CENTURY ALUMINUM CO
Form 10-Q
May 11, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

o 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 (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. x Yes o 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).* o Yes o 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	x	Accelerated Filer	o
Non-Accelerated Filer (Do not check if a smaller reporting company)	o	Smaller Reporting Company	o

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

The registrant had 74,139,488 shares of common stock outstanding at April 30, 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)

	March 31, 2009	December 31, 2008
ASSETS		
Cash	$ 267,492	$ 129,400
Restricted cash	865	865
Short-term investments	—	13,686
Accounts receivable — net	34,517	60,859
Due from affiliates	12,158	39,062
Inventories	112,753	138,111
Prepaid and other current assets	23,557	99,861
Deferred taxes — current portion	—	32,290
Total current assets	451,342	514,134
Property, plant and equipment — net	1,329,956	1,340,037
Intangible asset — net	28,490	32,527
Due from affiliates – less current portion	7,599	7,599
Other assets	160,642	141,061
TOTAL	$ 1,978,029	$ 2,035,358
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	$ 80,189	$ 102,143
Due to affiliates	62,920	70,957
Accrued and other current liabilities	64,172	58,777
Accrued employee benefits costs — current portion	12,070	12,070
Convertible senior notes	154,691	152,700
Industrial revenue bonds	7,815	7,815
Total current liabilities	381,857	404,462
Senior unsecured notes payable	250,000	250,000
Revolving credit facility	—	25,000
Accrued pension benefits costs — less current portion	49,336	50,008
Accrued postretirement benefits costs — less current portion	180,464	219,539
Other liabilities	42,023	33,464
Deferred taxes	65,443	71,805
Total noncurrent liabilities	587,266	649,816
CONTINGENCIES AND COMMITMENTS (NOTE 13)		
SHAREHOLDERS' EQUITY:		
Preferred stock (one cent par value, 5,000,000 shares authorized; 153,555 and 155,787 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively)	2	2
Common stock (one cent par value, 100,000,000 shares authorized; 74,139,488 and 49,052,692 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively)	741	491
Additional paid-in capital	2,377,310	2,272,128

Accumulated other comprehensive loss	(100,190)	(137,208)
Accumulated deficit	(1,268,957)	(1,154,333)
Total shareholders' equity	1,008,906	981,080
TOTAL	$ 1,978,029	$ 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 March 31,	
	2009	2008
NET SALES:		
Third-party customers	$ 170,414	$ 356,893
Related parties	54,173	114,249
	224,587	471,142
Cost of goods sold	296,948	375,147
Gross profit (loss)	(72,361)	95,995
Other operating expenses	24,332	—
Selling, general and administrative expenses	10,120	18,866
Operating income (loss)	(106,813)	77,129
Interest expense	(8,043)	(8,032)
Interest income	725	2,523
Interest income – affiliates	142	—
Net loss on forward contracts	(3,602)	(448,308)
Other expense - net	(242)	(533)
Loss before income taxes and equity in earnings of joint ventures	(117,833)	(377,221)
Income tax benefit	4,096	138,892
Loss before equity in earnings of joint ventures	(113,737)	(238,329)
Equity in (losses) earnings of joint ventures	(887)	4,393
Net loss	$ (114,624)	$ (233,936)
LOSS PER COMMON SHARE:		
Basic and Diluted	$ (1.77)	$ (5.70)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and Diluted	64,608	41,040

