KAISER ALUMINUM CORP
Form 10-Q
April 29, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010
Commission file number 0-52105
KAISER ALUMINUM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**94-3030279**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*
27422 PORTOLA PARKWAY, SUITE 200, FOOTHILL RANCH, CALIFORNIA	**92610-2831**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(949) 614-1740

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 o No o

Indicate by check mark whether the registrant is a large accelerated filter, an accelerated filter, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

As of April 23, 2010, there were 19,203,972 shares of the Common Stock of the registrant outstanding.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONSOLIDATED BALANCE SHEETS

	March 31, 2010	December 31, 2009
	(Unaudited)	
	(In millions of dollars, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 135.5	$ 30.3
Receivables:		
Trade, less allowance for doubtful receivables of $.6 and $.8 at March 31, 2010 and December 31, 2009, respectively	96.0	83.7
Due from affiliate		.2
Other	4.0	2.2
Inventories	131.4	125.2
Prepaid expenses and other current assets	62.5	59.1
Total current assets	429.4	300.7
Property, plant, and equipment net	350.3	338.9
Net asset in respect of VEBA	145.1	127.5
Deferred tax assets net	265.6	277.2
Other assets	81.0	41.2
Total	$ 1,271.4	$ 1,085.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 58.1	$ 49.0
Accrued salaries, wages, and related expenses	28.6	33.1
Other accrued liabilities	27.7	32.1
Payable to affiliate	16.7	9.0
Total current liabilities	131.1	123.2
Net liability in respect of VEBA	.6	.3
Long-term liabilities	108.2	53.7
Cash convertible senior notes	136.9	
Other long-term debt	7.1	7.1
	383.9	184.3
Commitments and contingencies		
Stockholders equity:		
	.2	.2

Common stock, par value $.01, 90,000,000 shares authorized at March 31, 2010 and at December 31, 2009; 19,208,061 shares issued and outstanding at March 31, 2010 and 20,276,571 shares issued and outstanding at December 31, 2009		
Additional capital	983.7	967.8
Retained earnings	88.9	85.0
Common stock owned by Union VEBA subject to transfer restrictions, at reorganization value, 4,392,265 shares at March 31, 2010 and 4,845,465 shares at December 31, 2009	(105.5)	(116.4)
Treasury stock, at cost, 1,724,606 shares at March 31, 2010 and 572,706 shares at December 31, 2009	(72.3)	(28.1)
Accumulated other comprehensive loss	(7.5)	(7.3)
Total stockholders equity	887.5	901.2
Total	$ 1,271.4	$ 1,085.5

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENTS OF CONSOLIDATED INCOME

	Quarter Ended March 31, 2010	2009
	(Unaudited) (In millions of dollars, except share amounts)	
Net sales	$ 267.5	$ 265.9
Costs and expenses:		
Cost of products sold:		
Cost of products sold, excluding depreciation, amortization and other items	232.0	225.6
Lower of cost or market inventory write-down		9.3
Impairment of investment in Anglesey		.6
Restructuring costs and other (benefits) charges	(.6)	1.2
Depreciation and amortization	4.0	4.1
Selling, administrative, research and development, and general	17.3	17.9
Total costs and expenses	252.7	258.7
Operating income	14.8	7.2
Other income (expense):		
Interest expense		(.2)
Other income (expense), net	.2	(.1)
Income before income taxes	15.0	6.9
Income tax provision	(6.2)	(3.1)
Net income	$ 8.8	$ 3.8
Earnings per share, Basic Note 14		
Net income per share	$ .44	$ .19
Earnings per share, Diluted Note 14		
Net income per share	$ .44	$ .19
Weighted-average number of common shares outstanding (000):		
Basic	20,020	19,492
Diluted	20,020	19,492

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Shares Outstanding	Common Stock	Additional Capital	Retained Earnings	Common Stock Owned by Union VEBA Subject to Transfer Restriction	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
				(Unaudited) (In millions of dollars, except for shares)				
BALANCE, December 31, 2009	20,276,571	$ .2	$ 967.8	$ 85.0	$ (116.4)	$ (28.1)	$ (7.3)	$ 901.2
Net income				8.8				8.8
Unrealized gains on available for sale securities							.1	.1
Foreign currency translation adjustment, net of tax of $0							(.3)	(.3)
Comprehensive income								8.6
Sale of Union VEBA shares by the Union VEBA, net of tax of $6.5			(.1)		10.9			10.8
Issuance of warrants			14.3					14.3
Issuance of non-vested shares to employees	82,867							
Issuance of common shares to employees upon vesting of	523							

restricted stock units and performance shares								
Repurchase of common stock	(1,151,900)					(44.2)		(44.2)
Cash dividends on common stock (.24 per share)				(4.9)				(4.9)
Excess tax benefit upon vesting of shares			.1					.1
Amortization of unearned equity compensation			1.6					1.6
BALANCE, March 31, 2010	19,208,061	$ .2	$ 983.7	$ 88.9	$ (105.5)	$ (72.3)	$ (7.5)	$ 887.5

