KAISER ALUMINUM CORP
Form 10-Q
July 28, 2017

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

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

(949) 614-1740

(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

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

As of July 17, 2017, there were 16,917,623 shares of common stock of the registrant outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2017	December 31, 2016
	(In millions of dollars, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$57.1	$ 55.2
Short-term investments	175.7	231.0
Receivables:		
Trade receivables, net	145.6	137.7
Other	10.7	11.9
Inventories	199.9	201.6
Prepaid expenses and other current assets	26.8	18.5
Total current assets	615.8	655.9
Property, plant and equipment, net	552.1	530.9
Deferred tax assets, net	138.3	159.7
Intangible assets, net	25.7	26.4
Goodwill	18.8	37.2
Other assets	36.0	33.4
Total	$1,386.7	$ 1,443.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$84.2	$ 75.8
Accrued salaries, wages and related expenses	34.6	49.1
Other accrued liabilities	37.5	40.1
Total current liabilities	156.3	165.0
Net liabilities of Salaried VEBA	28.0	28.6
Deferred tax liabilities	3.3	3.3
Long-term liabilities	61.1	73.2
Long-term debt	369.2	368.7
Total liabilities	617.9	638.8
Commitments and contingencies – Note 8		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized at both June 30, 2017 and December 31, 2016; no shares were issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, par value $0.01, 90,000,000 shares authorized at both June 30, 2017 and at December 31, 2016; 22,392,995 shares issued and 16,923,738 shares outstanding at June 30, 2017; 22,332,732 shares issued and 17,651,461 shares outstanding at December 31, 2016	0.2	0.2
Additional paid in capital	1,049.3	1,047.4
Retained earnings	97.6	75.2
Treasury stock, at cost, 5,469,257 shares at June 30, 2017 and 4,681,271 shares at December 31, 2016, respectively	(344.0)	(281.4)
Accumulated other comprehensive loss	(34.3)	(36.7)

Total stockholders' equity	768.8	804.7
Total	$1,386.7	$ 1,443.5

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		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In millions of dollars, except share and per share amounts)			
Net sales	$356.3	$334.9	$711.6	$678.1
Costs and expenses:				
Cost of products sold:				
Cost of products sold, excluding depreciation and amortization and other items	277.7	250.4	555.5	512.4
Lower of cost or market inventory write-down	—	—	—	4.9
Unrealized loss (gain) on derivative instruments	11.9	(10.9)	(3.2)	(14.9)
Depreciation and amortization	9.5	9.0	19.1	17.7
Selling, general, administrative, research and development:				
Selling, general, administrative, research and development	26.3	27.5	50.0	53.6
Net periodic postretirement benefit cost relating to Salaried VEBA	1.1	0.9	2.2	1.7
Gain on removal of Union VEBA net assets – Note 6	—	—	(1.3)	(0.1)
Total selling, general, administrative, research and development	27.4	28.4	50.9	55.2
Goodwill impairment	18.4	—	18.4	—
Other operating charges, net	—	0.1	—	0.1
Total costs and expenses	344.9	277.0	640.7	575.4
Operating income	11.4	57.9	70.9	102.7
Other (expense) income:				
Interest expense	(5.5)	(5.5)	(11.1)	(9.2)
Other income (expense), net – Note 13	1.0	(10.7)	1.6	(10.4)
Income before income taxes	6.9	41.7	61.4	83.1
Income tax provision	(2.2)	(15.7)	(20.7)	(30.8)
Net income	$4.7	$26.0	$40.7	$52.3
Net income per common share:				
Basic	$0.28	$1.45	$2.37	$2.92
Diluted	$0.27	$1.43	$2.34	$2.87
Weighted-average number of common shares outstanding (in thousands):				
Basic	17,003	17,871	17,193	17,867
Diluted	17,201	18,194	17,418	18,194
Dividends declared per common share	$0.50	$0.45	$1.00	$0.90

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)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions of dollars)			
Net income	$4.7	$26.0	$40.7	$52.3
Other comprehensive income, net of tax – Note 14:				
Defined benefit pension plan and VEBAs	0.8	0.7	1.7	1.5
Available for sale securities	0.2	0.3	0.3	0.3
Other	0.1	(0.1)	0.4	—
Other comprehensive income, net of tax	1.1	0.9	2.4	1.8
Comprehensive income	$5.8	$26.9	$43.1	$54.1

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

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

	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	(In millions of dollars, except share and per share amounts)						
BALANCE, December 31, 2016	17,651,461	$ 0.2	$ 1,047.4	$ 75.2	$ (281.4)	$ (36.7)	$ 804.7
Net income	—	—	—	40.7	—	—	40.7
Other comprehensive income, net of tax	—	—	—	—	—	2.4	2.4
Issuance of non-vested shares to non-employee directors	11,817	—	—	—	—	—	—
Issuance of common shares to non-employee directors	2,282	—	0.2	—	—	—	0.2
Issuance of common shares to employees upon vesting of restricted stock units and performance shares	102,737	—	—	—	—	—	—
Cancellation of employee non-vested shares	(378)	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(56,195)	—	(4.5)	—	—	—	(4.5)
Repurchase of common stock	(787,986)	—	—	—	(63.2)	—	(63.2)
Cancellation of treasury stock	—	—	(0.2)	(0.4)	0.6	—	—
Cash dividends on common stock and restricted shares and dividend equivalents on restricted stock units and performance shares	—	—	—	(17.9)	—	—	(17.9)
Amortization of unearned equity compensation	—	—	6.4	—	—	—	6.4
BALANCE, June 30, 2017	16,923,738	$ 0.2	$ 1,049.3	$ 97.6	$ (344.0)	$ (34.3)	$ 768.8

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)

	Six Months Ended June 30, 2017	2016
	(In millions of dollars)	
Cash flows from operating activities:		
Net income	$40.7	$52.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	18.4	16.9
Amortization of definite-lived intangible assets	0.7	0.8
Amortization of debt discount and debt issuance costs	0.6	0.5
Deferred income taxes	19.9	31.3
Non-cash equity compensation	6.6	5.7
Lower of cost or market inventory write-down	—	4.9
Gain on sale of available for sale securities	(1.3)	—
Non-cash unrealized gain on derivative instruments	(3.2)	(14.9)
Goodwill impairment	18.4	—
Loss on extinguishment of debt	—	11.1
Loss on disposition of property, plant and equipment	0.1	—
Non-cash net periodic postretirement benefit cost relating to Salaried VEBA	2.2	1.7
Other non-cash changes in assets and liabilities	(1.2)	0.9
Changes in operating assets and liabilities:		
Trade and other receivables	(6.7)	(20.0)
Inventories, excluding lower of cost or market write-down	1.7	(2.8)
Prepaid expenses and other current assets	(4.2)	(2.7)
Accounts payable	10.1	3.4
Accrued liabilities	(9.8)	17.4
Annual variable cash contributions to VEBAs	(20.0)	(19.5)
Long-term assets and liabilities, net	0.1	(14.8)
Net cash provided by operating activities	73.1	72.2
Cash flows from investing activities[1]:		
Capital expenditures	(39.7)	(42.3)
Purchase of available for sale securities	(128.0)	(72.4)
Proceeds from disposition of available for sale securities	184.2	30.0
Net cash provided by (used in) investing activities	16.5	(84.7)
Cash flows from financing activities[1]:		
Repayment of principal and redemption premium of 8.25% Senior Notes	—	(206.0)
Issuance of 5.875% Senior Notes	—	375.0
Cash paid for debt issuance costs	—	(6.9)
Proceeds from stock option exercises	—	1.0
Repayment of capital lease	(0.1)	(0.1)
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(4.5)	(2.8)
Repurchase of common stock	(64.4)	(8.5)
Cash dividends and dividend equivalents paid	(17.9)	(16.3)
Net cash (used in) provided by financing activities	(86.9)	135.4

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

	Six Months Ended June 30,	
	2017	2016
Net increase in cash, cash equivalents and restricted cash during the period	2.7	122.9
Cash, cash equivalents and restricted cash at beginning of period	67.7	83.7
Cash, cash equivalents and restricted cash at end of period	$70.4	$206.6

[1] See Note 12 for the supplemental disclosure on non-cash transactions.

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

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

1. Summary of Significant Accounting Policies
This Quarterly Report on Form 10-Q (this "Report") should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Unless the context otherwise requires, references in these notes to interim consolidated financial statements - unaudited to "Kaiser Aluminum Corporation," "we," "us," "our," "the Company" and "our Company" refer collectively to Kaiser Aluminum Corporation and its subsidiaries.
Organization and Nature of Operations. Kaiser Aluminum Corporation specializes in the production of semi-fabricated specialty aluminum mill products, such as aluminum plate and sheet and extruded and drawn products, for the following end market applications: aerospace and high strength ("Aero/HS products"), automotive applications ("Automotive Extrusions"), general engineering ("GE products") and other industrial ("Other products"). Our business is organized into one operating segment, Fabricated Products. See Note 11 for additional information regarding our reportable segment and business unit.
Principles of Consolidation and Basis of Presentation. The accompanying unaudited consolidated financial statements include the accounts of our wholly owned subsidiaries and are prepared in accordance with United States generally accepted accounting principles ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") applicable for interim periods and, therefore, do not include all information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for our interim periods are not necessarily indicative of the results of operations that may be achieved for the entire 2017 fiscal year. The financial information as of December 31, 2016 is derived from our audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2016.
Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of our consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of our consolidated financial position and results of operations.
Inventories. Inventories are stated at the lower of cost or market value. On March 31, 2016, we recorded a lower of cost or market inventory write-down of $4.9 million as a result of a decrease in our net realizable value of inventory. The net realizable value reflected commitments as of that date from customers to purchase our inventory at prices that exceeded the Midwest Transaction Price ("Midwest Price"), which reflects the primary aluminum supply/demand dynamics in North America, reduced by an approximate normal profit margin. There were no additional lower of cost or market inventory adjustments since the quarter ended March 31, 2016.
Finished products, work-in-process and raw material inventories are stated on the last-in, first-out ("LIFO") basis. At June 30, 2017, the current cost of inventory exceeded its stated LIFO value by $10.1 million. At December 31, 2016, the stated LIFO value of our inventory represented its net realizable value (less a normal profit margin) and exceeded the current cost of our inventory by $8.5 million. Other inventories are stated on the first-in, first-out basis and consist of operating supplies, which are materials and supplies to be consumed during the production process. Inventory costs consist of material, labor and manufacturing overhead, including depreciation. Abnormal costs, such as idle facility expenses, freight, handling costs and spoilage, are accounted for as current period charges. All of our inventories at June 30, 2017 and December 31, 2016 were included in the Fabricated Products segment (see Note 2 for the components of inventories).
Replacement Parts. Replacement parts consist of preventative maintenance and capital spare parts, which are stated on the first-in, first-out basis. Replacement parts are recorded within Prepaid expenses and other current assets or Other assets depending on whether or not the expected utilization of the replacement parts is to occur within the current operating cycle.

