” of their Report; such information is incorporated herein by reference.

Types of Products Produced

We have strategically chosen end market applications that allow us to utilize our core metallurgical capabilities to create value added products in markets that present opportunities for sales growth and premium pricing of differentiated products. The market for aluminum fabricated mill products is broadly defined to include flat-rolled, extruded, drawn, forged and cast aluminum products, used in a variety of end market applications. We participate in

certain portions of the markets for flat-rolled and extruded/drawn products, focusing on highly engineered products for aerospace/high strength, general engineering, automotive and other industrial end market applications. The table below provides shipment and sales information (in millions of dollars except for shipment information) for our end market applications:

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	Year Ended December 31,								
	2012			2011			2010		
Shipments (mm lbs):									
Aero/HS Products	223.9	38	%	192.0	34	%	158.9	31	%
GE Products	232.7	40	%	220.2	39	%	217.4	42	%
Automotive Extrusions	62.8	11	%	62.8	11	%	54.2	11	%
Other Products	66.5	11	%	85.9	16	%	83.7	16	%
	585.9	100	%	560.9	100	%	514.2	100	%
Sales:									
Aero/HS Products	\$695.1	51	%	\$596.3	46	%	\$467.3	43	%
GE Products	441.4	33	%	447.0	34	%	409.3	38	%
Automotive Extrusions	125.5	9	%	126.9	10	%	103.0	10	%
Other Products	98.1	7	%	131.1	10	%	99.2	9	%
	\$1,360.1	100	%	\$1,301.3	100	%	\$1,078.8	100	%

Aero/HS Products. Our Aero/HS products include high quality heat treat plate and sheet, as well as cold finish bar, seamless drawn tube, hard alloy extrusions, and billet that are manufactured to demanding specifications for the global aerospace and defense industries. These industries use our products in applications that demand high tensile strength, superior fatigue resistance properties and exceptional durability even in harsh environments. For instance, aerospace manufacturers use high-strength alloys for a variety of structures that must perform consistently under extreme variations in temperature and altitude. Our Aero/HS products are used for a wide variety of end uses. We make aluminum plate, sheet, extruded shapes, and tube for aerospace applications, and we manufacture a variety of specialized rod and bar products that are incorporated in diverse applications. The aerospace and defense industries' consumption of fabricated aluminum products is driven by overall levels of airframe build rates, which are cyclical in nature, and defense spending, as well as the potential availability of competing materials such as titanium and composites. Demand has increased for thick plate with growth in "monolithic" construction of commercial and other aircraft. In monolithic construction, aluminum plate is heavily machined to form the desired part from a single piece of metal (as opposed to creating parts using aluminum sheet, extrusions or forgings that are affixed to one another using rivets, bolts or welds). Military applications for heat treat plate and sheet include aircraft frames and skins.

GE Products. Most of our GE products are standard catalog items sold to large metal distributors. Our GE products consist of 6000-series alloy rod, bar, tube, wire, sheet, plate and standard extrusions. The 6000-series alloy is an extrudable medium-strength alloy that is heat treatable and extremely versatile. Our GE products have a wide range of uses and applications, many of which involve further fabrication of these products for numerous transportation and other industrial end market applications where machining of plate, rod and bar is intensive. For example, our products are used in the enhancement and production of military vehicles, semiconductor manufacturing cells, numerous electronic devices, after-market motor sport parts and tooling plate. Our rod and bar products are manufactured into rivets, nails, screws, bolts and parts of machinery and equipment. Demand growth and cyclicity for GE products tend to mirror broad economic patterns and industrial activity in North America. Demand is also impacted by the destocking and restocking of inventory throughout the supply chain.

Automotive Extrusions. Automotive products consist of extruded aluminum products for many North American automotive applications. Examples of the variety of extruded products that we supply to the automotive industry include extruded products for bumper systems, anti-lock braking systems and structural components and drawn tube for drive shafts. For some Automotive Extrusions, we perform limited fabrication, including sawing and cutting to length. Demand growth and cyclicity for Automotive Extrusions tend to mirror automotive build rates in North America. Additional growth for Automotive Extrusions is driven by efforts by automotive manufacturers to reduce the weight of vehicles to improve fuel efficiency by converting applications from steel to aluminum.

Other Products. Other products consist of extruded, drawn, and cast aluminum products for a variety of North American industrial end uses, including consumer durables, electrical/electronic, machinery and equipment, light truck, heavy truck and truck trailer applications. Demand growth and cyclicity for Other products tend to mirror

broad economic patterns and industrial activity in North America, with specific individual market segments such as heavy truck and truck trailer applications tracking their respective build rates.

Types of Manufacturing Processes Employed

We utilize the following manufacturing processes to produce our fabricated products:

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Flat Rolling. The traditional manufacturing process for aluminum flat-rolled products uses ingot, a large rectangular slab of aluminum, as the starter material. The ingot is processed through a series of rolling operations, both hot and cold. Finishing steps may include heat treatment, annealing, coating, stretching, leveling or slitting to achieve the desired metallurgical, dimensional and performance characteristics. Aluminum flat-rolled products are manufactured using a variety of alloys, a range of tempers (hardness), gauges (thickness) and widths, and various coatings and finishes. Flat-rolled aluminum semi-finished products are generally either sheet (under 0.25 inches in thickness) or plate (up to 15 inches in thickness). The vast m