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

	Quarter Ended March 31, 2010	2009
	(Unaudited) (In millions of dollars)	
Cash flows from operating activities:		
Net income	$ 8.8	$ 3.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including deferred financing costs of zero and $.2 for the quarters ended March 31, 2010 and March 31, 2009, respectively)	4.0	4.3
Deferred income taxes	5.1	.7
Excess tax (benefit) deficiency upon vesting of non-vested shares and dividend payment on unvested shares expected to vest	(.1)	.1
Non-cash equity compensation	1.6	2.5
Net non-cash LIFO charges (benefits) and lower of cost or market inventory write-down	9.2	(1.9)
Non-cash unrealized (gains) losses on derivative positions	(.2)	4.3
Amortization of option premiums	.2	
Non-cash impairment charges		.6
Equity in income of unconsolidated affiliate, net of distributions		(.6)
Loss on disposition of property, plant and equipment	.1	.1
Other non-cash changes in assets and liabilities	.5	1.2
Changes in assets and liabilities:		
Trade and other receivables	(14.1)	36.0
Receivable from affiliate	.2	11.8
Inventories (excluding LIFO charges and lower of cost or market write-down)	(15.4)	39.2
Prepaid expenses and other current assets	(.6)	1.8
Accounts payable	8.0	(16.1)
Accrued liabilities	(9.0)	(15.0)
Payable to affiliate	7.7	(6.0)
Accrued income taxes		.6
Long-term asset and liabilities, net	16.5	(1.4)
Net cash provided by operating activities	22.5	66.0
Cash flows from investing activities:		
Capital expenditures, net of change in accounts payable of $(1.1) and $4.0 for the quarters ended March 31, 2010 and March 31, 2009, respectively	(13.9)	(22.2)
Purchase of available for sale securities	(3.9)	
Change in restricted cash		1.3
Net cash used in investing activities	(17.8)	(20.9)
Cash flows from financing activities:		
Proceeds from issuance of cash convertible senior notes	175.0	
	(5.8)	

Cash paid for financing costs in connection with issuance of cash convertible senior notes		
Purchase of call option in connection with issuance of cash convertible senior notes	(31.4)	
Proceeds from issuance of warrants	14.3	
Borrowings under the revolving credit facility		75.5
Repayment of borrowings under the revolving credit facility		(111.5)
Cash paid for financing costs in connection with the revolving credit facility	(2.6)	(1.2)
Excess tax benefit (deficiency) upon vesting of non-vested shares and dividend payment on shares expected to vest	.1	(.1)
Repurchase of common stock	(44.2)	
Cash dividend paid to stockholders	(4.9)	(4.8)
Net cash provided by (used in) financing activities	100.5	(42.1)
Foreign currency impact on cash and cash equivalents		.1
Net increase in cash and cash equivalents during the period	105.2	3.1
Cash and cash equivalents at beginning of period	30.3	.2
Cash and cash equivalents at end of period	$ 135.5	$ 3.3

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(In millions of dollars, except share and per share amounts)
(Unaudited)

1. Summary of Significant Accounting Policies

This Report should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Principles of Consolidation and Basis of Presentation. The consolidated financial statements include the statements of the Company and its wholly owned subsidiaries. Intercompany balances and transactions are eliminated. See Note 3 for a description of the Company s accounting for its 49%, non-controlling ownership interest in Anglesey Aluminium Limited (Anglesey).

In the fourth quarter of 2009, the Company reorganized its business segments as the result of changes in the operations of Anglesey. The segment data for periods prior to this change have been retrospectively adjusted for consistency with current period classification. See Note 15 for a description of the Company s business segments.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, these financial statements do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented.

Use of Estimates and Assumptions. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company s consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company s consolidated financial position and results of operation.