See notes to consolidated financial statements

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

	Three months ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (114,624)	$ (233,936)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Unrealized net loss on forward contracts	1,817	395,930
Accrued plant curtailment costs	18,235	—
Depreciation and amortization	20,845	20,785
Lower of cost or market inventory adjustment	2,271	—
Deferred income taxes	25,548	(144,331)
Pension and other post retirement benefits	4,112	4,177
Stock-based compensation	(90)	8,470
Excess tax benefits from share-based compensation	—	(499)
Undistributed losses (earnings) of joint ventures	887	(4,393)
Changes in operating assets and liabilities:		
Accounts receivable – net	26,342	(6,356)
Purchase of short-term trading securities	—	(108,536)
Sale of short-term trading securities	13,686	127,450
Due from affiliates	26,904	(8,513)
Inventories	4,761	(12,802)
Prepaid and other current assets	74,187	2,710
Accounts payable, trade	(12,201)	12,797
Due to affiliates	(8,037)	24,542
Accrued and other current liabilities	(9,887)	(18,974)
Other – net	(20)	329
Net cash provided by operating activities	74,736	58,850
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(9,184)	(8,915)
Nordural expansion	(6,501)	(7,389)
Net cash used in investing activities	(15,685)	(16,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments under revolving credit facility	(25,000)	—
Excess tax benefits from shared-based compensation	—	499
Issuance of common stock – net of issuance costs	104,041	1,543
Net cash provided by financing activities	79,041	2,042
NET CHANGE IN CASH	138,092	44,588
Cash, beginning of the period	129,400	60,962
Cash, end of the period	$ 267,492	$ 105,550

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements for the
Three months ended March 31, 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 three 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 $1,268,957 as of March 31, 2009. For the quarter ended March 31, 2009 and the year ended December 31, 2008, we sustained net losses available to common stockholders of $114,624 and $895,187 (as adjusted for the adoption of FSP APB 14-1, see Note 3), respectively. Our financial position and liquidity have been and are expected to continue to be materially adversely affected by low aluminum prices as compared to our cost of production. If primary aluminum prices remain at current levels, we would expect such liquidity would be sufficient to fund our operations through the middle of 2010.

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. 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 "Notes"). The holders of our 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 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 Notes to be converted. We did not enter into any derivative transactions in connection with the issuance of the Notes. Currently, the if-converted value of the Notes is significantly less than the principal balance of the Notes.

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

We applied the guidance in the FSP to measure the fair value of the liability component of the Notes using a discounted cash flow model. We assessed the expected life of the liability component to be seven years or through August 2011 (based on the noteholder's put option in August 2011) and applied a hypothetical nonconvertible borrowing rate (7.25%) which was based on yields of similarly rated nonconvertible instruments issued in August 2004. We determined the carrying amount of the equity component by deducting the fair value of the liability component from the principal amount of the Notes. The tax effect of the temporary basis difference associated with the liability component of the Notes is recorded as an adjustment to additional paid in capital as proscribed by the FSP.

In 2004, we capitalized approximately $6,000 of transaction costs related to the issuance of the Notes. We amortize these capitalized financing fees to interest expense over the expected life of the Notes. The FSP requires the allocation of these capitalized financing fees to the liability and equity components and accounting for the allocated fees as either debt issuance costs or equity issuance costs.

The adoption of the FSP resulted in the following amounts recognized in our financial statements:

	March 31, 2009	December 31, 2008
Principal of the liability component of 1.75% convertible senior notes	$ 175,000	$ 175,000
Unamortized debt discount	(20,309)	(22,300)
Net carrying amount of liability component of 1.75% convertible senior notes	$ 154,691	$ 152,700
Net carrying amount of equity component of 1.75% convertible senior notes (net of $18,261 taxes and $1,799 issuance costs)	$ 32,114	$ 32,114

Interest expense related to the 1.75% convertible senior notes:

	Three months ended March 31,	
	2009	2008
Contractual interest coupon	$ 766	$ 766
Amortization of the debt discount on the liability component	1,990	1,853
Total	$ 2,756	$ 2,619
Effective interest rate for the liability component for the period	6.30%	5.99%

The estimated amortization expense for the debt discount for the 1.75% convertible senior notes through the remaining expected life (August 2011) is as follows:

Nine months ending	2010	2011

	December 31, 2009		
Estimated debt discount amortization expense	$ 6,163	$ 8,755	$ 5,391

The adoption of the FSP requires the retrospective application to all periods presented as of the beginning of the first period presented. As of January 1, 2009, the FSP was adopted and comparative financial statements of prior years have been adjusted to apply the FSP retrospectively. The line items for the 2008 financial statements which are affected by the change in accounting principle are indicated below.

