

CENTURY ALUMINUM CO
Form 10-Q
August 09, 2011

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 June 30, 2011

OR

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 1-34474

Century Aluminum Company

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

13-3070826
(IRS Employer Identification No.)

2511 Garden Road
Building A, Suite 200
Monterey, California
(Address of principal executive
offices)

93940
(Zip Code)

Registrant's telephone number, including area code: (831) 642-9300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer	<input type="radio"/>	Accelerated Filer	<input checked="" type="radio"/>
Non-Accelerated Filer (Do not check if a smaller reporting company)	<input type="radio"/>	Smaller Reporting Company	<input type="radio"/>

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

The registrant had 93,214,667 shares of common stock outstanding at July 31, 2011.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CENTURY ALUMINUM COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	\$232,401	\$304,296
Restricted cash	—	3,673
Accounts receivable — net	54,838	43,903
Due from affiliates	37,264	51,006
Inventories	187,388	155,908
Prepaid and other current assets	46,151	18,292
Total current assets	558,042	577,078
Property, plant and equipment — net	1,238,651	1,256,970
Due from affiliates – less current portion	3,094	6,054
Other assets	100,055	82,954
TOTAL	\$1,899,842	\$1,923,056
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	\$87,595	\$88,004
Due to affiliates	39,548	45,381
Accrued and other current liabilities	49,225	41,495
Accrued employee benefits costs — current portion	15,909	26,682
Convertible senior notes	—	45,483
Industrial revenue bonds	7,815	7,815
Total current liabilities	200,092	254,860
Senior notes payable	249,011	248,530
Accrued pension benefits costs — less current portion	38,518	37,795
Accrued postretirement benefits costs — less current portion	106,718	103,744
Other liabilities	41,662	37,612
Deferred taxes	86,019	85,999
Total noncurrent liabilities	521,928	513,680
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
SHAREHOLDERS' EQUITY:		
Series A Preferred stock (one cent par value, 5,000,000 shares authorized; 80,785 and 82,515 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively)	1	1
Common stock (one cent par value, 195,000,000 shares authorized; 93,214,667 and 92,771,864 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively)	932	928
Additional paid-in capital	2,506,435	2,503,907
Accumulated other comprehensive loss	(78,234)	(49,976)
Accumulated deficit	(1,251,312)	(1,300,344)
Total shareholders' equity	1,177,822	1,154,516
TOTAL	\$1,899,842	\$1,923,056

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
NET SALES:				
Third-party customers	\$207,091	\$183,045	\$395,403	\$375,977
Related parties	159,186	104,808	297,211	197,265
	366,277	287,853	692,614	573,242
Cost of goods sold	316,763	266,337	600,784	517,750
Gross profit	49,514	21,516	91,830	55,492
Other operating expenses (income) – net	(5,205)	4,644	(11,089)	9,109
Selling, general and administrative expenses	18,557	10,964	29,166	23,215
Operating income	36,162	5,908	73,753	23,168
Interest expense – third party	(6,386)	(6,357)	(13,163)	(12,755)
Interest income – third party	65	102	220	203
Interest income – related parties	70	111	183	220
Net gain (loss) on forward contracts	(1,617)	9,294	(6,426)	7,322
Other income (expense) - net	(1,132)	230	(455)	638
Income before income taxes and equity in earnings of joint ventures	27,162	9,288	54,112	18,796
Income tax expense	(3,636)	(4,619)	(6,759)	(8,900)
Income before equity in earnings of joint ventures	23,526	4,669	47,353	9,896
Equity in earnings of joint ventures	460	477	1,679	1,582
Net income	\$23,986	\$5,146	\$49,032	\$11,478
Net income allocated to common shareholders	\$22,061	\$4,723	\$45,066	\$10,532
EARNINGS PER COMMON SHARE:				
Basic and Diluted	\$0.24	\$0.05	\$0.48	\$0.11
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	93,105	92,672	93,036	92,611
Diluted	93,567	93,332	93,432	93,218

