

CENTURY ALUMINUM CO  
Form 10-Q  
May 01, 2015

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, 2015

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.)

One South Wacker Drive

Suite 1000

60606

Chicago, Illinois

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (312) 696-3101

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. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting  Smaller reporting company

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 86,807,572 shares of common stock outstanding at April 24, 2015.

TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements.</u>	<u>3</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Note 1. General</u>	<u>7</u>
<u>Note 2. Related party transactions</u>	<u>7</u>
<u>Note 3. Business acquisitions</u>	<u>8</u>
<u>Note 4. Fair value measurements</u>	<u>11</u>
<u>Note 5. Derivative and hedging instruments</u>	<u>13</u>
<u>Note 6. Earnings (loss) per share</u>	<u>13</u>
<u>Note 7. Shareholders' equity</u>	<u>14</u>
<u>Note 8. Income taxes</u>	<u>15</u>
<u>Note 9. Inventories</u>	<u>16</u>
<u>Note 10. Debt</u>	<u>16</u>
<u>Note 11. Commitments and contingencies</u>	<u>18</u>
<u>Note 12. Forward delivery contracts and financial instruments</u>	<u>22</u>
<u>Note 13. Supplemental cash flow information</u>	<u>23</u>
<u>Note 14. Asset retirement obligations ("ARO")</u>	<u>23</u>
<u>Note 15. Components of accumulated other comprehensive loss</u>	<u>23</u>
<u>Note 16. Components of net periodic benefit cost</u>	<u>24</u>
<u>Note 17. Restricted cash</u>	<u>25</u>
<u>Note 18. Subsequent events</u>	<u>25</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk.</u>	<u>34</u>
<u>Item 4. Controls and Procedures.</u>	<u>36</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings.</u>	<u>37</u>
<u>Item 1A. Risk Factors.</u>	<u>37</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>37</u>
<u>Item 5. Other Information.</u>	<u>37</u>
<u>Item 6. Exhibits.</u>	<u>39</u>
<u>SIGNATURES</u>	<u>40</u>

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

CENTURY ALUMINUM COMPANY  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2015	2014
NET SALES:		
Related parties	\$575,729	\$285,583
Third-party customers	12,182	135,264
Total net sales	587,911	420,847
Cost of goods sold	493,816	422,605
Gross profit (loss)	94,095	(1,758 )
Other operating expense – net	2,079	2,414
Selling, general and administrative expenses	11,971	10,062
Operating income (loss)	80,045	(14,234 )
Interest expense	(5,551 )	(5,477 )
Interest income	142	140
Net gain (loss) on forward and derivative contracts	353	(879 )
Unrealized gain on fair value of contingent consideration	6,527	—
Other income (expense) – net	1,054	(253 )
Income (loss) before income taxes and equity in earnings (losses) of joint ventures	82,570	(20,703 )
Income tax benefit (expense)	(9,301 )	1,094
Income (loss) before equity in earnings (losses) of joint ventures	73,269	(19,609 )
Equity in earnings (losses) of joint ventures	510	(495 )
Net income (loss)	\$73,779	\$(20,104 )
Net income (loss) allocated to common stockholders	\$67,813	\$(20,104 )
EARNINGS (LOSS) PER COMMON SHARE:		
Basic and Diluted	\$0.76	\$(0.23 )
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	88,814	88,717
Diluted	89,369	88,717

See condensed notes to consolidated financial statements

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

	Three months ended March 31,	
	2015	2014
Comprehensive income (loss):		
Net income (loss)	\$73,779	\$(20,104 )
Other comprehensive income before income tax effect:		
Net gain on foreign currency cash flow hedges reclassified as income	(47 )	(47 )
Defined benefit plans and other postretirement benefits:		
Amortization of prior service benefit during the period	(936 )	(952 )
Amortization of net loss during the period	1,444	1,811
Other comprehensive income before income tax effect	461	812
Income tax effect	(383 )	(713 )
Other comprehensive income	78	99
Total comprehensive income (loss)	\$73,857	\$(20,005 )