Property, Plant and Equipment, Net. Property, plant and equipment, net is recorded at cost and includes construction in progress (see Note 2). Interest related to the construction of qualifying assets is capitalized as part of the construction costs. The amount of interest expense capitalized as construction in progress was $0.7 million and $0.9 million during the quarters ended

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

June 30, 2017 and June 30, 2016, respectively. The amount of interest expense capitalized as construction in progress was $1.2 million and $1.8 million during the six months ended June 30, 2017 and June 30, 2016, respectively. Depreciation is computed using the straight-line method at rates based on the estimated useful lives of the various classes of assets. Capital lease assets and leasehold improvements are depreciated on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term. Depreciation expense is not included in Cost of products sold, excluding depreciation and amortization and other items, but is included in Depreciation and amortization.

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

Self Insurance of Workers' Compensation and Employee Healthcare Liabilities. We self-insure the majority of the costs of workers' compensation benefits and employee healthcare benefits and rely on insurance coverage to protect us from large losses on individual claims. Workers' compensation liabilities are based on a combination of estimates for: (i) incurred-but-not-reported claims and (ii) the ultimate expense of incurred claims. Such estimates are based on judgment, using our historical claims data and information and analysis provided by actuarial and claims advisors, our insurance carriers and other professionals. Our undiscounted workers' compensation liabilities were estimated at $25.6 million and $26.8 million for the periods ended June 30, 2017 and December 31, 2016, respectively. However, we account for our workers' compensation accrued liability on a discounted basis, using a discount rate of 2.00% at both June 30, 2017 and December 31, 2016. Accrued liabilities for employee healthcare benefits, which are estimates of unpaid incurred medical and prescription drug costs as provided by our healthcare administrators, were $3.3 million and $3.6 million as of June 30, 2017 and December 31, 2016, respectively.

Derivative Financial Instruments. Consistent with guidelines established by management and approved by our Board of Directors, we use derivative financial instruments to mitigate our exposure to changes in the market price of aluminum, alloying metals and energy and, to a lesser extent, to mitigate our exposure to changes in foreign currency exchange rates. We do not use derivative financial instruments for trading or other speculative purposes. Hedging transactions are executed centrally on behalf of all of our operations to minimize transaction costs, monitor consolidated net exposures and allow for increased responsiveness to changes in market factors.

We reflect the fair value of all of our derivative instruments on our Consolidated Balance Sheets (see Note 9). The carrying values of hedges settling within one year are included in Prepaid expenses and other current assets or Other accrued liabilities. Carrying values for hedges settling beyond one year are included in Other assets or Long-term liabilities.

We do not meet the documentation requirements for hedge (deferral) accounting related to aluminum and energy derivatives. Accordingly, we record unrealized gain or loss associated with these hedges in the Statements of Consolidated Income within Unrealized loss (gain) on derivative instruments. As such derivatives settle, we reverse any previously recorded unrealized gain or loss associated with these hedges and record the realized gain or loss within Cost of products sold, excluding depreciation and amortization and other items.

Forward swap contracts for zinc and copper ("Alloy Hedges") used in our fabrication operations are designated and qualify as cash flow hedges. Unrealized gain and loss associated with the Alloy Hedges are deferred in Other comprehensive income, net of tax. As Alloy Hedges settle, we reverse any unrealized gain or loss previously recorded within Other comprehensive income, net of tax associated with settling Alloy Hedges and record the realized gain or loss within Cost of products sold, excluding depreciation and amortization and other items.

From time to time, we enter into foreign currency forward contracts to protect the value of anticipated foreign currency expenses associated with cash commitments for equipment purchases. Of these derivative contracts, those that qualify for cash flow hedge accounting are designated as cash flow hedges and the remainder are non-designated hedges. Both realized and unrealized gains and losses of foreign currency forward contracts designated as cash flow hedges are deferred in Accumulated other comprehensive loss and, over the period that the underlying equipment is depreciated, realized gains and losses are recorded as an adjustment to depreciation expense. For non-designated foreign currency forward contracts, gains and losses (both unrealized and realized) are reflected as an increase or reduction in Other income (expense), net.

Fair Value Measurements. We apply the fair value hierarchy established by GAAP for the recognition and measurement of certain financial assets and liabilities. An asset or liability's fair value classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. In determining fair value, we utilize valuation techniques

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

that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and consider counterparty risk in our assessment of fair value.

The fair values of financial assets and liabilities are evaluated and measured on a recurring basis. As part of that evaluation process, we review the underlying inputs that are significant to the fair value measurement of financial instruments to determine if a transfer among hierarchy levels is appropriate. We historically have not had significant transfers into or out of each hierarchy level.

Financial assets and liabilities that we measure at fair value each period include our derivative instruments and available for sale securities, consisting of debt investment securities and investments related to our deferred compensation plan (see Note 6). Additionally, we measure at fair value once each year at December 31 the plan assets of the Salaried VEBA (defined in Note 6) and our Canadian defined benefit pension plan. We record our remaining financial assets and liabilities at carrying value.

The majority of our non-financial assets and liabilities, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur (or at least annually for goodwill), an evaluation of the affected non-financial asset or liability will be required, which could result in a reduction to the carrying amount of such asset or liability. See Note 4 for a discussion of the goodwill impairment charge recorded during the three months ended June 30, 2017 related to the operations at our Chandler, Arizona (Extrusion) facility.

We concluded that none of our other non-financial assets and liabilities subject to fair value assessments on a non-recurring basis required a material adjustment to the carrying amount of such assets and liabilities for the quarter and six months ended June 30, 2017.

New Accounting Pronouncements. Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), was issued in May 2014 and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, ASU 2014-09 was amended by ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. ASU 2014-09 was subsequently amended by four additional pronouncements: (i) ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; (ii) ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting; (iii) ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and (iv) ASU No. 2016-20, Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements to Topic 606. We expect to adopt ASU 2014-09, including its subsequent amendments discussed above, using the modified retrospective transition approach for the fiscal year ending December 31, 2018. Based on our initial assessment, we have concluded that revenue from certain contracts will continue to be recognized at a point-in-time, while revenue from other contracts, primarily from our Aero/HS products and Automotive Extrusions, will be required to be recognized over time. We are currently assessing the impact that over-time recognition will have on our consolidated financial statements.

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

We do not anticipate any material impact on our consolidated financial statements upon the adoption of the following accounting pronouncements: (i) ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities; (ii) ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments; (iii) ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost; and (iv) ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.

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

There were no material impacts on our consolidated financial statements resulting from our early adoption in the first quarter of 2017 of the following accounting pronouncements: (i) ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments; (ii) ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash; and (iii) ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.

2. Supplemental Balance Sheet Information

	June 30, 2017	December 31, 2016
	(In millions of dollars)	
Cash and Cash Equivalents		
Cash and money market funds	$30.7	$ 37.9
Commercial paper	26.4	17.3
Total	$57.1	$ 55.2
Trade Receivables, Net		
Billed trade receivables	$146.4	$ 138.2
Unbilled trade receivables	0.3	0.3
Trade receivables, gross	146.7	138.5
Allowance for doubtful receivables	(1.1)	(0.8)
Trade receivables, net	$145.6	$ 137.7
Inventories		
Finished products	$60.7	$ 73.8
Work-in-process	81.2	71.7
Raw materials	53.4	51.1
Operating supplies	4.6	5.0
Total	$199.9	$ 201.6
Property, Plant and Equipment, Net		
Land and improvements	$22.8	$ 22.7
Buildings and leasehold improvements	90.0	88.6
Machinery and equipment	625.0	615.1
Construction in progress	62.4	34.8
Property, plant and equipment, gross	800.2	761.2
Accumulated depreciation	(248.4)	(230.6)
Assets held for sale	0.3	0.3
Property, plant and equipment, net	$552.1	$ 530.9

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

	June 30, 2017	December 31, 2016
	(In millions of dollars)	
Other Accrued Liabilities		
Uncleared cash disbursements	$8.2	$ 5.8
Accrued income taxes and taxes payable	7.7	4.3
Accrued annual contribution to VEBAs	11.5	20.0
Accrued interest	2.9	2.9
Other	7.2	7.1
Total	$37.5	$ 40.1
Long-Term Liabilities		
Workers' compensation accruals	$24.5	$ 25.0
Long-term environmental accrual – Note 8	15.8	15.8
Long-term portion of contingent contribution to Union VEBA – Note 6	—	12.8
Other long-term liabilities	20.8	19.6
Total	$61.1	$ 73.2

3. Debt and Credit Facility

Senior Notes

5.875% Senior Notes. In May 2016, we issued $375.0 million principal amount of 5.875% unsecured senior notes due May 15, 2024 ("5.875% Senior Notes") at 100% of the principal amount. The unamortized amount of debt issuance costs as of June 30, 2017 was $5.8 million. Interest expense, including amortization of debt issuance costs, relating to the 5.875% Senior Notes was $5.7 million and $11.4 million for the quarter and six months ended June 30, 2017, respectively, and $3.1 million for both the quarter and six months ended June 30, 2016. A portion of the interest relating to the 5.875% Senior Notes was capitalized as construction in progress. The effective interest rate of the 5.875% Senior Notes is approximately 6.1% per annum, taking into account the amortization of debt issuance costs. The fair value of the outstanding 5.875% Senior Notes, which are Level 1 liabilities, was calculated based on broker quotes and was approximately $396.8 million and $390.8 million at June 30, 2017 and December 31, 2016, respectively.