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six months ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$49,032	\$11,478
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Unrealized net (gain) loss on forward contracts	6,170	(7,568)
Realized benefit on contractual receivable	—	32,193
Accrued and other plant curtailment costs – net	(16,592)	(2,576)
Lower of cost or market inventory adjustment	(16)	6,999
Depreciation and amortization	31,064	31,505
Debt discount amortization	1,355	1,548
Deferred income taxes	—	9,217
Pension and other postretirement benefits	(28,608)	8,218
Stock-based compensation	2,501	2,163
Non-cash loss on early extinguishment of debt	763	—
Undistributed earnings of joint ventures	(1,679)	(1,582)
Changes in operating assets and liabilities:		
Accounts receivable – net	(10,935)	1,013
Due from affiliates	11,265	(16,671)
Inventories	(31,464)	(11,162)
Prepaid and other current assets	(28,991)	20,423
Accounts payable, trade	(1,202)	(6,725)
Due to affiliates	(5,834)	621
Accrued and other current liabilities	7,575	(2,189)
Other – net	(539)	(4,773)
Net cash provided by (used in) operating activities	(16,135)	72,132
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(7,353)	(3,012)
Nordural expansion	(7,968)	(10,113)
Investments in and advances to joint ventures	—	(17)
Proceeds from the sale of property, plant and equipment	56	—
Payments received on advances to joint ventures	3,056	—
Restricted and other cash deposits	3,673	(983)
Net cash used in investing activities	(8,536)	(14,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(47,067)	—
Repayment of contingent obligation	(189)	—
Issuance of common stock – net	32	23

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Net cash provided by (used in) financing activities	(47,224)	23
CHANGE IN CASH AND CASH EQUIVALENTS	(71,895)	58,030
Cash and cash equivalents, beginning of the period	304,296	198,234
Cash and cash equivalents, end of the period	\$232,401	\$256,264

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements for the
Three and six months ended June 30, 2011 and 2010
(Dollar amounts in thousands, except per share amounts)
(UNAUDITED)

1. General

The accompanying unaudited interim consolidated financial statements of Century Aluminum Company should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010. In management's opinion, the unaudited interim consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for the first six months of 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. Throughout this Form 10-Q, and unless expressly stated otherwise or as the context otherwise requires, "Century Aluminum," "Century," "we," "us," "our" and "ours" refer to Century Aluminum Company and its consolidated subsidiaries.

2. Fair value measurements

ASC 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance applies to a broad range of other existing accounting pronouncements that require or permit fair value measurements. ASC 820 defines fair value 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." Fair value is an exit price and that exit price should reflect all the assumptions that market participants would use in pricing the asset or liability.

Our fair value measurements include the consideration of market risks that other market participants might consider in pricing the particular asset or liability, specifically non-performance risk and counterparty credit risk. Consideration of the non-performance risk and counterparty credit risk are used to establish the appropriate risk-adjusted discount rates used in our fair value measurements.

The following section describes the valuation methodology used to measure our financial assets and liabilities that were accounted for at fair value.

Overview of Century's valuation methodology

	Level	Significant inputs
Cash equivalents	1	Quoted market prices
Trust assets (1)	1	Quoted market prices
Surety bonds	1	Quoted market prices
Primary aluminum put option contracts	2	Quoted London Metal Exchange ("LME") forward market prices, historical volatility measurements and risk-adjusted discount rates
Natural gas forward financial contracts	2	Quoted natural gas forward market prices and risk-adjusted discount rates
Power contracts	3	Quoted LME forward market prices, power tariff prices, management's estimate of future power usage and risk-adjusted discount rates
	3	

E.ON U.S. ("E.ON") contingent obligation	3	Quoted LME forward market, management's estimates of the LME forward market prices for periods beyond the quoted periods and management's estimate of future level of operations at Century Aluminum of Kentucky, our wholly owned subsidiary ("CAKY")
Primary aluminum sales premium contracts	3	Management's estimates of future U.S. Midwest premium and risk-adjusted discount rates

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CENTURY ALUMINUM COMPANY
 Notes to the Consolidated Financial Statements - continued
 (UNAUDITED)

- (1) Trust assets are currently invested in money market funds. The trust has sole authority to invest the funds in secure interest producing investments consisting of short-term securities issued or guaranteed by the United States government or cash and cash equivalents.

Fair value measurements

The following table sets forth by level within the ASC 820 fair value hierarchy our financial assets and liabilities that are accounted for at fair value on a recurring basis. As required by generally accepted accounting principles for fair value measurements and disclosures, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and the placement within the fair value hierarchy levels.

Recurring Fair Value Measurements	As of June 30, 2011			
	Level 1	Level 2	Level 3	Total
ASSETS:				