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

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2008		
	As Reported	Effect of change	As Adjusted
ASSETS			
Total current assets	$ 514,134	$ —	$ 514,134
Property, plant and equipment — net	1,340,037	—	1,340,037
Intangible asset — net	32,527	—	32,527
Due from affiliates – less current portion	7,599	—	7,599
Other assets	141,802	(741)	141,061
TOTAL	$ 2,036,099	$ (741)	$ 2,035,358
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable, trade	$ 102,143	$ —	$ 102,143
Due to affiliates	70,957	—	70,957
Accrued and other current liabilities	58,777	—	58,777
Accrued employee benefits costs — current portion	12,070	—	12,070
Convertible senior notes	175,000	(22,300)	152,700
Industrial revenue bonds	7,815	—	7,815
Total current liabilities	426,762	(22,300)	404,462
Total noncurrent liabilities	649,816	—	649,816
SHAREHOLDERS' EQUITY:			
Preferred stock	2	—	2
Common stock	491	—	491
Additional paid-in capital	2,240,014	32,114	2,272,128
Accumulated other comprehensive loss	(137,208)	—	(137,208)
Accumulated deficit	(1,143,778)	(10,555)	(1,154,333)
Total shareholders' equity	959,521	21,559	981,080
TOTAL	$ 2,036,099	$ (741)	$ 2,035,358

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31, 2008		
	As Reported	Effect of change	As Adjusted
Net Sales	$ 471,142	$ —	$ 471,142
Cost of goods sold	375,147	—	375,147
Gross profit	95,995	—	95,995
Selling, general and administrative expenses	18,866	—	18,866
Operating income	77,129	—	77,129
Interest expense	(6,243)	(1,789)	(8,032)

Interest income		2,523		—		2,523
Net loss on forward contracts		(448,308)		—		(448,308)
Other expense - net		(533)		—		(533)
Loss before income taxes and equity in earnings of joint ventures		(375,432)		(1,789)		(377,221)
Income tax benefit		138,243		649		138,892
Loss before equity in earnings of joint ventures		(237,189)		(1,140)		(238,329)
Equity in earnings of joint ventures		4,393		—		4,393
Net loss	$	(232,796)	$	(1,140)	$	(233,936)
LOSS PER COMMON SHARE:						
Basic and Diluted	$	(5.67)	$	(0.03)	$	(5.70)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:						
Basic and Diluted (in thousands)		41,040		—		41,040

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2008		
	As Reported	Effect of change	As Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (232,796)	$ (1,140)	$ (233,936)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Unrealized net loss on forward contracts	395,930	—	395,930
Depreciation and amortization	20,785	—	20,785
Deferred income taxes	(143,682)	(649)	(144,331)
Pension and other post retirement benefits	4,177	—	4,177
Stock-based compensation	8,470	—	8,470
Excess tax benefits from share-based compensation	(499)	—	(499)
Undistributed earnings of joint ventures	(4,393)	—	(4,393)
Changes in operating assets and liabilities:			
Accounts receivable – net	(6,356)	—	(6,356)
Purchase of short-term trading securities	(108,536)	—	(108,536)
Sale of short-term trading securities	127,450	—	127,450
Due from affiliates	(8,513)	—	(8,513)
Inventories	(12,802)	—	(12,802)
Prepaid and other current assets	2,710	—	2,710
Accounts payable, trade	12,797	—	12,797
Due to affiliates	24,542	—	24,542
Accrued and other current liabilities	(18,974)	—	(18,974)
Other – net	(1,460)	1,789	329
Net cash provided by operating activities	58,850	—	58,850
Net cash used in investing activities	(16,304)	—	(16,304)
Net cash provided by financing activities	2,042	—	2,042
NET CHANGE IN CASH	44,588	—	44,588
Cash, beginning of the period	60,962	—	60,962
Cash, end of the period	$ 105,550	$ —	$ 105,550

As the result of the accounting change, our accumulated deficit as of January 1, 2008, increased $13,684 from $245,462 to $259,146.