Operating results for the quarter ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Recognition of Sales. Sales are generally recognized on a gross basis, when title, ownership and risk of loss pass to the buyer and collectability is reasonably assured. In connection with Anglesey s remelt operations, which commenced in the fourth quarter of 2009, the Company substantially reduced or eliminated its risks of inventory loss and metal price and foreign currency exchange rate fluctuation. As the Company is, in substance, acting as the agent in the sales arrangement of the secondary aluminum products from Anglesey, the sales are presented on a net of cost of sales basis.

A provision for estimated sales returns from, and allowances to, customers is made in the same period as the related revenues are recognized, based on historical experience or the specific identification of an event necessitating a reserve.

From time to time, in the ordinary course of business, the Company may enter into agreements with customers in which the Company, in return for a fee, agrees to reserve certain amounts of its existing production capacity for the customer, defer an existing customer purchase commitment into future periods and reserve certain amounts of its expected production capacity in those periods to the customer, or cancel or reduce existing commitments under existing contracts. These agreements may have terms or impact periods exceeding one year.

Certain of the capacity reservation and commitment deferral agreements provide for periodic, such as quarterly or annual, billing for the duration of the contract. For capacity reservation agreements, the Company recognizes revenue ratably over the period of the capacity reservation. Accordingly, the Company may recognize revenue prior to billing reservation fees. At March 31, 2010 and December 31, 2009, the Company had \$2.6 and \$.3 of unbilled receivables, respectively, included within Trade receivables on the Company s Consolidated Balance Sheets. For commitment deferral agreements, the Company recognizes revenue upon the earlier occurrence of the related sale of product or the end of the commitment period. In connection with other agreements, the Company may collect funds from customers in advance of the periods for which (i) the production capacity is reserved, (ii) commitments are deferred, (iii) commitments are reduced or (iv) performance is completed, in which event the recognition of revenue is deferred until such time as the fee is earned. At March 31, 2010 and December 31, 2009, the Company had total deferred revenues of $26.0 and $15.5, respectively, relating to these agreements. Such deferred revenue is included within Other accrued liabilities or Long-term liabilities, as appropriate, on the Company s Consolidated Balance Sheets (Note 6).

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(In millions of dollars, except share and per share amounts)
(Unaudited)

Earnings per Share. Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share*, defines unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires inclusion of such securities in the computation of earnings per share pursuant to the two-class method.

Basic earnings per share is computed by dividing distributed and undistributed earnings allocable to common shares by the weighted-average number of common shares outstanding during the applicable period. The shares owned by a voluntary employee beneficiary association (VEBA) for the benefit of certain union retirees, their surviving spouses and eligible dependents (the Union VEBA) that are subject to transfer restrictions, while treated in the Consolidated Balance Sheets as being similar to treasury stock (i.e., as a reduction in Stockholders equity), are included in the computation of basic shares outstanding in the Statements of Consolidated Income because such shares were irrevocably issued and have full dividend and voting rights. Diluted earnings per share is calculated as the more dilutive result of computing earnings per share under: (i) the treasury stock method or (ii) the two-class method (Note 14).

Stock-Based Compensation. Stock based compensation is provided to certain employees, directors and a director emeritus, and is accounted for at fair value, pursuant to the requirements of ASC Topic 718, *Compensation Stock Compensation*. The Company measures the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award and the number of awards expected to ultimately vest. The fair value of awards provided to the director emeritus is not material. The cost of an award is recognized as an expense over the requisite service period of the award on a ratable basis. The Company has elected to amortize compensation expense for equity awards with graded vesting using the straight line method. The Company recognized compensation expense for the quarters ended March 31, 2010 and March 31, 2009 of $1.1 and $2.4 respectively, in connection with vested awards and non-vested stock, restricted stock units and stock options (Note 11).

The Company grants performance shares to executive officers and other key employees. These awards are subject to performance requirements pertaining to the Company s economic value added (EVA) performance, measured over a three year performance period. The EVA is a measure of the excess of the Company s pretax operating income for a particular year over a pre-determined percentage of the net assets of the immediately preceding year, as defined in the 2008-2010, 2009-2011 and 2010-2012 Long-Term Incentive (LTI) programs. The number of performance shares, if any, that will ultimately vest and result in the issuance of common shares depends on the average annual EVA achieved for the specified three year performance periods. The fair value of performance-based awards is measured based on the most probable outcome of the performance condition, which is estimated quarterly using the Company s forecast and actual results. The Company expenses the fair value, after assuming an estimated forfeiture rate, over the specified three year performance periods on a ratable basis. The Company recognized compensation expense for the quarters ended March 31, 2010 and March 31, 2009 of $.5 and $.1, respectively, in connection with the performance shares.