See condensed notes to consolidated financial statements

CENTURY ALUMINUM COMPANY  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(Unaudited)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$226,431	\$163,242
Restricted cash	21,813	801
Accounts receivable — net	3,464	76,165
Due from affiliates	85,062	31,503
Inventories	297,814	283,480
Prepaid and other current assets	23,809	29,768
Deferred taxes	14,281	14,281
Total current assets	672,674	599,240
Property, plant and equipment — net	1,285,845	1,291,218
Other assets	124,529	123,577
<b>TOTAL</b>	<b>\$2,083,048</b>	<b>\$2,014,035</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable, trade	\$140,093	\$151,443
Due to affiliates	50,033	22,261
Accrued and other current liabilities	107,374	104,646
Accrued employee benefits costs	10,058	10,159
Industrial revenue bonds	7,815	7,815
Total current liabilities	315,373	296,324
Senior notes payable	246,983	246,888
Accrued pension benefits costs — less current portion	57,722	59,906
Accrued postretirement benefits costs — less current portion	153,586	152,894
Other liabilities	47,990	53,272
Deferred taxes	122,447	113,604
Total noncurrent liabilities	628,728	626,564
<b>COMMITMENTS AND CONTINGENCIES (NOTE 11)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Series A Preferred stock (one cent par value, 5,000,000 shares authorized; 160,000 issued and 78,061 outstanding at March 31, 2015; 160,000 issued and 78,141 outstanding at December 31, 2014)	1	1
Common stock (one cent par value, 195,000,000 shares authorized; 93,869,878 issued and 87,883,357 outstanding at March 31, 2015; 93,851,103 issued and 89,064,582 outstanding at December 31, 2014)	939	939
Additional paid-in capital	2,510,665	2,510,261
Treasury stock, at cost	(76,385	) (49,924
Accumulated other comprehensive loss	(117,604	) (117,682
Accumulated deficit	(1,178,669	) (1,252,448
Total shareholders' equity	1,138,947	1,091,147
<b>TOTAL</b>	<b>\$2,083,048</b>	<b>\$2,014,035</b>

See condensed notes to consolidated financial statements

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

	Three months ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$73,779	\$(20,104)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Unrealized gain on fair value of contingent consideration	(6,527)	) —
Unrealized gain on E.ON contingent obligation	(353)	) (353)
Accrued and other plant curtailment costs — net	1,077	1,092
Lower of cost or market inventory adjustment	—	(1,107)
Depreciation	18,131	17,768
Sebree power contract amortization	—	(5,534)
Debt discount amortization	95	88
Pension and other postretirement benefits	(984)	) 2,613
Deferred income taxes	8,851	512
Stock-based compensation	405	198
Equity in (earnings) losses of joint ventures, net of dividends	(510)	) 495
Change in operating assets and liabilities:		
Accounts receivable — net	72,702	10,566
Due from affiliates	(53,559)	) (12,545)
Inventories	(14,335)	) (11,377)
Prepaid and other current assets	5,960	(2,958)
Accounts payable, trade	(18,508)	) (3,825)
Due to affiliates	27,773	20,798
Accrued and other current liabilities	2,874	(6,620)
Other — net	(604)	) (448)
Net cash provided by (used in) operating activities	116,267	(10,741)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(10,960)	) (9,700)
Nordural expansion — Helguvik	(73)	) (93)
Purchase of carbon anode assets and improvements	(1,594)	) (5,724)
Restricted and other cash deposits	(21,012)	) 665
Net cash used in investing activities	(33,639)	) (14,852)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under revolving credit facilities	455	18,870
Repayments under revolving credit facilities	(455)	) (24,870)
Repurchase of common stock	(19,439)	) —
Issuance of common stock	—	3
Net cash used in financing activities	(19,439)	) (5,997)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>63,189</b>	<b>(31,590)</b>
Cash and cash equivalents, beginning of period	163,242	84,088
Cash and cash equivalents, end of period	\$226,431	\$52,498

See condensed notes to consolidated financial statements



CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements

Three months ended March 31, 2015 and 2014

(amounts in thousands, except share and 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, 2014. 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 three months of 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Throughout this Form 10-Q, and unless expressly stated otherwise or as the context otherwise requires, "Century Aluminum," "Century," the "Company", "we," "us," "our" and "ours" refer to Century Aluminum Company and its consolidated subsidiaries.

