

CENTURY ALUMINUM CO
Form 10-Q
August 10, 2009

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, 2009

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 0-27918

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

93940
(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

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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

* - The registrant is not currently required to submit interactive data files.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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 74,160,449 shares of common stock outstanding at July 31, 2009.

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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, 2009	December 31, 2008
ASSETS		
Cash	\$ 230,031	\$ 129,400
Restricted cash	865	865
Short-term investments	—	13,686
Accounts receivable — net	34,609	60,859
Due from affiliates	14,063	39,062
Inventories	126,832	138,111
Prepaid and other current assets	19,901	99,861
Deferred taxes — current portion	—	32,290
Total current assets	426,301	514,134
Property, plant and equipment — net	1,319,899	1,340,037
Intangible asset — net	24,453	32,527
Due from affiliates – less current portion	7,599	7,599
Other assets	89,905	141,061
TOTAL	\$ 1,868,157	\$ 2,035,358
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	\$ 66,344	\$ 102,143
Due to affiliates	64,023	70,957
Accrued and other current liabilities	61,262	58,777
Accrued employee benefits costs — current portion	12,070	12,070
Convertible senior notes	156,704	152,700
Industrial revenue bonds	7,815	7,815
Total current liabilities	368,218	404,462
Senior unsecured notes payable	250,000	250,000
Revolving credit facility	—	25,000
Accrued pension benefits costs — less current portion	45,307	50,008
Accrued postretirement benefits costs — less current portion	161,803	219,539
Other liabilities	41,757	33,464
Deferred taxes	65,252	71,805
Total noncurrent liabilities	564,119	649,816
CONTINGENCIES AND COMMITMENTS (NOTE 14)		
SHAREHOLDERS' EQUITY:		
Preferred stock (one cent par value, 5,000,000 shares authorized; 153,491 and 155,787 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively)	2	2
Common stock (one cent par value, 195,000,000 shares authorized and 74,158,900 shares issued and outstanding at June 30, 2009; 100,000,000 shares authorized and 49,052,692 shares issued and outstanding at December 31, 2008)	742	491

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Additional paid-in capital	2,378,436	2,272,128
Accumulated other comprehensive loss	(67,257)	(137,208)
Accumulated deficit	(1,376,103)	(1,154,333)
Total shareholders' equity	935,820	981,080
TOTAL	\$1,868,157	\$2,035,358

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,	
	2009	2008	2009	2008
NET SALES:				
Third-party customers	\$ 140,097	\$ 420,032	\$ 310,511	\$ 776,925
Related parties	49,056	125,165	103,229	239,414
	189,153	545,197	413,740	1,016,339
Cost of goods sold	194,380	388,973	491,328	764,120
Gross profit (loss)	(5,227)	156,224	(77,588)	252,219
Other operating expenses – curtailment costs	9,166	—	33,498	—
Selling, general and administrative expenses	11,271	13,851	21,391	32,717
Operating income (loss)	(25,664)	142,373	(132,477)	219,502
Interest expense	(7,977)	(7,990)	(16,019)	(16,022)
Interest income	352	2,291	1,076	4,814
Interest income – affiliates	144	—	286	—
Net loss on forward contracts	(3,268)	(203,784)	(6,870)	(652,092)
Other income (expense) - net	586	306	344	(227)
Loss before income taxes and equity in earnings of joint ventures	(35,827)	(66,804)	(153,660)	(444,025)
Income tax benefit (expense)	(2,573)	57,744	1,523	196,635
Loss before equity in earnings of joint ventures	(38,400)	(9,060)	(152,137)	(247,390)
Equity in earnings (losses) of joint ventures	(68,746)	5,566	(69,633)	9,959
Net loss	\$(107,146)	\$(3,494)	\$(221,770)	\$(237,431)
LOSS PER COMMON SHARE:				
Basic and Diluted	\$(1.45)	\$(0.08)	\$(3.20)	\$(5.78)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and Diluted	74,143	41,143	69,402	41,092