8.25% Senior Notes. In May 2012, we issued $225.0 million principal amount of 8.25% unsecured senior notes due June 1, 2020 ("8.25% Senior Notes"), of which $197.8 million principal amount remained outstanding at December 31, 2015. On June 1, 2016 we redeemed in full all remaining 8.25% Senior Notes at a redemption price of 104.125% of the principal amount. Interest expense, including amortization of debt issuance costs, relating to the 8.25% Senior Notes was $2.8 million and $7.1 million for the quarter and six months ended June 30, 2016, respectively. A portion of the interest relating to the 8.25% Senior Notes was capitalized as construction in progress.

Revolving Credit Facility

Our credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the other financial institutions party thereto ("Revolving Credit Facility") provides us with a $300.0 million funding commitment through December 2020. We had $294.9 million of borrowing availability under the Revolving Credit Facility at June 30, 2017, based on the borrowing base determination then in effect. At June 30, 2017, there were no borrowings under the Revolving Credit Facility and $8.1 million was being used to support outstanding letters of credit, leaving $286.8 million of net borrowing availability. The interest rate applicable to any overnight borrowings under the Revolving Credit Facility would have been 4.50% at June 30, 2017.

4. Goodwill

Goodwill is related to our acquisitions of the Chandler, Arizona (Extrusion) facility and the Florence, Alabama facility and is included in the Fabricated Products segment. During the quarter ended June 30 2017, following a qualitative review of these facilities, we identified several factors that indicated that long-term demand for hard alloy extruded shapes was less than prior

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assumptions used to develop forecasts for the Chandler, Arizona (Extrusion) facility. Such factors included: (i) the reduction of build rates of wide body commercial aircraft; (ii) additional substitution away from hard alloy extruded shapes in favor of composites, titanium and/or aerospace aluminum plate in the manufacture of commercial aircraft; and (iii) continued low build rates for business jets. Based on these factors, we tested for goodwill impairment using level 3 inputs and a combination of an income approach using the estimated discounted cash flow and a market-based valuation methodology. Having determined that the carrying value of the Chandler, Arizona (Extrusion) facility exceeded its fair value as of June 30, 2017, an impairment charge of $18.4 million for the quarter ended June 30, 2017 was recorded within Operating income in the Statements of Consolidated Income. As this goodwill is deductible for income tax purposes, the deferred tax effects were included in the impairment charge and income tax provision.

A reconciliation of the change in the carrying value of goodwill was as follows (in millions):

	June 30, 2017	December 31, 2016
	(In millions of dollars)	
Balance at beginning of year	$37.2	$ 37.2
Goodwill impairment	(18.4)	—
Balance at end of period	$18.8	$ 37.2

Other than the impairment discussed above, we identified no other indicators of impairment associated with the remainder of our goodwill during the six months ended June 30, 2017.

5. Income Tax Matters

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Domestic	$1.9	$15.5	$20.1	$30.4
Foreign	0.3	0.2	0.6	0.4
Total	$2.2	$15.7	$20.7	$30.8

The income tax provision for the quarters ended June 30, 2017 and June 30, 2016 was $2.2 million and $15.7 million, respectively, reflecting an effective tax rate of 31.7% and 37.7%, respectively. The difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended June 30, 2017 was due to: (i) a decrease of $0.1 million for the recognition of excess tax benefits from stock-based compensation, resulting in a 1.5% decrease to the blended statutory tax rate; (ii) a decrease of $0.1 million to the valuation allowance for certain state net operating losses, resulting in a 1.4% decrease to the blended statutory tax rate; and (iii) a decrease of $0.2 million related to unrecognized tax benefits, including interest and penalties, resulting in a 3.0% decrease to the blended statutory tax rate.

There was no material difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended June 30, 2016.

The income tax provision for the six months ended June 30, 2017 and June 30, 2016 was $20.7 million and $30.8 million, respectively, reflecting an effective tax rate of 33.8% and 37.1%, respectively. The difference between the effective tax rate and the projected blended statutory tax rate for the six months ended June 30, 2017 was due to: (i) a decrease of $1.7 million for the recognition of excess tax benefits from stock-based compensation, resulting in a 2.7% decrease to the blended statutory tax rate; (ii) a decrease of $0.5 million to the valuation allowance for certain state net operating losses, resulting in a 0.9% decrease to the blended statutory tax rate; and (iii) a decrease of $0.2 million related to unrecognized tax benefits, including interest and penalties, resulting in a 0.3% decrease to the blended statutory tax rate.

There was no material difference between the effective tax rate and the projected blended statutory tax rate for the six months ended June 30, 2016.

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Our gross unrecognized benefits relating to uncertain tax positions were $1.5 million and $1.8 million at June 30, 2017 and December 31, 2016, respectively, of which, $0.4 million and $0.7 million would be recorded through our income tax provision and thus impact the effective tax rate at June 30, 2017 and December 31, 2016, respectively, if the gross unrecognized tax benefits were to be recognized.

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

6. Employee Benefits

Pension and Similar Benefit Plans. We provide contributions to: (i) defined contribution 401(k) savings plans for salaried employees and certain hourly employees; (ii) a non-qualified, unfunded, unsecured plan of deferred compensation for key employees who would otherwise suffer a loss of benefits under our defined contribution plan; (iii) 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"), the International Association of Machinists and certain other unions at certain of our production facilities; and (iv) a defined benefit plan for salaried employees at our London, Ontario (Canada) facility.

Deferred Compensation Program. We have a non-qualified, unfunded, unsecured plan of deferred compensation for key employees who would otherwise suffer a loss of benefits under our defined contribution plan as a result of the limitations imposed by the Internal Revenue Code of 1986. Despite the plan being an unfunded plan, we make an annual contribution to a rabbi trust to fulfill future funding obligations as contemplated by the terms of the plan. These assets are held in various investment funds at certain registered investment companies and are accounted for as available for sale securities within Level 2 of the fair value hierarchy and are measured and recorded at fair value based on their quoted market prices. The fair value of these assets at June 30, 2017 and December 31, 2016 was $9.5 million and $8.2 million, respectively, and are included in Other assets. Offsetting liabilities relating to the deferred compensation plan are included in Long-term liabilities.

Union VEBA Postretirement Obligation. Certain eligible retirees participate in a voluntary employees' beneficiary association ("VEBA") that provides healthcare and medical cost reimbursement benefits for eligible retirees represented by certain unions and their surviving spouses and eligible dependents ("Union VEBA"). We have an obligation to make variable cash contributions to the Union VEBA with respect to periods through September 2017. During the first quarter of 2017, we paid $17.1 million to the Union VEBA with respect to the twelve months ended December 31, 2016, and in the first quarter of 2018, we will make a final cash contribution to the Union VEBA with respect to the nine months ending September 30, 2017. The final contribution amount is variable but cannot exceed $12.8 million. As of June 30, 2017, $11.5 million was recorded within Other accrued liabilities for this final contribution.

Salaried VEBA Postretirement Obligation. Additionally, certain other retirees who retired prior to 2004 and certain employees who were hired prior to February 2002 and have subsequently retired or will retire with the requisite age and service, along with their surviving spouses and eligible dependents, are eligible to participate in a separate VEBA that provides healthcare cost, medical cost and long-term care insurance cost reimbursement benefits ("Salaried VEBA"). We have an ongoing obligation with no express termination date to make annual variable cash contributions to the Salaried VEBA based on the contribution formula discussed in Note 6 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. The contribution amount cannot exceed $2.9 million per year. Our contribution with respect to 2016 was $2.9 million, which we paid in the first quarter of 2017. We account for the Salaried VEBA as a defined benefit plan in our financial statements.

Fair Value of Plan Assets. The plan assets of the Salaried VEBA and our Canadian pension plan are measured annually on December 31 and reflected in our Consolidated Balance Sheets at fair value. In determining the fair value of the plan assets at an annual period end, we utilize primarily the results of valuations supplied by the investment advisors responsible for managing the assets of each plan, which we independently review for reasonableness.

Components of Net Periodic Benefit Cost. Our results of operations included the following impacts associated with the Canadian defined benefit plan and the Salaried VEBA: (i) a charge 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 prior service costs associated with plan amendments and net gains or losses on assets. Net periodic benefit cost related to the Canadian defined benefit plan was not material for the quarters and six months ended June 30, 2017 and June 30, 2016.