4. Curtailment of Operations – Ravenswood and Hawesville

On December 17, 2008, our subsidiary, Century Aluminum of West Virginia, Inc. (“CAWV”), issued a conditional Worker Adjustment and Retraining Notification Act (“WARN”) notice at its Ravenswood, West Virginia smelter related to a curtailment of plant operations in 60 days. This facility employed approximately 684 persons. Simultaneously with the issuance of the WARN, CAWV began the immediate curtailment of one of its four potlines which was completed by December 20, 2008. In December 2008, we incurred curtailment costs of $1,667 for this partial curtailment at CAWV. These costs were included in cost of goods sold.

On February 4, 2009, we announced the curtailment of the remaining plant operations at Ravenswood. Layoffs for the majority of Ravenswood's employees were completed by February 20, 2009. The decision to curtail the operations was due to the relatively high operating cost at Ravenswood and the depressed global price for primary aluminum.

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

On March 3, 2009, our subsidiary, Century Aluminum of Kentucky, announced the orderly curtailment of one potline at its Hawesville, Kentucky aluminum smelter ("Hawesville"). Hawesville has production capacity of approximately 244,000 metric tons per year of primary aluminum from five potlines. The potline curtailment was completed in March 2009. The action reduced primary aluminum production by approximately 4,370 metric tons per month and impacted approximately 120 employees.

We incurred curtailment charges of $24,332 during the three months ended March 31, 2009, which are reported in the "Other operating expenses" line item in the Consolidated Statements of Operations. The majority of the curtailment charges related to Ravenswood. The components of the curtailment costs for the three months ended March 31, 2009 are as follows:

	Three months ended March 31, 2009
Severance/employee-related cost	$ 24,590
Alumina contract – spot sales losses	3,331
Power/other contract termination costs	6,332
Ongoing site costs	1,589
Gross expense	35,842
Pension plan curtailment adjustment	2,483
OPEB plan curtailment adjustment	(13,993)
Net expense	$ 24,332

Cash expenditure forecasts and cash payments to date

	Total gross cash expenditure forecast	Approximate cash payments through March 31, 2009
Curtailment of operations at Ravenswood and Kentucky (24 months)	$ 33,000	$ 4,450
Ongoing idling costs at Ravenswood (24 months)	$ 32,000	$ 500
Contract termination costs – alumina purchase contract (1)	$ 9,000	$ 2,750

(1) This estimate is based on actual losses during the first quarter and $6,000 in future payments to St. Ann Bauxite Ltd. in compensation for the reduced bauxite sales related to alumina and bauxite contract

amendments. See Note 21 Subsequent Events for additional information about the alumina and bauxite contract amendments.

5. Equity Offering

February 2009 Offering

In February 2009, we completed a public offering of 24,500,000 shares of common stock at a price of $4.50 per share, raising $110,250 before offering costs. The offering costs were approximately $6,209, representing underwriting discounts and commissions and offering expenses.

Glencore International AG (together with its subsidiaries, "Glencore") purchased 13,242,250 shares of common stock in the February 2009 offering. We agreed with Glencore to amend the terms of our Standstill and Governance Agreement with Glencore to increase the percentage of our voting securities that Glencore could acquire and vote prior to April 7, 2009, in connection with Glencore's purchase of common stock in this offering. As of March 31, 2009, we believe that Glencore beneficially owned, through its common stock, approximately 38.1% of our issued and outstanding common stock and, through its ownership of common and preferred stock, an overall 48.7% economic ownership of Century.

We intend to use the net proceeds from the sale of our common stock for general corporate purposes, including repayment of debt.

6. Fair Value Measurements and Derivative Instruments

SFAS No. 157, "Fair Value Measurements" defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This pronouncement applies to a broad range of other existing accounting pronouncements that require or permit fair value measurements. SFAS No. 157 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." Under SFAS No. 157, fair value is an exit price and that exit price should reflect all the assumptions that markets participant would use in pricing the asset or liability.

