

CENTURY ALUMINUM CO

Form 10-Q

August 09, 2012

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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, 2012

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

93940

Monterey, California

(Zip Code)

(Address of principal executive offices)

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer

(Do not check if a smaller reporting  
company) ☐

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

The registrant had 88,467,049 shares of common stock outstanding at July 31, 2012.

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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, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 156,512	\$ 183,401
Accounts receivable — net	71,936	47,647
Due from affiliates	34,671	44,665
Inventories	158,538	171,961
Prepaid and other current assets	43,131	40,646
Total current assets	464,788	488,320
Property, plant and equipment — net	1,208,029	1,218,225
Other assets	106,284	104,549
<b>TOTAL</b>	<b>\$ 1,779,101</b>	<b>\$ 1,811,094</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable, trade	\$ 70,360	\$ 86,172
Due to affiliates	43,055	41,904
Accrued and other current liabilities	44,716	40,776
Accrued employee benefits costs — current portion	16,107	16,698
Industrial revenue bonds	7,815	7,815
Total current liabilities	182,053	193,365
Senior notes payable	250,036	249,512
Accrued pension benefits costs — less current portion	67,762	70,899
Accrued postretirement benefits costs — less current portion	128,429	128,078
Other liabilities	39,690	40,005
Deferred taxes	90,832	90,958
Total noncurrent liabilities	576,749	579,452
<b>COMMITMENTS AND CONTINGENCIES (NOTE 10)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Series A Preferred stock (one cent par value, 5,000,000 shares authorized; 80,623 and 80,718 issued and outstanding at June 30, 2012 and December 31, 2011, respectively)	1	1
Common stock (one cent par value, 195,000,000 shares authorized; 93,253,570 issued and 88,467,049 outstanding at June 30, 2012; 93,230,848 issued and 88,844,327 outstanding at December 31, 2011)	933	932
Additional paid-in capital	2,507,053	2,506,842
Treasury stock, at cost	(49,924)	(45,891)
Accumulated other comprehensive loss	(132,067)	(134,588)
Accumulated deficit	(1,305,697)	(1,289,019)
Total shareholders' equity	1,020,299	1,038,277
<b>TOTAL</b>	<b>\$ 1,779,101</b>	<b>\$ 1,811,094</b>

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,	
	2012	2011	2012	2011
NET SALES:				
Third-party customers	\$184,022	\$207,091	\$372,861	\$395,403
Related parties	139,597	159,186	276,948	297,211
	323,619	366,277	649,809	692,614
Cost of goods sold	317,662	316,763	623,260	600,784
Gross profit	5,957	49,514	26,549	91,830
Other operating expenses (income) – net	3,817	(5,205)	)7,538	(11,089)
Selling, general and administrative expenses	7,151	18,557	15,610	29,166
Operating income (loss)	(5,011)	)36,162	3,401	73,753
Interest expense – third party	(5,946)	) (6,386)	) (11,924)	) (13,163)
Interest income – third party	113	65	251	220
Interest income – related parties	2	70	62	183
Net gain (loss) on forward contracts	1,450	(1,617)	) (3,709)	) (6,426)
Other income (expense) - net	161	(1,132)	) 467	(455)
Income (loss) before income taxes and equity in earnings of joint ventures	(9,231)	) 27,162	(11,452)	) 54,112
Income tax expense	(3,395)	) (3,636)	) (6,216)	) (6,759)
Income (loss) before equity in earnings of joint ventures	(12,626)	) 23,526	(17,668)	) 47,353
Equity in earnings of joint ventures	349	460	990	1,679
Net income (loss)	\$(12,277)	) \$23,986	\$(16,678)	) \$49,032
Net income (loss) allocated to common shareholders	\$(12,277)	) \$22,061	\$(16,678)	) \$45,066
EARNINGS (LOSS) PER COMMON SHARE:				
Basic and Diluted	\$(0.14)	) \$0.24	\$(0.19)	) \$0.48
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	88,452	93,105	88,589	93,036
Diluted	88,452	93,567	88,589	93,432