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The following table presents the components of Net periodic postretirement benefit cost relating to Salaried VEBA for the periods presented (in millions of dollars):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Salaried VEBA:				
Service cost[1]	$—	$—	$—	$—
Interest cost	0.8	0.8	1.5	1.5
Expected return on plan assets	(1.1)	(1.0)	(2.1)	(2.0)
Amortization of prior service cost	1.2	1.0	2.4	2.0
Amortization of net actuarial loss	0.2	0.1	0.4	0.2
Total net periodic postretirement benefit cost relating to Salaried VEBA	$1.1	$0.9	$2.2	$1.7

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

The following table presents the total charges (income) related to all benefit plans for the periods presented (in millions of dollars):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Included within Fabricated Products:				
Deferred compensation plan	$0.1	$0.1	$0.2	$0.1
Defined contribution plans	1.4	1.5	5.5	5.1
Multiemployer pension plans	1.2	1.2	2.3	2.3
Total Fabricated Products	$2.7	$2.8	$8.0	$7.5
Included within All Other:				
Deferred compensation plan	0.3	0.1	0.7	0.2
Defined contribution plans	0.1	0.2	0.6	0.6
Net periodic postretirement benefit cost relating to Salaried VEBA	1.1	0.9	2.2	1.7
Gain on removal of Union VEBA net assets	—	—	(1.3)	(0.1)
Total All Other	$1.5	$1.2	$2.2	$2.4
Total	$4.2	$4.0	$10.2	$9.9

For all periods presented, substantially all of the Fabricated Products segment's employee benefits related charges are in Cost of products sold, excluding depreciation and amortization and other items with the remaining balance in Selling, general, administrative, research and development ("SG&A and R&D").

7. Employee Incentive Plans

Short-Term Incentive Plans ("STI Plans")

We have annual short-term incentive compensation plans for senior management and certain other employees payable at our election in cash, shares of common stock, or a combination of cash and shares of common stock. Amounts earned under STI Plans are based on our adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), modified for certain safety, quality, delivery, cost and individual performance factors. The Adjusted EBITDA targets are determined based on the return on adjusted net assets of our Fabricated Products business. Most of our production facilities have similar

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programs for both hourly and salaried employees. As of June 30, 2017, we had a liability of $10.4 million recorded within Accrued salaries, wages and related expenses for estimated probable future payments relating to the six month performance period of our 2017 STI Plan.

Long-Term Incentive Programs ("LTI Programs")

General. Prior to May 26, 2016, executive officers and other key employees of the Company, as well as non-employee directors of the Company, were eligible to participate in the Kaiser Aluminum Corporation Amended and Restated 2006 Equity and Performance Incentive Plan ("2006 Plan"). On May 26, 2016, our stockholders approved the Kaiser Aluminum Corporation 2016 Equity and Incentive Compensation Plan ("2016 Plan"), which replaced and succeeded in its entirety the 2006 Plan. No grants will be made under the 2006 Plan on or after May 26, 2016, but outstanding awards granted under the 2006 Plan will continue unaffected. Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the 2016 Plan, the number of shares of common stock available for awards is limited to 1,045,000 shares, minus, (i) one share for every one share subject to an award granted under the 2006 Plan between December 31, 2015 and the effective date of the 2016 Plan, plus (ii) any shares of our common stock that become available under the 2016 Plan as a result of forfeiture, cancellation, expiration, or cash settlement of awards. At June 30, 2017, 762,796 shares were available for awards under the 2016 Plan.

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

Performance Shares. In addition to non-vested common shares and restricted stock units, we grant performance shares to executive officers and other key employees. Each performance share that becomes vested and earned entitles the recipient to receive one common share or a cash amount equaling the value of one common share. During the first quarter of 2017, performance shares granted in 2014 under the 2014-2016 LTI Program vested (see "Summary of Activity" below). The number of performance shares that vested and resulted in the issuance of common shares was determined based on our total shareholder return ("TSR") compared to the TSR of a specified group of peer companies over a three-year performance period.

Performance shares granted in 2015 are subject to performance conditions pertaining to our TSR relative to the TSR of a specified group of peer companies over a three-year performance period ("TSR-Based Performance Shares"). Performance shares granted in 2016 consist of TSR-Based Performance Shares and performance shares subject to performance requirements pertaining to our total controllable cost performance over a three-year performance period ("CP-Based Performance Shares").

Performance shares granted in 2017 consist of TSR-Based Performance Shares, CP-Based Performance Shares and performance shares subject to performance conditions pertaining to our economic value added ("EVA") performance, determined based on our adjusted pre-tax operating income in excess of a capital charge, over a three-year performance period ("EVA-Based Performance Shares").

The number of performance shares under the 2015-2017, 2016-2018 and 2017-2019 LTI Programs that may be earned and result in the issuance of common shares ranges between 0% to 200% of the target number of underlying common shares, which is approximately one-half of the maximum payout. The performance shares granted under the 2015-2017, 2016-2018 and 2017-2019 LTI Programs will vest in 2018, 2019 and 2020, respectively.

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

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Non-vested common shares and restricted stock units	$1.2	$1.2	$2.5	$2.3
TSR-Based Performance Shares	1.2	1.4	2.5	2.5
CP-Based Performance Shares	0.8	0.4	1.2	0.5
EVA-Based Performance Shares	0.2	—	0.2	0.3
Total non-cash compensation expense	$3.4	$3.0	$6.4	$5.6

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

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Fabricated Products	$1.2	$1.1	$2.4	$1.9
All Other	2.2	1.9	4.0	3.7
Total non-cash compensation expense	$3.4	$3.0	$6.4	$5.6

Unrecognized Gross Compensation Cost Data. The following table presents unrecognized gross compensation cost data by type of award as of June 30, 2017:

	Unrecognized Gross Compensation Costs (in millions of dollars)	Expected Period (in years) Over Which the Remaining Gross Compensation Costs Will Be Recognized
Non-vested common shares and restricted stock units	$ 8.5	2.0
TSR-Based Performance Shares	$ 6.8	1.9
CP-Based Performance Shares	$ 6.9	2.3
EVA-Based Performance Shares	$ 1.7	2.7

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Summary of Activity. A summary of the activity with respect to non-vested common shares, restricted stock units, TSR-Based Performance Shares, CP-Based Performance Shares and EVA-Based Performance Shares for the six months ended June 30, 2017 is as follows:

	Non-Vested Common Shares		Restricted Stock Units		TSR-Based Performance Shares		CP-Based Performance Shares		EVA-Based 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	Shares	Weighted-Average Grant-Date Fair Value per Share	Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding at December 31, 2016	114,658	$ 69.51	61,800	$ 74.94	394,525	$ 90.30	63,678	$ 80.46	—	$ —
Granted[1]	11,817	86.92	62,275	73.14	65,044	97.88	65,044	79.69	32,504	79.69
Vested	(46,689)	71.46	(8,655)	76.94	(94,082)	83.18	—	—	—	—
Forfeited[1]	(378)	69.83	(5,029)	79.70	(4,595)	95.98	(2,890)	79.90	(1,044)	79.69
Canceled[1]	—	—	—	—	(55,288)	83.18	—	—	—	—
Outstanding at June 30, 2017	79,408	$ 70.95	110,391	$ 73.71	305,604	$ 95.31	125,832	$ 80.07	31,460	$ 79.69

[1] For performance shares, the number of shares granted and forfeited are presented at their maximum payout; and the number of shares canceled includes the number of shares that did not vest due to performance results falling below those required for maximum payout.

The weighted-average grant-date fair value per share for shares granted by type of award was as follows for each period presented:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Non-vested common shares	$86.92	$86.11	$86.92	$86.11
Restricted stock units	$—	$88.27	$73.14	$75.57
TSR-Based Performance Shares	$—	$—	$97.88	$93.02
CP-Based Performance Shares	$—	$—	$79.69	$80.46
EVA-Based Performance Shares	$—	$—	$79.69	$—

Stock Options. As of December 31, 2016, we had 1,543 fully-vested outstanding stock options exercisable to purchase common shares at $80.01 per share, all of which subsequently expired on April 2, 2017. No options were granted during the six months ended June 30, 2017, and no options were outstanding as of June 30, 2017.

Under each of the 2006 Plan and 2016 Plan, participants may elect to have us 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. We cancel any such shares withheld 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 we withhold these common shares, we are required to remit to the appropriate taxing authorities the fair value of the shares withheld as of the vesting date. During the six months ended June 30, 2017 and June 30, 2016, 56,195 and 35,430 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.

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8. Commitments and Contingencies

Commitments. We have a variety of financial commitments, including purchase agreements, forward foreign exchange and forward sales contracts, indebtedness and letters of credit (see Note 3 and Note 9).

Environmental Contingencies. We are subject to a number of environmental laws and regulations, to potential fines or penalties assessed for alleged breaches of such laws and regulations and to potential claims based upon such laws and regulations. We are also subject to legacy environmental contingencies related to activities that occurred at operating facilities within Fabricated Products prior to July 6, 2006 while such operating facilities were being operated by a predecessor, which represent the majority of our environmental accruals. The status of these environmental contingencies are discussed below. We have established procedures for regularly evaluating environmental loss contingencies. Our environmental accruals represent our undiscounted estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, existing requirements, currently available facts, existing technology and our assessment of the likely remediation actions to be taken.

We continue to pursue remediation activities, primarily to address the historical use of oils containing polychlorinated biphenyls ("PCBs") at our Spokane, Washington ("Trentwood") facility. Our remediation efforts are in collaboration with the Washington State Department of Ecology ("Washington State Ecology"), to which we submitted a feasibility study in 2012 of remediation alternatives and from which we received permission to begin certain remediation activities pursuant to a signed work order. As we have finished a number of sections of the work plan, we have received approval from Washington State Ecology on satisfactory completion of those sections. Additionally, in cooperation with Washington State Ecology, to determine the treatability and evaluate the feasibility of removing PCBs from ground water under the Trentwood facility, we constructed a pilot test facility and began treatment operations at the test facility in the first half of 2016. As the success of the new methodology cannot be reasonably determined at this time, it is possible we may need to make upward adjustments to our related accruals as facts and cost estimates regarding the groundwater treatment method and the operation of the treatment facility become available.

During 2013, at the request of the Ohio Environmental Protection Agency ("OEPA"), we initiated an investigational study of the Newark, Ohio ("Newark") facility related to historical on-site waste disposal. Since 2014, we have completed a number of preliminary steps in the preparation of completing the final risk assessment and feasibility study, both of which are subject to review and approval by the OEPA. As work continues and progresses to a final risk assessment and feasibility study, we will establish and update estimates for probable and estimable remediation, 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 12 to 15 months.