Short-term Investments. Our short-term investments consist of tax-exempt municipal bonds. The market value of these investments is based upon their quoted market price in markets that are not actively traded.

Derivatives. Our derivative contracts have included natural gas forward financial purchase contracts, foreign currency forward contracts, primary aluminum forward physical and financial sales contracts and the Ravenswood power contract. We measure the fair value of these contracts based on the quoted future market prices at the reporting date in their respective principal markets for all available periods. We discount the expected cash flows from these contracts using a risk-adjusted discount rate. The primary aluminum forward physical delivery contracts that are accounted for as derivatives are marked-to-market using the London Metals Exchange ("LME") spot and forward market for primary aluminum and the U.S. Midwest Premium. Because there is no quoted futures market price for the U.S. Midwest premium component of the market price for primary aluminum, it is necessary for management to estimate the U.S. Midwest premium based on the historical U.S. Midwest premium. Prior to the termination of the primary aluminum forward financial sales contracts in July 2008, the term of one of these contracts extended beyond the quoted LME futures market. We estimated the fair value of that contract by making certain assumptions about future market prices of primary aluminum beyond the quoted LME market prices in 2013. These future market assumptions were significant to the fair value measurements. The Ravenswood power contract derivative is valued based in part on the LME forward market.

Fluctuations in the market prices for our primary aluminum forward financial sales contracts had a significant impact on gains and losses from forward contracts included in our financial statements from period to period. Unrealized gains and losses for these primary aluminum forward financial sales contracts were included in net gain (loss) on

forward contracts. Our other derivative contracts, natural gas forward financial purchase contracts and foreign currency forward contracts qualify for cash flow hedge treatment under SFAS No. 133, "Accounting for Derivatives." The effective portion of these contracts is recorded in other comprehensive income. The realized gains or losses on these hedges are recorded in the statement of operations when the hedged transaction affects earnings. The ineffective portions of these hedges are recognized immediately in the statement of operations. We have no foreign currency forwards or options outstanding at March 31, 2009 or December 31, 2008. We settled our foreign currency forward contracts in October 2008.

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

Fair Value of Derivative Assets and Liabilities

	Balance sheet location	March 31, 2009	December 31, 2008
DERIVATIVE ASSETS:			
Power contract	Prepaid and other assets	$ 85	$ 2,202
TOTAL DERIVATIVE ASSETS		85	2,202
DERIVATIVE LIABILITIES:			
Natural gas forward financial contracts	Accrued and other current liabilities	$ (6,208)	$ (10,130)
Aluminum sales premium contracts – current portion	Accrued and other current liabilities	(932)	(1,256)
Aluminum sales premium contracts – less current portion	Other liabilities	$ (492)	(503)
TOTAL DERIVATIVE LIABILITIES		$ (7,632)	(11,889)

Derivatives in SFAS 133 Cash Flow Hedging Relationships:

	Three months ended March 31, 2009				
	Amount of loss recognized in OCI on derivative, net of tax (effective portion)	Loss reclassified from OCI to income on derivatives (effective portion)		Loss recognized in income on Derivative (ineffective portion)	
	Amount	Location	Amount	Location	Amount
Natural gas forward financial contracts	$ (6,208)	Cost of goods sold	$ (8,767)		—
Foreign currency (1)	$ (4,110)	Cost of goods sold	$ (2,526)	Net loss on forward contracts	$ (1,607)

(1) We have no foreign currency forwards or options outstanding at March 31, 2009 or December 31, 2008. We settled our foreign currency forward contracts in October 2008.

Natural Gas

To mitigate the volatility of the natural gas markets, we enter into fixed-price forward financial purchase contracts, accounted for as cash flow hedges, which settle in cash in the period corresponding to the intended usage of natural gas. These forward contracts, which are designated as cash flow hedges and qualify for hedge accounting under SFAS No.133, have maturities through November 2009. The critical terms of the contracts essentially match those of the underlying exposure.

