

Aleris International, Inc.  
Form 10-Q  
November 08, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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**x     Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Quarterly Period Ended September 30, 2005**

**“     Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Commission File No. 1-7170**

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**Aleris International, Inc.**

**(Exact name of registrant as specified in its charter)**

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**Delaware**

**(State or other jurisdiction of incorporation or organization)**

**75-2008280**

**(I.R.S. Employer Identification No.)**

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**25825 Science Park Drive, Suite 400**

**Beachwood, Ohio 44122**

**(Address of principal executive offices) (Zip Code)**

**(216) 910-3400**

**(Registrant's telephone number, including area code)**

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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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on October 31, 2005.

Common Stock, \$0.10 par value, 31,130,556

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**PART I. FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS****ALERIS INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEET****(in thousands, except share data)**

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 64,444	\$ 17,828
Accounts receivable (net of allowance of \$3,941 and \$3,210 at September 30, 2005 and December 31, 2004, respectively)	260,362	229,018
Inventories	251,680	262,210
Deferred income taxes	5,347	3,886
Prepaid expenses	6,491	11,536
Derivative financial instruments	42,856	17,324
Other current assets	3,949	1,432
<b>Total Current Assets</b>	<b>635,129</b>	<b>543,234</b>
Property and equipment, net	427,095	432,779
Goodwill	72,950	63,940
Restricted cash	6,166	16,007
Other assets	29,470	25,189
	<b>\$ 1,170,810</b>	<b>\$ 1,081,149</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 161,871	\$ 178,943
Accrued liabilities	103,376	88,405
Current maturities of long-term debt	8,882	61
<b>Total Current Liabilities</b>	<b>274,129</b>	<b>267,409</b>
Long-term debt	364,334	412,338
Deferred income taxes	11,325	11,280
Accrued pension benefits	50,139	51,173
Accrued post-retirement benefits	37,675	38,267
Other long-term liabilities	20,457	18,012
<b>Stockholders' Equity</b>		
Preferred stock; par value \$.10; 8,000,000 shares authorized; none issued		
Common stock; par value \$.10; 80,000,000 shares authorized; 31,091,313 issued at September 30, 2005; 30,769,423 issued at December 31, 2004	3,109	3,077
Additional paid-in capital	291,820	277,843
Deferred stock compensation	(4,983)	(3,752)

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Retained earnings	101,096	21,569
Accumulated other comprehensive income (loss)	21,764	(4,220)
Treasury stock, at cost; 5,177 shares at September 30, 2005; 1,110,623 shares at December 31, 2004	(55)	(11,847)
	<u>          </u>	<u>          </u>
<b>Total Stockholders' Equity</b>	412,751	282,670
	<u>          </u>	<u>          </u>
	\$ 1,170,810	\$ 1,081,149
	<u>          </u>	<u>          </u>

See Notes to Consolidated Financial Statements.

**ALERIS INTERNATIONAL, INC.**

**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited)

(in thousands, except per share data)

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenues	\$ 554,919	\$ 283,044	\$ 1,803,507	\$ 853,991
Cost of sales	495,757	264,280	1,610,688	791,163
Gross profit	59,162	18,764	192,819	62,828
Selling, general and administrative expense	22,111	11,119	64,880	37,767
Restructuring and merger-related charges	1,024		4,821	
Interest expense	9,777	6,643	30,053	19,948
Unrealized (gains) losses on derivative financial instruments	(2,747)	859	10,389	(640)
Other (income) expense, net	(335)	152	(1,250)	336
Equity in net loss of affiliates	74	90	295	135
Income (loss) before (benefit) provision for income taxes and minority interests	29,258	(99)	83,631	5,282
(Benefit from) provision for income taxes	(2,374)	180	3,806	2,475
Income (loss) before minority interests	31,632	(279)	79,825	2,807
Minority interests, net of provision for income taxes	107	35	298	122
Net income (loss)	\$ 31,525	\$ (314)	\$ 79,527	\$ 2,685
Net earnings (loss) per common share:				
Basic	\$ 1.03	\$ (0.02)	\$ 2.62	\$ 0.18
Diluted	\$ 1.01	\$ (0.02)	\$ 2.55	\$ 0.18
Weighted average shares outstanding:				
Basic	30,495	15,186	30,367	14,835
Diluted	31,276	15,186	31,151	15,277

Note: Results of operations of the rolled products segment are included since December 9, 2004, the date of the acquisition of Commonwealth Industries, Inc.

See Notes to Consolidated Financial Statements.