At June 30, 2017, our environmental accrual of $16.9 million represented our estimate of the incremental remediation cost based on: (i) proposed alternatives in the final feasibility study related to the Trentwood facility; (ii) currently available facts with respect to our Newark facility; and (iii) facts related to certain other locations owned or formerly owned by us. In accordance with approved and proposed remediation action plans, we expect 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. We believe 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 $12.2 million over the remediation period. It is reasonably possible that our recorded estimate will change in the next 12 months.

Other Contingencies. We are party to various lawsuits, claims, investigations and administrative proceedings that arise in connection with past and current operations. We evaluate such matters on a case-by-case basis and our policy is to vigorously contest any such claims we believe are without merit. We accrue 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, we review and adjust 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, we believe that we have sufficiently accrued for such matters and that the ultimate resolution of pending matters will not have a material impact on our consolidated financial position, operating results or liquidity.

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9. Derivatives, Hedging Programs and Other Financial Instruments

Overview. In conducting our business, we enter into derivative transactions, including forward contracts and options, to limit our economic (i.e. cash) exposure resulting from: (i) metal price risk related to our sale of fabricated aluminum products and the purchase of metal used as raw material for our fabrication operations; (ii) energy price risk relating to fluctuating prices of natural gas and electricity used in our production processes; and (iii) foreign currency requirements with respect to our foreign subsidiaries and cash commitments for equipment purchases denominated in foreign currency.

Our derivative activities are overseen by a hedging committee ("Hedging Committee"), which is composed of our chief executive officer, chief operating officer, chief financial officer, chief accounting officer, treasurer and other officers and employees selected by the chief executive officer. The Hedging Committee meets regularly to review commodity price exposure, derivative positions and strategy, and management reports to our Board of Directors on the scope of its activities.

We are exposed to counterparty credit risk on all of our derivative instruments, which we manage by monitoring the credit quality of our counterparties and allocating our hedging positions among multiple counterparties to limit exposure to any single entity. Our counterparties are major, investment grade financial institutions or trading companies. Hedging transactions are governed by negotiated reciprocal credit lines, which generally require collateral to be posted above specified credit thresholds. We believe the risk of loss is remote and contained due to counterparty credit quality, our diversification practice and collateral requirements.

In a majority of our hedging counterparty agreements, our counterparty offers us a credit line that adjusts up or down, depending on our liquidity. Below specified liquidity thresholds, we may have to post collateral if the fair value of our net liability with such counterparty exceeds our reduced credit line. We manage this risk by allocating hedging transactions among multiple counterparties, using options as part of our hedging activities, or both. The aggregate fair value of our derivative instruments that were in a net liability position was $0.4 million and $0.1 million at June 30, 2017 and December 31, 2016, respectively, and we had no collateral posted as of those dates.

Additionally, our firm-price customer sales commitments create incremental customer credit risk related to metal price movements. Under certain circumstances, we mitigate this risk by periodically requiring cash collateral from them, which we classify as deferred revenue and include as a component of Other accrued liabilities. At June 30, 2017, we had no cash collateral posted from any of our customers. For more information about concentration risks concerning customers and suppliers, see Note 11.

Notional Amount of Derivative Contracts. The following table summarizes our derivative positions at June 30, 2017:

Aluminum	Maturity Period (month/year)	Notional Amount of contracts (mmlbs)
Purchased put option contracts	7/17 through 12/17	26.8
Fixed price purchase contracts	7/17 through 12/21	185.4
Fixed price sales contracts	8/17 through 11/19	1.1
Midwest premium swap contracts[1]	7/17 through 12/21	184.3

Alloying Metals	Maturity Period (month/year)	Notional Amount of contracts (mmlbs)
Fixed price purchase contracts	7/17 through 6/18	5.4

Natural Gas[2]	Maturity Period (month/year)	Notional Amount

		of contracts (mmbtu)
Fixed price purchase contracts	7/17 through 12/19	3,890,000

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Euro	Maturity Period (month/year)	Notional Amount of contracts (euro)
Fixed price purchase contracts	8/17 through 4/18	406,904

[1] Regional premiums represent the premium over the London Metal Exchange price for primary aluminum which is incurred on our purchases of primary aluminum.

[2] As of June 30, 2017, we had derivative and/or physical delivery commitments with energy companies in place to cover exposure to fluctuations in prices for approximately 73% of the expected natural gas purchases for the remainder of 2017 and 71% of the expected natural gas purchases for both 2018 and 2019.

We have physical delivery commitments at firm prices covering approximately 54% of our expected electricity purchases for each of the remainder of 2017, 2018 and 2019, respectively.

Non-Designated Hedges of Operational Risks. Our 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 our customers. For some of our higher value added products sold on a spot basis, the pass through of metal price movements can sometimes lag by as much as several months, with a favorable impact to us when metal prices decline and an adverse impact to us when metal prices increase. Additionally, in certain instances, we enter into firm-price arrangements with our customers for stipulated volumes to be delivered in the future. Because we generally purchase primary and secondary aluminum on a floating price basis, the lag in passing through metal price movements to customers on some of our higher value added products sold on a spot basis and the volume that we have committed to sell to our customers under a firm-price arrangement create metal price risk for us. We use third-party hedging instruments to limit exposure to metal price risk related to the metal pass through lag on some of our products and firm-price customer sales contracts.

We are also exposed to risk of fluctuating prices for natural gas and electricity. We, from time to time, in the ordinary course of business, enter into hedging transactions and/or physical delivery commitments with third parties to mitigate our risk from fluctuations in natural gas and electricity prices.

Designated Alloying Metal Hedges. We enter into agreements with suppliers to purchase alloying metals (zinc and copper) used as raw materials in our fabrication operations at fluctuating prices that we are unable to pass along to our customers. We mitigate our exposure to metal price risk by entering into Alloy Hedges with third-party financial institutions at predetermined/fixed prices at stated delivery dates. Our Alloy Hedges are expected to be highly effective because monthly settlements correspond to forecasted physical purchases of alloying metals by our manufacturing facilities. The effective portion of the fair value on these Alloy Hedges is recorded within Other comprehensive income, net of tax, and is reclassified into the Statements of Consolidated Income during the month of settlement to Cost of products sold (See Note 14). As of June 30, 2017, we estimate the net gain of $0.1 million will be reclassified from Accumulated other comprehensive loss into Net income within the next 12 months. We incurred no ineffectiveness on these hedges during the quarter and six months ended June 30, 2017.

Foreign Currency Cash Flow Hedges. We are exposed to foreign currency exchange risk related to firm-price agreements for equipment purchases from foreign manufacturers. Such agreements require that we make payments in foreign currency to the vendor over time based on milestone achievements. We use foreign currency forward contracts designed to line up with the timing and amounts of scheduled payments to the foreign equipment manufacturers so that we mitigate our exposure to currency exchange rate fluctuations on these purchases. Certain of these derivative contracts are designated and qualify for cash flow hedge accounting and the remainder are non-designated hedges. As of June 30, 2017, we had one remaining open foreign currency forward contract designated as a cash flow hedge with a weighted average exchange rate of 1.12 euro to US dollar. The effective portion of the fair value on our designated foreign currency cash flow hedges is recorded within Other comprehensive income, net of tax, and is reclassified into the Statements of Consolidated Income on the same line item and the same period in which the underlying equipment is depreciated. Additionally, we had four open foreign currency forward contracts that were not designated as a cash flow hedges as of June 30, 2017 with a weighted average exchange rate of 1.08 euro to US dollar. Realized and unrealized periodic gains and losses of non-designated foreign currency forward contracts are reflected as a reduction or increase in Other income (expense), net.

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Realized and Unrealized Gain and Loss. Realized and unrealized (gain) loss included on the Statements of Consolidated Income associated with all derivative contracts consisted of the following for each period presented (in millions of dollars):

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Realized (gain) loss:				
Aluminum	$(5.2)	$1.0	$(9.8)	$3.7
Natural gas	0.1	1.6	0.1	3.3
Alloy Hedges	0.2	—	0.1	—
Total realized (gain) loss[1]	$(4.9)	$2.6	$(9.6)	$7.0
Unrealized loss (gain):				
Aluminum	$11.6	$(6.9)	$(4.7)	$(10.0)
Natural gas	0.3	(4.0)	1.5	(4.9)
Total unrealized loss (gain)[2]	$11.9	$(10.9)	$(3.2)	$(14.9)

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1 Recorded within Cost of products sold, excluding depreciation, amortization and other items within the Fabricated Products segment.
2 Recorded within Unrealized loss (gain) on derivative instruments within the Fabricated Products segment.

Fair Values of Derivative Contracts. The fair values of our derivative contracts are based upon trades in liquid markets. Valuation model inputs can be verified, and valuation techniques do not involve significant judgment. The fair values of such financial instruments are classified within Level 2 of the fair value hierarchy.

The following table presents our financial instruments, classified under the appropriate level of the fair value hierarchy, as of the period presented (in millions of dollars):

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
DERIVATIVE ASSETS:				
Non-Designated Hedges:				
Aluminum –				
Purchased put option contracts	$—	$0.1	$ —	$0.1
Fixed price purchase contracts	—	9.5	—	9.5
Midwest premium swap contracts	—	0.3	—	0.3
Natural gas – Fixed price purchase contracts	—	0.3	—	0.3
Designated Hedges:				
Alloying metals – Fixed price purchase contracts	—	0.2	—	0.2
Total derivative assets[1]	$—	$10.4	$ —	$10.4

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	June 30, 2017			
	Level 1	Level 2	Level 3	Total
DERIVATIVE LIABILITIES:				
Non-Designated Hedges:				
Aluminum –				
Fixed price purchase contracts	$ —	$ (0.1)	$ —	$ (0.1)
Midwest premium swap contracts	—	(2.0)	—	(2.0)
Natural gas – Fixed price purchase contracts	—	(0.7)	—	(0.7)
Designated Hedges:				
Alloying metals – Fixed price purchase contracts	—	—	—	—
Total derivative liabilities[2]	$ —	$ (2.8)	$ —	$ (2.8)

1 Of the $10.4 million in total derivative assets, $9.1 million and $1.3 million were recorded within Prepaid expenses and other current assets and Other assets, respectively.