The effective portion of the forward contracts gain or loss is reported in other comprehensive income, and the ineffective portion is reported currently in earnings. Each month, when we settle the natural gas forward contracts, the realized gain or loss on our cash flow hedges are recognized in income as part of our cost of goods sold.

We had the following outstanding forward financial purchase contracts to hedge forecasted transactions:

	March 31, 2009	December 31, 2008
Natural gas forward financial contracts (thousands of MMBTU)	1,730	3,340

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

Foreign Currency

We are exposed to foreign currency risk due to fluctuations in the value of the U.S. dollar as compared to the euro, the Icelandic krona ("ISK") and the Chinese yuan. Grundartangi's labor costs, maintenance costs and other local services are denominated in ISK and a portion of its anode costs are denominated in euros. As a result, an increase or decrease in the value of those currencies relative to the U.S. dollar would affect Grundartangi's operating margins. In addition, we expect to incur capital expenditures for the construction of the Helguvik greenfield smelter project, although we are currently evaluating the Helguvik project's cost, scope and schedule in light of the global credit crisis and weakening commodity prices. A significant portion of the capital expenditures for the Helguvik project are forecasted to be denominated in currencies other than the U.S. dollar with a significant portion in ISK.

We manage our foreign currency exposure by entering into foreign currency forward contracts when management deems such transactions appropriate. During 2008, we purchased foreign currency forward contracts to hedge our foreign currency risk in the ISK associated with a portion of the forecasted operating costs payable in ISK at Grundartangi and for a portion of the forecasted capital expenditures payable in ISK for the Helguvik project. These forward contracts were designated as cash flow hedges, qualified for hedge accounting under SFAS No.133 and had maturities through September 2009. The critical terms of the contracts essentially matched those of the underlying exposure. The effective portion of the forward contracts gain or loss was reported in other comprehensive income and the ineffective portion was reported currently in earnings.

Each month, when we settle the foreign currency forward contracts, the realized gain or loss on our cash flow hedges for Grundartangi operating costs are recognized in income as part of our cost of goods sold. The realized gain or loss for our cash flow hedges for the Helguvik capital expenditures are accumulated in other comprehensive income and would be reclassified to earnings when the project is completed as part of the depreciation expense of the capital assets.

In October 2008, following the appreciable devaluation of the ISK versus the U.S. dollar, we reached an agreement with our counterparties and settled the remaining forward contracts that extended through September 2009.

We recognized losses of approximately $1,607 in the first quarter of 2009 (none in the first quarter of 2008) on the ineffective portions of the forward contracts for the forecasted Helguvik capital expenditures. These losses are recorded in net loss on forward contracts in our Consolidated Statements of Operations. The ineffective portion of these forward contracts represents forward contract positions in excess of the revised forecast schedule of Helguvik capital expenditures.

The foreign currency forward and natural gas forward financial purchase 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. Due to the fact that we are currently in a liability position for almost all of our forward contracts, our counterparty risk is very minimal at this time. If any counterparty failed to perform according to the terms of the contract, the accounting 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.

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As of March 31, 2009, an accumulated other comprehensive loss of $10,624 is expected to be reclassified to earnings over the next 12-month period.

Derivatives Not designated as Hedging Instruments under SFAS 133:

	Three months ended March 31, 2009 Gain (loss) recognized in income on derivative		
	Location		Amount
Power contracts	Net loss on forward contracts	$	(2,117)
Aluminum sales premium contracts	Related party sales	$	804
Aluminum sales premium contracts	Net loss on forward contracts	$	122

Power

We are party to a power supply agreement at Ravenswood that contains LME-based pricing provisions that are an embedded derivative. The embedded derivative does not qualify for cash flow hedge treatment and is marked to market quarterly. Based on our expected power usage over the remaining term of the contract, gains and losses associated with the embedded derivative are recorded in net gain (loss) on forward contracts in the Consolidated Statements of Operations. We have recorded a derivative asset of $85 and $2,202 for the embedded derivative at March 31, 2009 and December 31, 2008, respectively.