2. Related party transactions

The significant related party transactions occurring during the three months ended March 31, 2015 and 2014 are described below.

Sales to Glencore

We have entered into an agreement with Glencore pursuant to which we have agreed to sell, and Glencore has agreed to purchase, substantially all of our primary aluminum production in North America for 2015 and 2016 on a take-or-pay basis at market prices determined by reference to the Midwest Transaction Price plus additional negotiated product premiums.

In 2014, we sold primary aluminum produced at our Grundartangi facility under a long-term sales contract with Glencore at prices based on the LME price for primary aluminum, as adjusted to reflect the European Duty Paid premium and any applicable product premiums. We also received tolling fees from Glencore under tolling agreements that provide for delivery of primary aluminum produced at our Grundartangi facility. The fee paid by Glencore under these tolling agreements is based on the LME price for primary aluminum plus a portion of the European Duty Paid premium.

We sold primary aluminum in 2014 to Glencore from our U.S. smelters on a spot basis at variable prices based on the LME, plus Midwest delivery and applicable product premiums.

We believe that all of the transactions with Glencore were at prices that approximate market. See Note 12 Forward contracts and financial instruments for additional information about our forward physical delivery contracts and tolling agreements with Glencore.

Purchases from Glencore

We purchase alumina from Glencore on both a spot and long-term contract basis. For alumina purchased from Glencore on a spot basis, we determined the market price for the spot alumina we purchased based on a survey of suppliers at the time that had the ability to deliver spot alumina on the specified terms. Based on this survey, we believe that all of the alumina purchased on a spot basis from Glencore was purchased at prices that approximate market.

We are also party to a long-term alumina supply agreement with Glencore, pursuant to which Glencore has agreed to supply us with alumina through 2017 at prices indexed to the LME price of primary aluminum. In 2014, upon mutual agreement, approximately half of the purchases under this agreement were priced based on a published alumina index. For 2015, we have agreed to price all of the purchases under this agreement based on a published alumina index. We had additional agreements to buy alumina from Glencore which expired at the end of 2014. In 2014, the pricing on these alumina purchase agreements was indexed to the LME price for primary aluminum. We believe that the alumina purchased from Glencore under these contracts was purchased at prices that approximate market.



## CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

## Transactions with BHH

We own a 40% stake in Baise Haohai Carbon Co., Ltd. ("BHH"), a joint venture that owns a carbon anode and cathode facility located in the Guangxi Zhuang Autonomous Region of south China. We have an agreement with BHH to provide carbon anodes to Grundartangi through December 31, 2015. We believe that the carbon anodes purchased from BHH were purchased at prices that approximate market.

## Summary

A summary of the aforementioned related party transactions for the three months ended March 31, 2015 and 2014 is as follows:

	Three months ended March 31,	
	2015	2014
Net sales to Glencore	\$575,729	\$285,583
Purchases from Glencore	107,814	63,857
Purchases from BHH	14,820	14,607

## 3. Business acquisitions

## Acquisition of Mt. Holly aluminum smelter

On October 23, 2014, our wholly-owned subsidiary, Berkeley Aluminum Inc. ("Berkeley") entered into a stock purchase agreement (the "Stock Purchase Agreement") with Alumax Inc. ("Alumax"), a wholly-owned subsidiary of Alcoa Inc. ("Alcoa"), to acquire Alcoa's 50.3% stake in Mt. Holly. Upon closing of the transaction on December 1, 2014, Century owns 100% of Mt. Holly. Mt. Holly, located in Goose Creek, South Carolina, employed approximately 600 people and had an annual production capacity of 231,000 tonnes of primary aluminum as of the acquisition date. Pursuant to the terms of the Stock Purchase Agreement, Berkeley agreed to acquire all of the issued and outstanding shares of capital stock of Alumax of South Carolina Inc. ("Alumax of SC"), a wholly-owned subsidiary of Alumax, for \$67,500 in cash less certain amounts owed by Alumax to Mt. Holly and subject to working capital and other similar adjustments, of which we have paid \$53,831 as of December 31, 2014. The acquisition was funded with available cash on hand. We incurred \$1,087 of acquisition-related costs through December 31, 2014 and \$313 during the first quarter of 2015. All acquisition-related costs were expensed to selling, general and administrative expenses in the period that they were incurred.