2 Of the $2.8 million in total derivative liabilities, $1.9 million and $0.9 million were recorded within Other accrued liabilities and Long-term liabilities, respectively.

The following table presents our financial instruments, classified under the appropriate level of the fair value hierarchy, as of the period presented (in millions of dollars):

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
DERIVATIVE ASSETS:				
Non-Designated Hedges:				
Aluminum –				
Fixed price purchase contracts	$ —	$ 3.3	$ —	$ 3.3
Midwest premium swap contracts	—	0.9	—	0.9
Natural gas – Fixed price purchase contracts	—	1.6	—	1.6
Total derivative assets[1]	$ —	$ 5.8	$ —	$ 5.8
DERIVATIVE LIABILITIES:				
Non-Designated Hedges:				
Aluminum –				
Fixed price purchase contracts	$ —	$ (1.1)	$ —	$ (1.1)
Midwest premium swap contracts	—	(0.2)	—	(0.2)
Natural gas – Fixed price purchase contracts	—	(0.4)	—	(0.4)
Designated Hedges:				
Alloying metals – Fixed price purchase contracts	—	(0.1)	—	(0.1)
Total derivative liabilities[2]	$ —	$ (1.8)	$ —	$ (1.8)

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[1] Of the $5.8 million in total derivative assets, $5.0 million and $0.8 million were recorded within Prepaid expenses and other current assets and Other assets, respectively.

[2] Of the $1.8 million in total derivative liabilities, $0.8 million and $1.0 million were recorded within Other accrued liabilities and Long-term liabilities, respectively.

The aggregate fair value of our derivatives at June 30, 2017 and December 31, 2016 was a net asset of $7.6 million and a net asset of $4.0 million, respectively. The increase in the net asset position during the six months ended June 30, 2017 was primarily due to changes in the underlying commodity and energy prices, as well as settlement of positions during the period. Changes in the fair value of our derivative contracts relating to non-designated hedges of operational activities are reflected in Operating income.

Offsetting Information. We enter into derivative contracts with counterparties subject to enforceable master netting arrangements and, from time to time, not subject to netting arrangements. We reflect the fair value of our derivative contracts on a gross basis on the Consolidated Balance Sheets. We had no cash collateral pledged or received with our counterparties as of both June 30, 2017 and December 31, 2016.

The following tables present offsetting information regarding our derivatives by type of counterparty as of June 30, 2017 (in millions of dollars):

	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
Counterparty (with netting agreements)	$ 10.4	$ —	$ 10.4	$ 2.8	$ 7.6
Total	$ 10.4	$ —	$ 10.4	$ 2.8	$ 7.6

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Net Amount
Counterparty (with netting agreements)	$ (2.8)	$ —	$ (2.8)	$ (2.8)	$ —
Total	$ (2.8)	$ —	$ (2.8)	$ (2.8)	$ —

The following tables present offsetting information regarding our derivatives by type of counterparty as of December 31, 2016 (in millions of dollars):

	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
Counterparty (with netting agreements)	$ 3.3	$ —	$ 3.3	$ 1.0	$ 2.3

Counterparty (with partial netting agreements)	2.5	—	2.5	0.7	1.8
Total	$ 5.8	$ —	$ 5.8	$ 1.7	$ 4.1

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	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Net Amount
Counterparty (with netting agreements)	$ (1.0)	$ —	$ (1.0)	$ (1.0)	$ —
Counterparty (with partial netting agreements)	(0.8)	—	(0.8)	(0.7)	(0.1)
Total	$ (1.8)	$ —	$ (1.8)	$ (1.7)	$ (0.1)

Fair Value of Other Financial Instruments

Available for Sale Securities. We hold debt investment securities that are accounted for as available for sale securities. The fair value of the debt investment securities, which consist of commercial paper and corporate bonds, is determined based on valuation models that use observable market data. At June 30, 2017, all of our short-term investments had maturity dates within 12 months. We review our debt investment portfolio for other-than-temporary impairment at least quarterly or when there are changes in credit risk or other potential valuation concerns. At June 30, 2017 and December 31, 2016, the total unrealized loss, net of tax, included in Accumulated other comprehensive loss was immaterial and was not other-than-temporarily impaired. We believe that it is probable that the principal and interest will be collected in accordance with the contractual terms, and that the unrealized loss on these securities was due to normal market fluctuations, and not due to increased credit risk or other valuation concerns. The fair value input of our available for sale securities, which are classified within Level 2 of the fair value hierarchy, is calculated based on broker quotes. The amortized cost for available for sale securities approximates their fair value.

All Other Financial Assets and Liabilities. We believe that the fair value of our cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their respective carrying values due to their short maturities and nominal credit risk. See Note 2 for components of cash and cash equivalents.

The following table presents our other financial assets, classified under the appropriate level of the fair value hierarchy, as of June 30, 2017 (in millions of dollars):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$30.7	$26.4	$ —	$57.1
Short-term investments	—	175.7	—	175.7
Total	$30.7	$202.1	$ —	$232.8

The following table presents our other financial assets, classified under the appropriate level of the fair value hierarchy, as of December 31, 2016 (in millions of dollars):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$37.9	$17.3	$ —	$55.2
Short-term investments	—	231.0	—	231.0
Total	$37.9	$248.3	$ —	$286.2

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10. Net Income Per Share and Stockholders' Equity

Net Income Per Share. Basic and diluted net income per share were calculated as follows, for each period presented (in millions of dollars, except share and per share amounts):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$4.7	$ 26.0	$40.7	$ 52.3
Denominator – Weighted-average common shares outstanding (in thousands):				
Basic[1]	17,003	17,871	17,193	17,867
Add: dilutive effect of non-vested common shares, restricted stock units, performance shares and stock options	198	323	225	327
Diluted[2]	17,201	18,194	17,418	18,194
Net income per common share, Basic:	$0.28	$ 1.45	$2.37	$ 2.92
Net income per common share, Diluted:	$0.27	$ 1.43	$2.34	$ 2.87

1 The basic weighted-average number of common shares outstanding during the periods presented excludes non-vested common shares, restricted stock units and performance shares.

2 The diluted weighted-average number of common shares outstanding during the periods presented was calculated using the treasury method.

The following securities were excluded from the weighted-average diluted shares computation for the quarters and six months ended June 30, 2017 and June 30, 2016 as their inclusion would have been anti-dilutive (in thousands of shares):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Non-vested common shares, restricted stock units and performance shares	55	2	56	65
Total excluded	55	2	56	65

Dividends. During the six months ended June 30, 2017 and June 30, 2016, we paid a total of approximately $17.9 million and $16.3 million, respectively, in cash dividends to stockholders, including the holders of restricted stock, and in dividend equivalents to the holders of certain restricted stock units and performance shares.

Stock Repurchase Program. From time to time, we repurchase shares pursuant to a stock repurchase program authorized by our Board of Directors. Such repurchases of our common stock are recorded as Treasury stock. Repurchase transactions will occur at such times and prices as management deems appropriate and will be funded with our excess liquidity after giving consideration to, among other things, internal and external growth opportunities and future cash flows. Repurchases may be in open-market transactions or in privately negotiated transactions and the program may be modified or terminated by our Board of Directors at any time.

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The following table summarizes repurchases recorded as treasury stock for each period presented:

	Six Months Ended June 30,	
	2017	2016
Number of common shares repurchased	787,986	109,033
Weighted-average repurchase price (dollars per share)	$ 80.26	$ 79.04
Total cost of repurchased common shares (in millions of dollars)	$ 63.2	$ 8.6

At June 30, 2017, $125.2 million were available to repurchase our common shares pursuant to the stock repurchase program.

11. Segment and Geographical Area Information

Our primary line of business is the production of semi-fabricated specialty aluminum products, such as aluminum plate and sheet and extruded and drawn products, primarily used in Aero/HS products, Automotive Extrusions, GE products and Other products. We operate 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. At June 30, 2017, approximately 63% of our employees were covered by collective bargaining agreements and approximately 16% of our employees were covered by collective bargaining agreements with expiration dates occurring within one year from June 30, 2017.

In addition to the Fabricated Products segment, we have a business unit, All Other, which provides general and administrative support for our operations. For purposes of segment reporting under GAAP, we treat the Fabricated Products segment as a reportable segment. All Other is not considered a reportable segment.

The accounting policies of the Fabricated Products segment are the same as those described in Note 1. Segment results are evaluated internally by management before any allocation of corporate overhead and without any charge for income taxes, interest expense or other net operating charges.

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The following tables provide financial information by reporting segment and business unit for each period or as of each period end, as applicable (in millions of dollars):

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net sales:				
Fabricated Products	$356.3	$334.9	$711.6	$678.1
Segment operating income (loss):				
Fabricated Products	$25.6	$72.1	$96.2	$130.0
All Other	(14.2)	(14.2)	(25.3)	(27.3)
Total operating income	$11.4	$57.9	$70.9	$102.7
Interest expense	(5.5)	(5.5)	(11.1)	(9.2)
Other income (expense), net	1.0	(10.7)	1.6	(10.4)
Income before income taxes	$6.9	$41.7	$61.4	$83.1
Depreciation and amortization:				
Fabricated Products	$9.4	$8.8	$18.8	$17.4
All Other	0.1	0.2	0.3	0.3
Total depreciation and amortization	$9.5	$9.0	$19.1	$17.7
Capital expenditures:				
Fabricated Products	$24.8	$16.3	$39.4	$42.1
All Other	0.1	0.1	0.3	0.2
Total capital expenditures	$24.9	$16.4	$39.7	$42.3

	June 30, 2017	December 31, 2016
Assets:		
Fabricated Products	$991.5	$ 969.4
All Other[1]	395.2	474.1
Total assets	$1,386.7	$ 1,443.5

[1] Assets in All Other represent primarily all of our cash and cash equivalents, short-term investments, financial derivative assets (see Note 9) and net deferred income tax assets.