Restructuring Costs and Other Charges. Restructuring costs and other charges include employee severance and benefit costs, impairment of owned equipment to be disposed of, and other costs associated with exit and disposal activities. The Company applies the provisions of ASC Topic 420, *Exit or Disposal Cost Obligations*, to account for obligations arising from such activities. Severance and benefit costs incurred in connection with exit activities are recognized when the Company s management with the proper level of authority has committed to a restructuring plan and communicated those actions to employees. For owned facilities and equipment, impairment losses recognized are based on the fair value less costs to sell, with fair value estimated based on existing market prices for similar assets. Other exit costs include costs to consolidate facilities or close facilities, terminate contractual commitments and relocate employees. A liability for such costs is recorded at its fair value in the period in which the liability is incurred. At each reporting date, the Company evaluates its accruals for exit costs and employee separation costs to ensure the accruals are still appropriate (see Note 16 for further information regarding the Company s restructuring initiatives).

Restricted Cash. The Company is required to keep certain amounts on deposit relating to workers compensation, derivative contracts, letters of credit and other agreements. Such amounts totaled $18.3 at both March 31, 2010 and December 31, 2009. Of the restricted cash balance, $.9 were considered short term and included in Prepaid expenses and other current assets on the Consolidated Balance Sheets at both March 31, 2010 and December 31, 2009, and $17.4 were considered long term and included in Other assets on the Consolidated Balance Sheets at both March 31, 2010 and December 31, 2009. As of March 31, 2010 and December 31, 2009, there were no amounts included in long-term restricted cash associated with margin call deposits with the Company s derivative counterparties (Note 6).

Trade Receivables and Allowance for Doubtful Accounts. Trade receivables primarily consist of amounts billed to customers for products sold. Accounts receivable are generally due within 30 days. For the majority of its receivables, the Company establishes an allowance for doubtful accounts based upon collection experience and other factors. On certain other receivables where the Company

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is aware of a specific customer s inability or reluctance to pay, an allowance for doubtful accounts is established against amounts due, to reduce the net receivable balance to the amount the Company reasonably expects to collect. However, if circumstances change, the Company s estimate of the recoverability of accounts receivable could be different. Circumstances that could affect the Company s estimates include, but are not limited to, customer credit issues and general economic conditions. Accounts are written off once deemed to be uncollectible. Any subsequent cash collections relating to accounts that have been previously written off are typically recorded as a reduction to total bad debt expense in the period of payment.

Inventories. Inventories are stated at the lower of cost or market value. Finished products, work in process and raw material inventories are stated on the last-in, first-out (LIFO) basis. Other inventories, principally operating supplies and repair and maintenance parts, are stated at average cost. Inventory costs consist of material, labor and manufacturing overhead, including depreciation. Abnormal costs, such as idle facility expenses, freight, handling costs and spoilage, are accounted for as current period charges.

Derivative Financial Instruments. Hedging transactions using derivative financial instruments are primarily designed to mitigate the Company s exposure to changes in prices for certain of the products which the Company sells and consumes and, to a lesser extent, to mitigate the Company s exposure to changes in foreign currency exchange rates and energy prices. From time to time, the Company also enters into hedging arrangements in connection with financing transactions, to mitigate financial risks.

The Company does not utilize derivative financial instruments for trading or other speculative purposes. The Company s derivative activities are initiated within guidelines established by management and approved by the Company s Board of Directors. Hedging transactions are executed centrally on behalf of all of the Company s business units to minimize transaction costs, monitor consolidated net exposures and allow for increased responsiveness to changes in market factors.

On March 29, 2010, the Company issued $175.0 aggregate principal amount of 4.5% cash convertible senior notes due 2015 (the Notes). The Notes may be settled only in cash. The cash conversion feature of the Notes requires bifurcation from the Notes according to ASC Topic 815, *Derivatives and Hedging (ASC 815).* The Company accounts for such cash conversion feature (Bifurcated Conversion Feature) as a derivative liability. In connection with the issuance of the Notes, the Company purchased cash-settled call options relating to its common stock (the Call Options) to hedge against potential cash payments that could result from the conversion of the Notes. The Call Options are accounted as derivative assets, as they meet the definition of a derivative under ASC 815 (Notes 7 and 13).