## Pension funding obligations

Alcoa and Century agreed to fund the Mt. Holly pension plan benefit obligations, measured in accordance with generally accepted accounting principles in the United States ("GAAP") using agreed upon assumptions, in proportion to their respective ownership percentage. In addition, Century agreed to fund the Mt. Holly pension benefit obligations based on termination basis under IRS Code Section 414(l) (the "414(l) liability"), in excess of the GAAP liability, net of certain pension asset gains or losses. Based on the Stock Purchase Agreement, our pension funding requirements for the acquisition were \$46,546, which consisted of \$15,704 for our share of the unfunded GAAP pension liability and \$30,842 for 414(l) liability in excess of GAAP pension liability.

Alcoa spun-off the pension plan assets for the Mt. Holly employees and former employees into a qualified defined benefit pension plan established by Century. The Mt. Holly pension plan was fully funded using the Pension Benefit Guaranty Corporation (the "PBGC") assumptions and measured based on termination basis under IRS Code Section 414(l), which are more conservative than the assumptions we use to measure our defined benefit obligations, and resulted in the recognition of a pension asset at closing.



## CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

## Contingent Consideration - Earn-out provision

The Stock Purchase Agreement provides for a post-closing cash payment to be made following December 31, 2015 based on (i) changes in the Midwest Transaction Price for aluminum between July 2, 2014 and December 31, 2015 and (ii) the aggregate cast house production of Mt. Holly from October 1, 2014 through December 31, 2015. The maximum amount of this post-closing cash payment by (i) CASC to Alumax is \$22,500 and (ii) Alumax to CASC is \$12,500, which we estimate will be paid in the first quarter of 2016. We measured the fair value of the contingent consideration and recognized a \$13,780 liability at December 1, 2014. Each period, until the end of the measurement period on December 31, 2015, we will remeasure the fair value of the contingent consideration. We classified the contingent consideration within Level 3 of the fair value hierarchy as its fair value was determined with inputs that are not readily observable in the market. Any changes in the fair value will be recognized in earnings. For the three months ended March 31, 2015, we recognized \$6,527 in unrealized gain on fair value of contingent consideration, primarily related to decreases in the Midwest premium and the forward curve of the LME price of primary aluminum.

## Economic Adjustment, working capital and other adjustments

The Stock Purchase Agreement provides for an economic adjustment that was established to put the parties in the same economic position as if the closing date for the acquisition had occurred on September 30, 2014. The related adjustments include metal off-take and aluminum sales agreements, cash funding and management fee adjustments, as well adjustments for inventory and transition services. Based on our estimates at the closing date, excluding alumina purchases which were recognized separately from the acquisition, we were due a credit of \$10,000 from Alcoa for the economic adjustment.

The Stock Purchase Agreement also contained provisions for working capital settlement and several other adjustments. The working capital settlement was based on actual working capital at closing compared to established working capital targets. Other adjustments include credits due to Century for expected future post-employment benefit payments and business interruption premium share. There is also a reimbursement due to Alcoa related to the election of certain tax positions for the acquisition. Based on our calculations at closing, we estimated we were due \$2,324 from Alcoa for the working capital and other adjustments.

## Settlement of partnership receivable

At the closing date, our subsidiary, Berkeley, owed Mt. Holly partnership receivables of \$23,172. The receivable was effectively settled upon the completion of the acquisition, eliminated upon consolidation and recognized as a reduction in the consideration paid for the acquisition.

The following table summarizes all of the elements of consideration for the transaction, including the preliminary estimate of certain post-closing adjustments.