Net sales for the Fabricated Products segment by end market applications were as follows (in millions of dollars):

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net sales:				
Aero/HS products	$165.5	$167.7	$333.0	$344.6
Automotive Extrusions	55.9	48.8	108.9	97.1
GE products	122.0	107.3	245.2	212.7
Other products	12.9	11.1	24.5	23.7
Total net sales	$356.3	$334.9	$711.6	$678.1

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All income taxes are paid by the Fabricated Products reporting segment. Geographic information for income taxes paid was as follows (in millions of dollars):

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Income taxes paid:				
Domestic	$0.3	$0.2	$0.4	$0.3
Foreign	—	0.3	0.1	0.5
Total income taxes paid	$0.3	$0.5	$0.5	$0.8

Concentrations. For the quarter ended June 30, 2017, one customer represented 28% and another represented 12% of Fabricated Products Net sales. For the quarter ended June 30, 2016, one customer represented 27% and another represented 10% of Fabricated Products Net Sales. For the six months ended June 30, 2017, one customer represented 29% and another represented 11% of Fabricated Products Net sales. For the six months ended June 30, 2016, one customer represented 26% and another represented 10% of Fabricated Products Net Sales.

At June 30, 2017, one customer represented 18% and a second customer represented 16% of Trade receivables, net. One individual customer accounted for 18% and two individual customers each accounted for 12% of Trade receivables, net at December 31, 2016.

Information for delivery of our primary aluminum supply from our major suppliers was as follows:

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Percentage of total primary aluminum supply (lbs):				
Supply from our top five major suppliers	80%	86%	80%	84%
Supply from our largest supplier	24%	36%	25%	33%
Supply from our second and third largest suppliers	35%	30%	33%	32%

12. Supplemental Cash Flow Information

	Six Months Ended	
	June 30,	
	2017	2016
	(In millions of dollars)	
Interest paid	$10.4	$7.0
Non-cash investing and financing activities (included in Accounts payable):		
Unpaid purchases of property and equipment	$4.1	$2.6
Stock repurchases not yet settled	$0.6	$0.1
Acquisition of property and equipment through capital leasing arrangements	$0.3	$—

Components of cash, cash equivalents and restricted cash:	June 30, 2017	June 30, 2016
Cash and cash equivalents	$57.1	$195.3
Restricted cash included in Prepaid expenses and other current assets	0.3	0.3

Restricted cash included in Other assets	13.0	11.0
Total cash, cash equivalents and restricted cash shown in the Statements of Consolidated Cash Flows	$70.4	$206.6

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13. Other Income (Expense), Net

Other income (expense), net, consisted of the following for each period presented (in millions of dollars):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income	$—	$—	$—	$0.1
Realized gain on investments	0.7	0.3	1.4	0.3
Loss on extinguishment of debt[1]	—	(11.1)	—	(11.1)
All other income, net	0.3	0.1	0.2	0.3
Other income (expense), net	$1.0	$(10.7)	$1.6	$(10.4)

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1 Represents the loss on extinguishment of our 8.25% Senior Notes during the quarter ended June 30, 2016, which included an $8.2 million premium paid to redeem the notes and a $2.9 million write-off of unamortized debt issuance costs associated with the notes.

14. Accumulated Other Comprehensive (Loss) Income

The following table presents the changes in the accumulated balances for each component of Accumulated other comprehensive (loss) income ("AOCI") for each period presented (in millions of dollars):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Salaried VEBA and defined benefit pension plan:				
Beginning balance	$(36.2)	$(30.5)	$(37.1)	$(31.3)
Amortization of net actuarial loss[1]	0.2	0.1	0.4	0.2
Amortization of prior service cost[1]	1.2	1.0	2.4	2.0
Less: income tax expense[2]	(0.6)	(0.4)	(1.1)	(0.8)
Net amortization reclassified from AOCI to Net income	0.8	0.7	1.7	1.4
Translation impact on Canadian pension plan AOCI balance	—	—	—	0.1
Other comprehensive income, net of tax	0.8	0.7	1.7	1.5
Ending balance	$(35.4)	$(29.8)	$(35.4)	$(29.8)

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	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Available for sale securities:				
Beginning balance	$0.9	$(0.1)	$0.8	$(0.1)
Unrealized gain on available for sale securities	1.0	0.4	2.1	0.4
Less: income tax expense	(0.4)	(0.1)	(0.8)	(0.1)
Net unrealized gain on available for sale securities	0.6	0.3	1.3	0.3
Reclassification of unrealized gain upon sale of available for sale securities[3]	(0.7)	—	(1.6)	—
Less: income tax benefit[2]	0.3	—	0.6	—
Net unrealized gain reclassified from AOCI to Net income	(0.4)	—	(1.0)	—
Other comprehensive income, net of tax	0.2	0.3	0.3	0.3
Ending balance	$1.1	$0.2	$1.1	$0.2
Other:				
Beginning balance	$(0.1)	$(0.2)	$(0.4)	$(0.3)
Unrealized (loss) gain	—	(0.1)	0.3	0.1
Less: income tax expense	—	—	(0.1)	(0.1)
Net (loss) gain	—	(0.1)	0.2	—
Loss reclassified from AOCI to Net income	0.1	—	0.3	—
Less: income tax expense[2]	—	—	(0.1)	—
Net loss reclassified from AOCI to Net income	0.1	—	0.2	—
Other comprehensive income (loss), net of tax	0.1	(0.1)	0.4	—
Ending balance	$—	$(0.3)	$—	$(0.3)
Total AOCI ending balance	$(34.3)	$(29.9)	$(34.3)	$(29.9)

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1 Amounts reclassified out of AOCI relating to Salaried VEBA adjustments were included as a component of Net periodic postretirement benefit cost relating to Salaried VEBA.

2 Income tax amounts reclassified out of AOCI were included as a component of Income tax provision.

3 Amounts reclassified out of AOCI relating to sales of available for sale securities were included as a component of Other income (expense), net. We use the specific identification method to determine the amount reclassified out of AOCI.

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15. Condensed Guarantor and Non-Guarantor Financial Information

During the quarter ended June 30, 2016, we issued $375.0 million aggregate principal amount of our 5.875% Senior Notes and redeemed in full the remaining principal balance of our 8.25% Senior Notes. The 5.875% Senior Notes were issued by Kaiser Aluminum Corporation ("Parent") pursuant to an indenture dated May 12, 2016 ("Indenture") with Wells Fargo Bank, National Association, as trustee ("Trustee"). The obligations of the Parent under the Indenture are guaranteed by Kaiser Aluminum Investments Company, Kaiser Aluminum Fabricated Products, LLC and Kaiser Aluminum Washington, LLC, ("Guarantor Subsidiaries"). An additional Guarantor Subsidiary, Kaiser Aluminum Alexco, LLC, merged with and into Kaiser Aluminum Fabricated Products, LLC during the first quarter of 2017. All Guarantor Subsidiaries are 100% owned by the Parent. The guarantees are full and unconditional and joint and several but have customary releases in the following situations: (i) the sale of the Guarantor Subsidiary or all of its assets; (ii) the declaration of a Guarantor Subsidiary as an unrestricted subsidiary under the Indenture; (iii) the termination or release of the Guarantor Subsidiary's guarantee of certain other indebtedness; or (iv) our exercise of legal defeasance or covenant defeasance or the discharge of our obligations under the Indenture.

The following condensed consolidating financial information as of June 30, 2017 and December 31, 2016, and for the quarters and six months ended June 30, 2017 and June 30, 2016 present: (i) the financial position, results of operation and cash flows for each of (a) Parent, (b) the Guarantor Subsidiaries on a combined basis and (c) the Non-Guarantor Subsidiaries on a combined basis; (ii) the "Consolidating Adjustments," which represent the adjustments necessary to eliminate the investments in our subsidiaries, other intercompany balances and other intercompany sales and cost of sales among Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries; and (iii) the resulting totals, reflecting information for us on a consolidated basis, as reported. The condensed consolidating financial information should be read in conjunction with the consolidated financial statements herein.