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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(221,770)	\$(237,431)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Unrealized net loss on forward contracts	2,514	536,650
Accrued plant curtailment costs	21,051	—
Depreciation and amortization	40,063	41,860
Debt discount amortization	4,004	3,729
Lower of cost or market inventory adjustment	(38,187)	—
Deferred income taxes	25,030	(195,874)
Pension and other post retirement benefits	7,495	8,513
Stock-based compensation	1,269	11,658
Excess tax benefits from share-based compensation	—	(657)
Equity investment impairment	73,234	—
Undistributed earnings of joint ventures	(3,601)	(9,959)
Changes in operating assets and liabilities:		
Accounts receivable – net	26,250	(1,042)
Purchase of short-term trading securities	—	(97,532)
Sale of short-term trading securities	13,686	345,764
Due from affiliates	24,999	(6,595)
Inventories	31,140	(30,212)
Prepaid and other current assets	77,891	(20,821)
Accounts payable, trade	(24,768)	16,693
Due to affiliates	(11,435)	7,726
Accrued and other current liabilities	(7,109)	(5,544)
Other – net	4,916	(2,113)
Net cash provided by operating activities	46,672	364,813
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(11,927)	(14,956)
Nordural expansion	(12,132)	(32,648)
Investments in and advances to joint ventures	(1,023)	(27,621)
Restricted and other cash deposits	—	(1,898)
Net cash used in investing activities	(25,082)	(77,123)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments under revolving credit facility	(25,000)	—
Excess tax benefits from shared-based compensation	—	657
Issuance of common stock – net	104,041	2,335
Net cash provided by financing activities	79,041	2,992
NET CHANGE IN CASH	100,631	290,682
Cash, beginning of the period	129,400	60,962

Cash, end of the period	\$230,031	\$351,644
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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, 2009 and 2008
(Dollars 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, 2008. 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 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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. Management's Plans

We have incurred losses each year since 2005 and had an accumulated deficit of \$1,376,103 as of June 30, 2009. For the six months ended June 30, 2009 and the year ended December 31, 2008, we sustained net losses available to common stockholders of \$221,770 and \$895,187 (as adjusted for the adoption of FSP APB 14-1, see Note 4), respectively. Our financial position and liquidity have been and may continue to be materially adversely affected by low aluminum prices as compared to our cost of production. If primary aluminum prices are consistent with levels recently forecasted by industry analysts, we would expect such liquidity would be sufficient to fund our operations through mid to late 2011.

Our principal sources of liquidity are available cash, cash flow from operations and available borrowings under our revolving credit facility. We will continue to explore alternative or supplementary financing arrangements to the revolving credit facility. Our principal uses of cash are operating costs, payments of principal and interest on our outstanding debt, the funding of capital expenditures and investments in related businesses, working capital and other general corporate requirements.

3. Equity Investment Impairment

In August 2009, we signed an agreement to transfer our 50% interest in joint ventures at Gramercy Alumina LLC ("Gramercy") and St. Ann Bauxite Limited ("SABL") to certain subsidiaries of Noranda Aluminum Holding Corporation (together with its consolidated subsidiaries, "Noranda"). As a result, we undertook an evaluation to determine the impact, if any, on the carrying amount of the equity investments in the joint venture assets as of June 30, 2009. We concluded that the terms of the asset transfer agreement provided indications of an impairment of the equity investments in the joint ventures. As a result, we performed an impairment analysis to determine the appropriate carrying amount of these assets as of June 30, 2009. Based on the impairment analysis, we recorded a \$73,234 impairment loss in the three months ended June 30, 2009. The \$73,234 loss consisted of the following amounts:

	Beginning balance	Impairment gain (loss)	Ending balance
Equity investments in Gramercy and SABL, equity in the earnings of Gramercy and SABL and intercompany profit elimination	\$95,892	\$ (74,783)	\$21,109
Pension and OPEB obligations for Gramercy and SABL	(1,549)	1,549	—

Total	\$94,343	\$ (73,234)	\$21,109
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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

The impairment loss was recorded on the Consolidated Statements of Operations in equity in earnings (losses) of joint ventures. On the Consolidated Balance Sheets, the impairment of the equity investments was recorded in other assets. The pension and OPEB obligations of the equity investments were recorded in accumulated other comprehensive loss.

See Note 22 Subsequent Events for additional information about the joint venture asset transfer transaction.

4. FSP APB 14-1 Adoption

FSP APB 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (the “FSP”) fundamentally changes the accounting for certain convertible debt instruments. Issuers of convertible debt instruments that are affected by the FSP must separately account for the liability and equity components of the convertible debt instruments in a manner that reflects the entity’s hypothetical nonconvertible borrowing rate. The FSP requires the retrospective application of these changes to our financial statements back to the date of issuance of our 1.75% convertible senior notes with a cumulative effect adjustment recognized as of the beginning of the first period presented. The FSP was effective for Century Aluminum on January 1, 2009.

The FSP applies to our 1.75% convertible senior notes issued in 2004 (the “Convertible Notes”). The holders of our Convertible Notes may convert at any time at an initial conversion rate of 32.743 shares of common stock per \$1,000 principal amount of notes, equivalent to a conversion price of \$30.5409 per share of common stock. Upon conversion, we would deliver cash up to the principal amount of the Convertible Notes to be converted and, at our election, cash, common stock or a combination thereof for any conversion obligation in excess of the principal amount of the Convertible Notes to b