	As of December 1, 2014
Consideration:	
Purchase price	\$67,500
Pension funding (1)	46,546
Contingent consideration	13,780
Economic, working capital and other closing adjustments (1)	(12,324)
Settlement of partnership accounts	(23,172)
Total consideration	\$92,330

While there were no additional acquisition-related payments in the first quarter of 2015, subsequent to the quarter (1) end, we paid an additional payment of \$38,162 primarily related to pension funding obligations, final economic adjustment, working capital and other adjustments, net of certain amounts owed by Alumax to Mt. Holly.

## CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

## Step Acquisition

We accounted for this transaction as a step acquisition which required that we remeasure our existing 49.7% ownership interest, which was previously accounted for as an equity method investment, to fair value. The preliminary estimate of the fair value of our interest in Mt. Holly was \$56,723 at closing, resulting in a non-cash pre-tax gain of \$1,318 included in gain on remeasurement of equity investment on our consolidated statements of operations for 2014. Our previously recorded equity method investment in Mt. Holly and the proportionally consolidated property, plant and equipment was derecognized from our consolidated balance sheets. Since the date of the step acquisition, the financial results of Mt. Holly and all of its operating assets have been included within our consolidated financial statements.

The allocation of the purchase price and the fair value of the previous equity investment to all of the assets acquired and liabilities assumed is based on the estimated fair values at the date of acquisition. The following purchase price allocation is preliminary and subject to change based on the finalization of the valuation of acquired assets and liabilities and the fair value of the previously held equity investment and proportionally consolidated assets. The amounts presented below represent our estimates of the fair value based on a preliminary valuation of the assets and liabilities in connection with the acquisition.

	Preliminary estimate of the acquisition date fair value as of December 1, 2014
Assets Acquired:	
Inventories	\$26,105
Due from Alumax	20,786
Prepaid and other current assets	2,527
Intangible asset	2,580
Pension asset	30,842
Property, plant and equipment – net	127,089
Total assets acquired	\$209,929
Liabilities Assumed:	
Accounts payable, trade	\$41,471
Accrued and other current liabilities	6,045
Accrued postretirement benefit costs	2,857
Asset retirement obligations	10,503
Deferred taxes	4,804
Total liabilities assumed	\$65,680
Goodwill	\$4,804

The following unaudited pro forma financial information for the three months ended March 31, 2014 reflects our results of continuing operations as if the acquisition of the remaining interest in Mt. Holly had been completed on January 1, 2014. This unaudited pro forma financial information is provided for informational purposes only and is not necessarily indicative of what the actual results of operations would have been had the transactions taken place on January 1, 2014, nor is it indicative of the future consolidated results of operations or financial position of the combined companies.

Three months ended  
March 31,  
2014

Edgar Filing: CENTURY ALUMINUM CO - Form 10-Q

Pro forma revenues	\$474,155	
Pro forma earnings (loss) from continuing operations	(24,217	)
Pro forma earnings (loss) per common share, basic	(0.27	)
Pro forma earnings (loss) per common share, diluted	(0.27	)

10

---

## CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

## Transactions Recognized Separately from the Mt. Holly acquisition

As part of the acquisition, we recognized certain transactions as separate and apart from the business combination with Mt. Holly. The Mt. Holly smelter tolled alumina for its partners and so had no alumina supply of its own. Upon the purchase, we negotiated with Alcoa to purchase alumina under two separate alumina supply agreements. We believe the price paid under these agreements was equivalent to a market rate that would be paid by a market participant. Contract prices were based on published alumina price indexes.

Amounts Recognized Separately from the Acquisition:	Line item	Amount recognized
Alumina Supply Agreements	Inventory	\$ 14,880

## 4. 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 and are categorized based on the fair value hierarchy described in Accounting Standards Codification ("ASC") 820 "Fair Value Measurements and Disclosures."