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

CONDENSED CONSOLIDATING BALANCE SHEET
(In millions of dollars)
June 30, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$ 49.9	$ 7.2	$ —	$ 57.1
Short-term investments	—	175.7	—	—	175.7
Receivables:					
Trade receivables, net	—	139.0	6.6	—	145.6
Intercompany loans receivable	66.9	0.2	0.6	(67.7)	—
Other	—	10.0	0.7	—	10.7
Inventories	—	196.7	7.7	(4.5)	199.9
Prepaid expenses and other current assets	0.2	26.3	0.3	—	26.8
Total current assets	67.1	597.8	23.1	(72.2)	615.8
Investments in and advances to subsidiaries	1,075.5	41.3	—	(1,116.8)	—
Property, plant and equipment, net	—	521.6	30.5	—	552.1
Long-term intercompany loans receivable	—	—	2.7	(2.7)	—
Deferred tax assets, net	—	133.5	—	4.8	138.3
Intangible assets, net	—	25.7	—	—	25.7
Goodwill	—	18.8	—	—	18.8
Other assets	—	36.0	—	—	36.0
Total	$1,142.6	$ 1,374.7	$ 56.3	$ (1,186.9)	$ 1,386.7
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$1.8	$ 77.0	$ 5.4	$ —	$ 84.2
Intercompany loans payable	—	67.6	0.1	(67.7)	—
Accrued salaries, wages and related expenses	—	33.1	1.5	—	34.6
Other accrued liabilities	2.8	39.3	0.1	(4.7)	37.5
Total current liabilities	4.6	217.0	7.1	(72.4)	156.3
Net liabilities of Salaried VEBA	—	28.0	—	—	28.0
Deferred tax liabilities	—	—	3.3	—	3.3
Long-term intercompany loans payable	—	2.7	—	(2.7)	—
Long-term liabilities	—	58.5	2.6	—	61.1
Long-term debt	369.2	—	—	—	369.2
Total liabilities	373.8	306.2	13.0	(75.1)	617.9
Total stockholders' equity	768.8	1,068.5	43.3	(1,111.8)	768.8
Total	$1,142.6	$ 1,374.7	$ 56.3	$ (1,186.9)	$ 1,386.7

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

CONDENSED CONSOLIDATING BALANCE SHEET
(In millions of dollars)
December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$ 52.9	$ 2.3	$ —	$ 55.2
Short-term investments	—	231.0	—	—	231.0
Receivables:					
Trade receivables, net	—	133.1	4.6	—	137.7
Intercompany receivables	85.8	0.1	0.6	(86.5)	—
Other	—	11.4	0.5	—	11.9
Inventories	—	197.5	8.0	(3.9)	201.6
Prepaid expenses and other current assets	0.1	18.0	0.9	(0.5)	18.5
Total current assets	85.9	644.0	16.9	(90.9)	655.9
Investments in and advances to subsidiaries	1,012.4	40.1	—	(1,052.5)	—
Property, plant and equipment, net	—	499.5	31.4	—	530.9
Long-term intercompany receivables	80.2	—	4.9	(85.1)	—
Deferred tax assets, net	—	154.9	—	4.8	159.7
Intangible assets, net	—	26.4	—	—	26.4
Goodwill	—	37.2	—	—	37.2
Other assets	—	33.4	—	—	33.4
Total	$1,178.5	$ 1,435.5	$ 53.2	$ (1,223.7)	$ 1,443.5
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$2.2	$ 68.9	$ 4.7	$ —	$ 75.8
Intercompany payable	—	86.4	0.1	(86.5)	—
Accrued salaries, wages and related expenses	—	47.2	1.9	—	49.1
Other accrued liabilities	2.9	52.6	(0.7)	(14.7)	40.1
Total current liabilities	5.1	255.1	6.0	(101.2)	165.0
Net liabilities of Salaried VEBA	—	28.6	—	—	28.6
Deferred tax liabilities	—	—	3.3	—	3.3
Long-term intercompany payable	—	85.1	—	(85.1)	—
Long-term liabilities	—	70.5	2.7	—	73.2
Long-term debt	368.7	—	—	—	368.7
Total liabilities	373.8	439.3	12.0	(186.3)	638.8
Total stockholders' equity	804.7	996.2	41.2	(1,037.4)	804.7
Total	$1,178.5	$ 1,435.5	$ 53.2	$ (1,223.7)	$ 1,443.5

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

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In millions of dollars)
Quarter Ended June 30, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$ 347.0	$ 29.8	$ (20.5)	$ 356.3
Costs and expenses:					
Cost of products sold:					
Cost of products sold, excluding depreciation and amortization and other items	—	271.6	25.7	(19.6)	277.7
Unrealized loss on derivative instruments	—	11.9	—	—	11.9
Depreciation and amortization	—	9.0	0.5	—	9.5
Selling, general, administrative, research and development:					
Selling, general, administrative, research and development	1.5	22.8	2.5	(0.5)	26.3
Net periodic postretirement benefit cost relating to Salaried VEBA	—	1.1	—	—	1.1
Total selling, general, administrative, research and development	1.5	23.9	2.5	(0.5)	27.4
Goodwill impairment	—	18.4	—	—	18.4
Total costs and expenses	1.5	334.8	28.7	(20.1)	344.9
Operating (loss) income	(1.5)	12.2	1.1	(0.4)	11.4
Other (expense) income:					
Interest expense	(4.6)	(0.9)	—	—	(5.5)
Other income, net	—	0.8	0.2	—	1.0
(Loss) income before income taxes	(6.1)	12.1	1.3	(0.4)	6.9
Income tax provision	—	(4.2)	(0.3)	2.3	(2.2)
Earnings in equity of subsidiaries	10.8	0.6	—	(11.4)	—
Net income	$ 4.7	$ 8.5	$ 1.0	$ (9.5)	$ 4.7
Comprehensive income	$ 5.8	$ 9.6	$ 1.0	$ (10.6)	$ 5.8

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

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In millions of dollars)
Six Months Ended June 30, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$ 693.8	$ 59.1	$ (41.3)	$ 711.6
Costs and expenses:					
Cost of products sold:					
Cost of products sold, excluding depreciation and amortization and other items	—	544.2	51.0	(39.7)	555.5
Unrealized gain on derivative instruments	—	(3.2)	—	—	(3.2)
Depreciation and amortization	—	18.0	1.1	—	19.1
Selling, general, administrative, research and development:					
Selling, general, administrative, research and development	2.4	43.7	4.9	(1.0)	50.0
Net periodic postretirement benefit cost relating to Salaried VEBA	—	2.2	—	—	2.2
Gain on removal of Union VEBA net assets	—	(1.3)	—	—	(1.3)
Total selling, general, administrative, research and development	2.4	44.6	4.9	(1.0)	50.9
Goodwill impairment	—	18.4	—	—	18.4
Total costs and expenses	2.4	622.0	57.0	(40.7)	640.7
Operating (loss) income	(2.4)	71.8	2.1	(0.6)	70.9
Other (expense) income:					
Interest expense	(10.3)	(0.8)	—	—	(11.1)
Other income, net	—	1.4	0.2	—	1.6
(Loss) income before income taxes	(12.7)	72.4	2.3	(0.6)	61.4
Income tax provision	—	(25.0)	(0.5)	4.8	(20.7)
Earnings in equity of subsidiaries	53.4	1.2	—	(54.6)	—
Net income	$40.7	$ 48.6	$ 1.8	$ (50.4)	$ 40.7
Comprehensive income	$43.1	$ 51.0	$ 1.8	$ (52.8)	$ 43.1

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

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In millions of dollars)
Quarter Ended June 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$ 327.3	$ 27.6	$ (20.0)	$ 334.9
Costs and expenses:					
Cost of products sold:					
Cost of products sold, excluding depreciation and amortization and other items	—	246.0	23.5	(19.1)	250.4
Unrealized gain on derivative instruments	—	(10.9)	—	—	(10.9)
Depreciation and amortization	—	8.5	0.5	—	9.0
Selling, general, administrative, research and development:					
Selling, general, administrative, research and development	1.6	23.8	3.0	(0.9)	27.5
Net periodic postretirement benefit cost relating to Salaried VEBA	—	0.9	—	—	0.9
Total selling, general, administrative, research and development	1.6	24.7	3.0	(0.9)	28.4
Other operating charges, net	—	0.1	—	—	0.1
Total costs and expenses	1.6	268.4	27.0	(20.0)	277.0
Operating (loss) income	(1.6)	58.9	0.6	—	57.9
Other (expense) income:					
Interest (expense) income	(5.9)	0.4	—	—	(5.5)
Other (expense) income, net	(11.0)	0.2	0.1	—	(10.7)
(Loss) income before income taxes	(18.5)	59.5	0.7	—	41.7
Income tax provision	—	(22.6)	(0.2)	7.1	(15.7)
Earnings in equity of subsidiaries	44.5	0.3	—	(44.8)	—
Net income	$26.0	$ 37.2	$ 0.5	$ (37.7)	$ 26.0
Comprehensive income	$26.9	$ 38.1	$ 0.5	$ (38.6)	$ 26.9

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

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In millions of dollars)
Six Months Ended June 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$—	$ 663.0	$ 54.0	$ (38.9)	$ 678.1
Costs and expenses:					
Cost of products sold:					
Cost of products sold, excluding depreciation and amortization and other items	—	503.1	46.6	(37.3)	512.4
Lower of cost or market inventory write-down	—	4.9	—	—	4.9
Unrealized gain on derivative instruments	—	(14.9)	—	—	(14.9)
Depreciation and amortization	—	16.7	1.0	—	17.7
Selling, general, administrative, research and development:					
Selling, general, administrative, research and development	2.4	47.4	5.2	(1.4)	53.6
Net periodic postretirement benefit cost relating to Salaried VEBA	—	1.7	—	—	1.7
Gain on removal of Union VEBA net assets	—	(0.1)	—	—	(0.1)
Total selling, general, administrative, research and development	2.4	49.0	5.2	(1.4)	55.2
Other operating charges, net	—	0.1	—	—	0.1
Total costs and expenses	2.4	558.9	52.8	(38.7)	575.4
Operating (loss) income	(2.4)	104.1	1.2	(0.2)	102.7
Other (expense) income:					
Interest expense	(10.2)	1.0	—	—	(9.2)
Other (expense) income, net	(11.0)	0.5	0.1	—	(10.4)
(Loss) income before income taxes	(23.6)	105.6	1.3	(0.2)	83.1
Income tax provision	—	(39.5)	(0.4)	9.1	(30.8)
Earnings in equity of subsidiaries	75.9	0.6	—	(76.5)	—
Net income	$52.3	$ 66.7	$ 0.9	$ (67.6)	$ 52.3
Comprehensive income	$54.1	$ 68.4	$ 1.0	$ (69.4)	$ 54.1

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In millions of dollars)
Six Months Ended June 30, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net cash (used in) provided by operating activities	$(12.3)	$ 82.5	$ 2.9	$ —	$ 73.1
Cash flows from investing activities:					
Capital expenditures	—	(39.5)	(0.2)	—	(39.7