Aluminum sales premium contracts

The Glencore Metal Agreement I is a physical delivery contract for 50,000 mtpy of primary aluminum through December 31, 2009 with variable, LME-based pricing. We account for the Glencore Metal Agreement I as a derivative instrument under SFAS No. 133. We have not designated the Glencore Metal Agreement I as "normal" because it replaced and was a substitute for a significant portion of a sales contract which did not qualify for this designation. Because the Glencore Metal Agreement I is variably priced, we do not expect significant variability in its fair value, other than changes that might result from the absence of the U.S. Midwest premium. Gains and losses on the derivative are based on, (1) the difference between a contracted U.S. Midwest premium and the actual U.S. Midwest premium at settlement, and (2) the difference between a contracted U.S. Midwest premium and a forecast of the U.S. Midwest premium for future periods. Settlements are recorded in related party sales. Unrealized gains (losses) based on forecasted U.S. Midwest premiums are recorded in net loss on forward contracts on the Consolidated Statements of Operations.

The Glencore Metal Agreement II is a physical delivery contract for 20,400 mtpy of primary aluminum through December 31, 2013 with variable, LME-based pricing. Under the Glencore Metal Agreement II, pricing is based on market prices, adjusted by a negotiated U.S. Midwest premium with a cap and a floor as applied to the current U.S. Midwest premium. We account for the Glencore Metal Agreement II as a derivative instrument under SFAS No.

133. Gains and losses on the derivative are based on the difference between the contracted U.S. Midwest premium and actual and forecasted U.S. Midwest premiums. Settlements are recorded in related party sales. Unrealized gains (losses) based on forecasted U.S. Midwest premiums are recorded in net loss on forward contracts on the Consolidated Statements of Operations.

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We had the following outstanding forward contracts that were entered into that were not designated as hedging instruments:

	March 31, 2009	December 31, 2008
Power contract (in megawatt hours) (1)	3,931	1,066,000
Aluminum sales contract premiums (pounds of primary aluminum) (2)	297,278,000	335,102,000

(1) We mark this contract to market based on our expected usage during the remaining term of the contract. Our expected usage at March 31, 2009 reflects the curtailment of operations at Ravenswood in February 2009.

(2) Represents the remaining physical deliveries under our Glencore Metal Agreements I and II.

Our metals, natural gas and foreign currency risk management activities are subject to the control and direction of senior management. These activities are regularly reported to our board of directors.

The following table sets forth by level within the SFAS No. 157 fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis. As required by SFAS No. 157, 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 March 31, 2009			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Derivative assets	$ —	$ —	$ 85	$ 85
LIABILITIES:				
Derivative liabilities	$ (6,208)	$ —	$ (1,424)	$ (7,632)

Recurring Fair Value Measurements	As of December 31, 2008			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Short-term investments	$ —	$ 13,686	$ —	$ 13,686
Derivative assets	—	—	2,202	2,202

TOTAL	$ —	$ 13,686	$ 2,202	$ 15,888
LIABILITIES:				
Derivative liabilities	$ (10,130)	$ —	$ (1,759)	$ (11,889)

Change in Level 3 Fair Value Measurements during the three months ended March 31,

	Derivative liabilities/assets	
	2009	2008
Beginning balance January 1,	$ 443	$ (1,070,290)
Total loss (realized/unrealized) included in earnings	(1,946)	(448,238)
Settlements	164	41,415
Ending balance, March 31,	$ (1,339)	$ (1,477,113)
Amount of total loss included in earnings attributable to the change in unrealized losses relating to assets and liabilities held at March 31,	$ (1,770)	$ (396,006)

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The net loss on our derivative liabilities is recorded in our statement of operations under Net loss on forward contracts. In 2009, our Level 3 derivative liabilities are included in our Accrued and other liabilities and Other liabilities line items of our consolidated balance sheet. In 2008, our Level 3 derivative liabilities are included in our Due to affiliates, Accrued and other liabilities, Due to affiliates – less current portion and Other liabilities line items of our consolidated balance sheet.