## 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
E.ON ("E.ON") contingent obligation	3	Quoted London Metal Exchange ("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")

(1) Trust assets are currently invested in money market funds. These trust assets are held to fund the non-qualified supplemental executive pension benefit obligations for certain of our officers. 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

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. Considerations 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 table sets forth our financial assets and liabilities that were accounted for at fair value on a recurring basis by the level of input within the ASC 820 fair value hierarchy. As required by generally accepted accounting principles in the United States ("GAAP") 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. There were no transfers between Level 1 and 2 during the periods presented. There were no transfers into or out of Level 3 during the periods presented. It is our policy to recognize transfers into and transfers out of Level 3 as of the actual date of the event or change in circumstances that caused the transfer.

## CENTURY ALUMINUM COMPANY

## Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

Recurring Fair Value Measurements	As of March 31, 2015			Total
	Level 1	Level 2	Level 3	
<b>ASSETS:</b>				
Cash equivalents	\$197,572	\$—	\$—	\$197,572
Trust assets	7,378	—	—	7,378
Surety bonds	1,987	—	—	1,987
<b>TOTAL</b>	<b>\$206,937</b>	<b>\$—</b>	<b>\$—</b>	<b>\$206,937</b>
<b>LIABILITIES:</b>				
E.ON contingent obligation – net (1)	\$—	\$—	\$—	\$—
<b>TOTAL</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>
Recurring Fair Value Measurements	As of December 31, 2014			Total
	Level 1	Level 2	Level 3	
<b>ASSETS:</b>				
Cash equivalents	\$137,712	\$—	\$—	\$137,712
Trust assets	8,067	—	—	8,067
Surety bonds	1,987	—	—	1,987
<b>TOTAL</b>	<b>\$147,766</b>	<b>\$—</b>	<b>\$—</b>	<b>\$147,766</b>
<b>LIABILITIES:</b>				
E.ON contingent obligation – net (1)	\$—	\$—	\$—	\$—
<b>TOTAL</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>

(1) See Note 10 Debt for additional information about the E.ON contingent obligation.See Note 5 Derivative and hedging instruments for the location of our Level 3 derivative assets and liabilities within our consolidated balance sheets.

## CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

## 5. Derivative and hedging instruments

Derivatives. Our only current derivative contract is the E.ON contingent obligation. See Note 4 Fair value measurements for additional information about the fair value measurements of our derivative instrument. The following table provides the fair value and balance sheet classification of our derivative:

## Fair Value of Derivative Assets and Liabilities

	Balance sheet location	March 31, 2015	December 31, 2014
E.ON contingent obligation – net (1)	Other liabilities	—	—

(1) See Note 10 Debt for additional information about the E.ON contingent obligation.

## Midwest premium contracts

We entered into a fixed-price forward contract that settled monthly from January 2014 to March 2014 based on the Midwest premium price published in the Platts Metals Week for the applicable period. Losses associated with the settlements of the U.S. Midwest premium contracts were recorded in net gain (loss) on forward and derivative contracts on the consolidated statement of operations.

## Derivatives not designated as hedging instruments:

	Gain (loss) recognized in income from derivatives	Three months ended March 31,	
	Location	2015	2014
E.ON contingent obligation – net	Net gain (loss) on forward and derivative contracts	\$353	\$353
Midwest premium contracts	Net gain (loss) on forward and derivative contracts	—	(1,080 )
E.ON contingent obligation – net	Interest expense	(353	)(353 )

Counterparty credit risk. Forward financial contracts are subject to counterparty credit risk. However, we only enter into forward financial contracts with counterparties we determine to be creditworthy at the time of entering into the contract. If any counterparty failed to perform according to the terms of the contract, the impact would be limited to the difference between the contract price and the market price applied to the contract volume on the date of settlement.

## 6. Earnings (loss) per share

Basic earnings (loss) per share ("EPS") amounts are calculated by dividing net income (loss) allocated to common stockholders by the weighted average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive common shares outstanding.