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Dollars in thousands)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Comprehensive income (loss)				
Net income (loss)	\$(12,277	)\$23,986	\$(16,678	)\$49,032
Other comprehensive income (loss) before income tax effect:				
Net unrealized gain (loss) on financial instruments	26	(27	)(220	)(33
Net loss (gain) reclassified to income on financial instruments	209	(39	)481	(50
Net gain on foreign currency cash flow hedges reclassified to income	(46	)(47	)(93	)(93
Defined benefit plans and other postretirement benefits:				
Net gain (loss) arising during the period	49	(5,769	)49	(5,769
Amortization of prior service benefit	(1,031	)(15,501	)(2,056	)(30,620
Amortization of net loss	2,941	6,995	5,125	13,280
Other comprehensive income (loss) before income tax effect	2,148	(14,388	)3,286	(23,285
Income tax effect	(383	)(2,513	)(765	)(4,973
Other comprehensive income (loss)	1,765	(16,901	)2,521	(28,258
Comprehensive income (loss)	\$(10,512	)\$7,085	\$(14,157	)\$20,774

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six months ended June 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(16,678	) \$49,032
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Unrealized net loss on forward contracts	3,177	6,170
Accrued and other plant curtailment costs — net	2,781	(16,592 )
Lower of cost or market inventory adjustment	(11,617	)(16 )
Depreciation and amortization	31,288	31,064
Debt discount amortization	523	1,355
Pension and other postretirement benefits	(260	)(28,608 )
Stock-based compensation	212	2,501
Non-cash loss on early extinguishment of debt	—	763
Undistributed earnings of joint ventures	(990	)(1,679 )
Change in operating assets and liabilities:		
Accounts receivable — net	(24,289	)(10,935 )
Due from affiliates	5,401	11,265
Inventories	25,040	(31,464 )
Prepaid and other current assets	(3,877	)(28,991 )
Accounts payable, trade	(15,931	)(1,202 )
Due to affiliates	1,151	(5,834 )
Accrued and other current liabilities	1,750	7,575
Other — net	704	(539 )
Net cash used in operating activities	(1,615	)(16,135 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(6,165	)(7,353 )
Nordural expansion	(3,586	)(7,968 )
Purchase of carbon anode assets	(14,524	)—
Investments in and advances to joint ventures	(200	)—
Payments received on advances from joint ventures	3,166	3,056
Proceeds from the sale of property, plant and equipment	68	56
Restricted and other cash deposits	—	3,673
Net cash used in investing activities	(21,241	)(8,536 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of debt	—	(47,067 )
Repayment of contingent obligation	—	(189 )
Borrowings under revolving credit facility	18,076	—
Repayments under revolving credit facility	(18,076	)—
Repurchase of common stock	(4,033	)—
Issuance of common stock — net	—	32
Net cash used in financing activities	(4,033	)(47,224 )
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(26,889</b>	<b>)(71,895 )</b>
Cash and cash equivalents, beginning of the period	183,401	304,296
Cash and cash equivalents, end of the period	\$156,512	\$232,401
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, 2012 and 2011

(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, 2011. 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 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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. Asset Acquisition

In June 2012, our wholly owned subsidiary, Century Anodes BV ("Century Anodes"), purchased substantially all of the assets of the former Zalco anode production facility located in Vlissingen, the Netherlands for approximately \$12,500. In connection with the purchase, we entered into a ground lease with respect to the facility that is renewable at our option. As part of the transaction, Century Anodes will not assume, and is indemnified against, any historical liabilities of the facility.

The anode production facility, which was curtailed by Zalco in December 2011, will require a significant capital investment to optimize anode production for our smelter in Grundartangi, Iceland ("Grundartangi") and eventually provide anodes for the planned Helguvik smelter and to comply with current environmental regulations. We purchased the assets to provide captive anode production for Grundartangi to replace third-party anode supply contracts that will terminate in 2013.

3. Fair value measurements

ASC 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value, and delineates 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.

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## CENTURY ALUMINUM COMPANY

## Notes to the Consolidated Financial Statements - continued

## (Unaudited)

## 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 for primary aluminum and risk-adjusted discount rates
Ravenswood power contract	3	Quoted LME forward market prices, power tariff prices, management's estimate of future power usage and risk-adjusted discount rates
E.ON U.S. ("E.ON") contingent obligation	3	Quoted LME forward market prices for primary aluminum, management's estimates of the LME forward market prices for primary aluminum 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

Trust assets are currently invested in money market funds. The trust has sole authority to invest the funds in secure (1) 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 ASC 820, 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, 2012			Total
	Level 1	Level 2	Level 3	
ASSETS:				
Cash equivalents	\$145,492	\$—	\$—	\$145,492
Trust assets	15,160	—	—	15,160
Surety bond – workers comp insurance	2,391	—	—	2,391
TOTAL	\$163,043	\$—	\$—	\$163,043
LIABILITIES:				