The Company recognizes all derivative instruments as assets or liabilities in its balance sheet and measures these instruments at fair value by marking-to-market all of its hedging positions at each period-end (Note 13). The Company does not meet the documentation requirements for hedge (deferral) accounting under ASC 815. Unrealized and realized gains and losses associated with hedges of operational risks are reflected as a reduction or increase in Cost of products sold, excluding depreciation, amortization and other items. Unrealized and realized gains and losses relating to hedges of financing transactions are reflected as a component of Other income (expense). No unrealized gains or losses were recorded as a component of Other income (expense) during the quarter ended March 31, 2010.

Concentration of credit risk. Financial arrangements which potentially subject the Company to concentrations of credit risk consist of metal, currency, and natural gas derivative contracts, the Call Options, and arrangements related to its cash equivalents. If the market value of the Company s net commodity and currency derivative positions with certain counterparties exceeds a specified threshold, if any, the counterparty is required to transfer cash collateral in excess of the threshold to the Company. Conversely, if the market value of these net derivative positions falls below a specified threshold, the Company is required to transfer cash collateral below the threshold to certain counterparties. The Company is exposed to credit loss in the event of nonperformance by counterparties on derivative contracts used in hedging activities as well as failure of counterparties to return cash collateral previously transferred to the counterparties. The counterparties to the Company s derivative contracts are major financial institutions and the Company does not expect to experience nonperformance by any of its counterparties.

The Company places its cash in money market funds with high credit quality financial institutions which invest primarily in commercial paper and time deposits of prime quality, short term repurchase agreements, and U.S. government agency notes. The Company has not experienced losses on its temporary cash investments.

Fair Value Measurement. The Company applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, in measuring the fair value of its derivative contracts (Note 13), plan assets invested by certain of the Company s employee benefit plans (Note 10) and its Notes (Note 13).

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (i) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (ii) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs that are both significant to the fair value measurement and unobservable.

New Accounting Pronouncements.

Recently adopted accounting pronouncements:

Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements* (ASU 2010-06) was issued in January 2010. ASU 2010-06 amends ASC Subtopic 820-10, *Fair Value Measurements and Disclosures Overall,* to require new disclosures regarding transfers in and out of Level 1 and Level 2, as well as activity in Level 3 fair value measurements. This ASU also clarifies existing disclosures over the level of disaggregation in which a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. ASU 2010-06 further requires additional disclosures about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 became effective for financial statements issued by the Company for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll-forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The Company adopted the required provisions of ASU 2010-06 for the quarter ending March 31, 2010, and the adoption of ASU 2010-06 did not have a material impact on the consolidated financial statements.

ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements (* ASU 2010-09 *)*, was issued in February 2010. ASU 2010-09 removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of GAAP. The Financial Accounting Standard Board (the FASB) also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC s literature. In addition, ASU 2010-09 requires an entity that is a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date of issuance of its financial statements and to disclose such date. All of the amendments under ASU 2010-09 became effective upon issuance (February 24, 2010) except for the use of the issued date for conduit debt obligors, which does not apply to the Company. The Company adopted the applicable provisions of ASU 2010-09 for the quarter ending March 31, 2010, and the adoption of ASU 2010-09 did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements not yet adopted:

The Company has not yet adopted the provisions of ASU 2010-06 that mandate increased disclosure of activity in Level 3 fair value measurements, such provisions are applicable to financial statements issued by the Company for annual periods beginning after December 15, 2010. The Company expects that the adoption of such disclosure requirements will not have a material impact on its consolidated financial statement footnote disclosure.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
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(In millions of dollars, except share and per share amounts)
(Unaudited)

2. Inventories

Inventories consist of the following:

	March 31, 2010	December 31, 2009
Fabricated Products segment		
Finished products	$ 36.6	$ 40.4
Work in process	47.7	44.9
Raw materials	34.7	27.1
Operating supplies and repairs and maintenance parts	12.4	12.8
	$ 131.4	$ 125.2

The Company recorded net non-cash LIFO (charges) benefits of approximately $(9.2) and $11.2 during the quarters ended March 31, 2010 and March 31, 2009, respectively. These amounts are primarily a result of changes in metal prices and changes in inventory volumes.

With the inevitable ebb and flow of business cycles, non-cash LIFO (charges) benefits will result when inventory levels and metal prices fluctuate. Further, potential lower of cost and market adjustments can occur when metal prices decline and margins compress. During the first quarter of 2009, due to a decline in the London Metal Exchange (LME) price of primary aluminum, the Company recorded a $9.3 lower of cost or market inventory write-down, pursuant to ASC Topic 330, *Inventory*, under which the market value of inventory is determined based on the current replacement cost, by purchase or