Our Series A Convertible Preferred Stock has similar characteristics to a "participating security" as described by ASC 260 "Earnings Per Share" and we calculate the amount of earnings (loss) available to common stockholders and basic EPS using the Two-Class Method earnings allocation formula, allocating undistributed income to our preferred stockholder consistent with their participation rights, and diluted EPS using the If-Converted Method when applicable. Our Series A Convertible Preferred Stock is a non-cumulative perpetual participating convertible preferred stock with no set dividend preferences. The holders of our convertible preferred stock do not have a contractual obligation to share in our losses. In periods where we report net losses, we do not allocate these losses to the convertible preferred stock for the computation of basic or diluted EPS.



## CENTURY ALUMINUM COMPANY

## Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

The following table shows the basic and diluted earnings (loss) per share for the three months ended March 31, 2015 and 2014:

	For the three months ended March 31,			2014		
	2015	Shares (000)	Per-Share	Loss	Shares (000)	Per-Share
Net income (loss)	\$73,779			\$(20,104 )		
Amount allocated to common stockholders (1)	91.91	%		100	%	
Basic EPS:						
Net income (loss) allocated to common stockholders	67,813	88,814	\$0.76	(20,104 )	88,717	\$(0.23 )
Effect of Dilutive Securities:						
Share-based compensation plans	—	555		—	—	
Diluted EPS:						
Net income (loss) allocated to common stockholders with assumed conversion	\$67,813	89,369	\$0.76	\$(20,104 )	88,717	\$(0.23 )

(1) We have not allocated net losses between common and preferred stockholders, as the holders of our preferred shares do not have a contractual obligation to share in the loss.

Securities excluded from the calculation of diluted EPS:	Three months ended	
	March 31, 2015	2014
Stock options (1)	333,266	603,032
Service-based share awards (1)	—	442,456

(1) In periods when we report a net loss, all share awards are excluded from the calculation of diluted weighted average shares outstanding because of their antidilutive effect on earnings (loss) per share. In periods when we report net income, certain option awards may be excluded from the calculation of diluted EPS if the exercise price of the option award was greater than the average market price of the underlying common stock.

## 7. Shareholders' equity

## Common Stock

Under our Restated Certificate of Incorporation, our Board of Directors is authorized to issue up to 195,000,000 shares of our common stock.

The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock which are currently outstanding, including our Series A Convertible Preferred Stock, or which we may designate and issue in the future.

## Stock Repurchase Program

In August 2011, our Board of Directors approved a \$60,000 common stock repurchase program. In 2015, our Board expanded the repurchase program by approving an additional \$70,000, increasing the authorization to repurchase up to \$130,000. From August 2011 through March 31, 2015, we repurchased 5,986,521 shares of common stock for an aggregate purchase price of \$69,363. In the first quarter of 2015, we repurchased 1,200,000 shares of common stock for an aggregate purchase price of \$19,439. At March 31, 2015, we had approximately \$60,637 remaining under the repurchase program



CENTURY ALUMINUM COMPANY

Condensed Notes to the Consolidated Financial Statements (continued)

(amounts in thousands, except share and per share amounts)

(Unaudited)

authorization and we had initiated share repurchases of \$7,022 which did not settle until second quarter 2015. The repurchase program may be expanded, suspended or discontinued by our Board, in its sole discretion, at any time. Shares of common stock repurchased are recorded at cost as treasury stock and result in a reduction of shareholders' equity in the consolidated balance sheets. From time to time, treasury shares may be reissued as contributions to our employee benefit plans and for the conversion of convertible preferred stock. When shares are reissued, we use an average cost method for determining cost. The difference between the cost of the shares and the reissuance price is added to or deducted from additional paid-in capital.

Series A Convertible Preferred Stock

Glencore holds all of the issued and outstanding Series A Convertible Preferred Stock. The issuance of common stock under our stock incentive programs, debt exchange transactions and any stock offering that excludes Glencore participation triggers anti-dilution provisions of the preferred stock agreement and results in the automatic conversion of Series A Convertible Preferred Stock shares into shares of common stock.

The Common and Preferred Stock Activity table below contains additional information about preferred stock conversions during the three months ended March 31, 2015 and 2014.

Common and Preferred Stock Activity:	Preferred stock	Common stock
(in shares)		