## ALERIS INTERNATIONAL, INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(in thousands)

	For the nine months ended September 30,	
	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 79,527	\$ 2,685
Depreciation and amortization	39,764	21,113
Benefit from deferred income taxes	(13,407)	(3,756)
Restructuring and merger-related charges:		
Expenses	4,821	
Payments	(3,867)	
Deferred compensation expense	2,295	664
Equity in loss of affiliates	295	135
Unrealized losses (gains) on derivative financial instruments	10,389	(640)
Non-cash retirement charge		1,576
Other non-cash charges	3,683	3,273
Changes in operating assets and liabilities:		
Accounts receivable	(31,640)	(13,558)
Inventories	18,707	(3,033)
Other assets	7,015	1,722
Accounts payable and accrued liabilities	(3,943)	19,798
<b>Net cash provided by operating activities</b>	<b>113,639</b>	<b>29,979</b>
<b>INVESTING ACTIVITIES</b>		
Payments for property and equipment	(38,915)	(22,302)
Proceeds from sale of property and equipment	5,529	
Purchase of business, net of cash acquired	(17,380)	
Acquisition costs		(3,458)
Other	(142)	(100)
<b>Net cash used by investing activities</b>	<b>(50,908)</b>	<b>(25,860)</b>
<b>FINANCING ACTIVITIES</b>		
Net payments on long-term revolving credit facility	(50,798)	(22,391)
Proceeds from issuance of long-term debt	14,341	
Payments on long-term debt	(1,170)	
Decrease in restricted cash	9,841	10,729
Proceeds from exercise of stock options	12,503	
Debt issuance costs	(653)	(765)
Other	200	2,801
<b>Net cash used by financing activities</b>	<b>(15,736)</b>	<b>(9,626)</b>
Effect of exchange rate differences on cash and cash equivalents	(379)	137
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>46,616</b>	<b>(5,370)</b>
Cash and cash equivalents at beginning of period	17,828	14,760

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Cash and cash equivalents at end of period	\$ 64,444	\$ 9,390
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See Notes to Consolidated Financial Statements.

**ALERIS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****SEPTEMBER 30, 2005****(amounts in thousands, except per share data)****NOTE A - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The accompanying financial statements include the accounts of Aleris International, Inc. and all of its subsidiaries (collectively, except where the context otherwise requires, referred to as we, us, our or similar terms). All intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004. Certain reclassifications have been made to prior period statements to conform to the current period presentation.

**NOTE B - INVENTORIES**

The components of inventories are:

	September 30, 2005	December 31, 2004
Finished goods	\$ 83,635	\$ 88,328
Raw materials	87,689	89,790
Work in process	59,708	63,170
Supplies	20,648	20,922
	<u>\$ 251,680</u>	<u>\$ 262,210</u>

**NOTE C ACQUISITIONS**

*Commonwealth Industries, Inc.*



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On December 9, 2004, we completed our acquisition of Commonwealth Industries, Inc. Commonwealth is a manufacturer of common alloy aluminum sheet, selling its products to end-users for use in building and construction products, transportation equipment and automotive parts, consumer durables as well as to distributors. The results of Commonwealth's operations have been included in our consolidated income statement for the three and nine months ended September 30, 2005. The purchase price paid, totaling \$184,259, has been allocated to the assets acquired and liabilities assumed based upon an estimate of their fair values as of the acquisition date. The purchase price allocation is preliminary and a final determination of the required purchase accounting adjustments will be made upon the finalization of an independent appraisal of the fair value of acquired property and equipment, the determination of the fair value of certain other acquired assets and liabilities, the completion of our integration plans and the final determination of the acquired federal and state net operating loss and tax credit carry forwards.

In connection with the acquisition, we announced plans to restructure and relocate our corporate headquarters and to consolidate certain duplicative general and administrative functions, including the accounting, finance, human resource and treasury functions, at both Commonwealth and Aleris. Our initial integration plans resulted in the recognition of approximately \$7,796 in the preliminary allocation of the purchase price related to severance, relocation and other employee benefits to be paid to Commonwealth employees to be terminated or relocated. Of the 54 Commonwealth employees expected to be terminated, approximately 45 have left their positions as of September 30, 2005 with the remaining employees to be terminated by January 31, 2006. During the second quarter, management announced plans to restructure the rolled products segment's customer service function resulting in the recognition of an additional \$1,419 in the allocation of purchase price related to severance and relocation benefits. Of the 15 rolled products personnel that are expected to be terminated by September 30, 2006 as a result of this phase of our integration plans, four have left their positions as of September 30, 2005. As additional aspects of our integration plans, including the elimination or consolidation of other administrative functions, are finalized and communicated, additional adjustments to the preliminary purchase price allocation may be required. We expect to complete our integration efforts by December 31, 2005.

The restructuring and consolidation plans also resulted in the reduction of 47 Aleris corporate personnel for which we recorded charges totaling \$10,754 during the fourth quarter of 2004. During the first nine months of 2005, we recorded restructuring and merger-related charges totaling \$2,451 associated with these terminations, the relocation of certain personnel to our new Beachwood, Ohio headquarters and the resignation of the former president of our aluminum recycling business. Approximately 40 former Aleris employees had left their positions as of September 30, 2005. Additionally, in the first quarter of 2005, management determined that certain idled assets at our Wendover, Utah recycling facility would not be relocated and utilized at another recycling facility. As a result, we determined that the book value of these assets was not supportable by estimated future cash flows and we recorded an \$804 non-cash impairment charge to reduce the assets to their estimated fair values at March 31, 2005. During the second quarter of 2005, we vacated a portion of our former headquarters location in Irving, Texas and have recorded charges totaling \$593 related to the remaining contractual lease payments net of expected sublease income and \$