7. Earnings Per Share

The following table provides a reconciliation of the computation of the basic and diluted earnings per share:

	For the three months ended March 31,					
	2009			2008		
	Loss	Shares (000)	Per-Share	Loss	Shares (000)	Per-Share
Net loss	$ (114,624)			$ (233,936)		
Amount allocated to common shareholders (1)	100%			100%		
Basic and Diluted EPS:						
Loss allocable to common shareholders	$ (114,624)	64,608	$(1.77)	$ (233,936)	41,040	$(5.70)

(1) We have not allocated the net loss allocable to common shareholders between common and preferred shareholders, as the holders of our preferred shares do not have a contractual obligation to share in the loss. For the three months ended March 31, 2008, there was no preferred stock outstanding.

Impact of issuance of Series A Convertible Preferred Stock on EPS

In July 2008, we issued 160,000 shares of Series A Convertible Preferred Stock (convertible into 16,000,000 common shares) as a portion of the consideration for the termination of primary aluminum forward financial sales contracts with Glencore. The preferred stock has similar characteristics of a "participating security" as described by SFAS No. 128, "Earnings Per Share" and EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128." In accordance with the guidance in SFAS No. 128 and EITF 03-6, we calculated basic EPS using the Two-Class Method, allocating undistributed income to our preferred shareholder consistent with their participation rights, and diluted EPS using the If-Converted Method.

EITF 03-6 does not require the presentation of basic and diluted EPS for securities other than common stock and the EPS amounts, as presented, only pertain to our common stock.

The Two-Class Method is an earnings allocation formula that determines earnings per share for common shares and participating securities according to dividends declared (or accumulated) and the participation rights in undistributed earnings. Our preferred stock is a non-cumulative perpetual participating convertible preferred stock with no set dividend preferences. The dividend rights of our preferred shareholder are equal to our common shareholders, as if it held of the number of common shares into which its shares of preferred stock are convertible into as of the record date. The liquidation rights of the preferred stock mirror their dividend rights, in that the preferred stock ranks in parity to the common stock in respect of liquidation preference and would be entitled to share ratably with common stock holders in the distribution of assets in a liquidation (as though the preferred stock holders held the number of shares of common stock into which their shares of preferred stock were convertible). The preferred stock has a liquidation preference of $0.01 per share.

The holders of our convertible preferred stock do not have a contractual obligation to share in the losses of Century. Thus, in periods where we report net losses, we will not allocate the net losses to the convertible preferred stock for the computation of basic or diluted EPS.

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Options to purchase 413,434 and 445,843 shares of common stock were outstanding as of March 31, 2009 and 2008, respectively. For the three months ended March 31, 2009, all options, service-based stock and shares to be issued upon the assumed conversion of our convertible debt were excluded from the calculation of diluted EPS because of their antidilutive effect on earnings per share. The average price for our common stock in the three months ended March 31, 2009 was below the conversion price of our 1.75% convertible senior notes.

For the three months ended March 31, 2008, all options, service-based stock, and shares to be issued upon the assumed conversion of our convertible debt were excluded from the calculation of diluted EPS because of their antidilutive effect on earnings per share. Based on the average price for our common stock in the three months ended March 31, 2008, we would have been required to issue approximately 2,722,000 shares upon an assumed conversion of our convertible debt.

Service-based stock for which vesting is based upon continued service is not considered issued and outstanding shares of common stock until vested. However, the service-based stock is considered a common stock equivalent and, therefore, the weighted average service-based stock is included, using the treasury stock method, in common shares outstanding for diluted earnings per share computations if they have a dilutive effect on earnings per share. There were approximately 64,000 and 43,000 unvested shares of service-based stock outstanding at March 31, 2009 and 2008, respectively. Our goal-based performance share units are not considered common stock equivalents until it becomes probable that performance goals will be obtained.