

SOUTHERN COPPER CORP/
Form 10-Q
August 08, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2011

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: 1-14066

SOUTHERN COPPER CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of incorporation or
organization)

13-3849074
(I.R.S. Employer Identification No.)

1440 East Missouri Avenue Suite C-175 Phoenix,
AZ
(Address of principal executive offices)

85014
(Zip Code)

Registrant's telephone number, including area code: **(602) 264-1375**

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 30, 2011 there were outstanding 845,432,480 shares of Southern Copper Corporation common stock, par value \$0.01 per share.

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Southern Copper Corporation (SCC)

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Exhibit 101	Financial statements for the three and six months ended June 30, 2011 Formatted in XBRL: (i) the Condensed Consolidated Statement of Earnings, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged in detail.	Submitted electronically with this report

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except per share amounts)			
Net sales	\$ 1,801,498	\$ 1,173,240	\$ 3,403,517	\$ 2,392,645
Operating costs and expenses:				
Cost of sales (exclusive of depreciation, amortization and depletion shown separately below)	695,977	531,484	1,432,837	1,042,467
Selling, general and administrative	25,744	21,964	50,316	43,682
Depreciation, amortization and depletion	72,898	69,304	143,542	138,772
Exploration	8,147	10,065	15,365	18,530
Total operating costs and expenses	802,766	632,817	1,642,060	1,243,451
Operating income	998,732	540,423	1,761,457	1,149,194
Interest expense	(48,297)	(45,050)	(95,861)	(68,838)
Capitalized interest	1,357		2,293	
Gain on sale of property	6,410		6,410	
Other income (expense)	318	(6,489)	(262)	(5,056)
Interest income	3,534	1,328	6,245	3,380
Income before income taxes	962,054	490,212	1,680,282	1,078,680
Income taxes	301,935	174,901	540,016	378,142
Net income	660,119	315,311	1,140,266	700,538
Less: Net income attributable to the non-controlling interest	2,082	1,924	3,853	3,907
Net income attributable to SCC	\$ 658,037	\$ 313,387	\$ 1,136,413	\$ 696,631
Per common share amounts attributable to SCC:				
Net income - basic and diluted	\$ 0.78	\$ 0.37	\$ 1.34	\$ 0.82
Dividends paid	\$ 0.56	\$ 0.45	\$ 1.14	\$ 0.88

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Weighted average common shares outstanding - basic and diluted	848,937	850,000	849,465	850,000
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Southern Copper Corporation

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Net income	\$ 660,119	\$ 315,311	\$ 1,140,266	\$ 700,538
Other comprehensive income (loss) net of tax:				
Derivative instruments classified as cash flow hedge:				
Decrease in accumulated unrealized loss in the period	18,049		61,829	
Add:				
Reclassification adjustment for losses included in net income	5,264		27,211	
Unrealized loss on derivative instruments classified as cash flow hedges	23,313		89,040	
Comprehensive income	\$ 683,432	\$ 315,311	\$ 1,229,306	\$ 700,538
Comprehensive income attributable to the non-controlling interest	\$ 2,155	\$ 1,924	\$ 4,104	\$ 3,907
Comprehensive income attributable to SCC	\$ 681,277	\$ 313,387	\$ 1,225,202	\$ 696,631

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Southern Copper Corporation

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,453,841	\$ 2,192,677
Short-term investments	225,396	76,209
Accounts receivable trade	767,235	671,745
Accounts receivable other (including related parties 2011 - \$4,390 and 2010 - \$32,700)	112,755	76,284
Inventories	609,436	540,988
Deferred income tax	61,679	63,935
Other current assets	41,191	117,170
Total current assets	3,271,533	3,739,008
Property, net	4,130,116	4,094,993
Long-term leach stockpiles	59,964	29,668
Intangible assets, net	111,328	112,352
Deferred income tax	71,000	43,900
Other assets	150,204	108,098
Total assets	\$ 7,794,145	\$ 8,128,019
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 10,000	\$ 10,000
Accounts payable	342,124	558,661
Accrued income taxes	120,941	266,241
Due to affiliated companies	5,599	4,665
Accrued workers participation	133,313	222,432
Accrued interest	58,924	60,062
Other accrued liabilities	26,905	16,957
Total current liabilities	697,806	1,139,018
Long-term debt	2,740,438	2,750,401
Deferred income taxes	149,754	113,232
Non-current taxes payable	45,250	77,830
Other liabilities and reserves	79,389	78,070
Asset retirement obligation	60,782	59,059
Total non-current liabilities	3,075,613	3,078,592
Commitments and contingencies (Note 13)		
STOCKHOLDERS EQUITY		
Common stock	8,846	8,846
Additional paid-in capital	1,050,305	1,034,764
Retained earnings	3,763,391	3,595,983

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Accumulated other comprehensive loss	(37,383)	(126,423)
Treasury stock	(784,481)	(622,722)
Total SCC stockholders' equity	4,000,678	3,890,448
Non-controlling interest	20,048	19,961
Total equity	4,020,726	3,910,409
Total liabilities and equity	\$ 7,794,145	\$ 8,128,019

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
OPERATING ACTIVITIES				
Net income	\$ 660,119	\$ 315,311	\$ 1,140,266	\$ 700,538
Adjustments to reconcile net earnings to net cash provided from operating activities:				
Depreciation, amortization and depletion	72,898	69,304	143,542	138,772
Remeasurement loss (income)	(2,526)	(758)	5,653	7,606
Provision (benefit) for deferred income taxes	21,241	(20,365)	(16,502)	(14,512)
Gain on sale of property	(6,410)		(6,410)	
Cash provided from (used for) operating assets and liabilities:				
Accounts receivable	(206,335)	76,301	(131,961)	18,948
Inventories	19,554	20,565	(68,448)	9,689
Accounts payable and accrued liabilities	(382,981)	53,851	(351,174)	(52,755)
Other operating assets and liabilities	27,154	13,546	2,820	26,708
Net cash provided from operating activities	202,714	527,755	717,786	834,994
INVESTING ACTIVITIES				
Capital expenditures	(110,655)	(92,925)	(183,644)	(168,288)
Purchase of short-term investments, net	(4,877)	(30,131)	(149,506)	(26,744)
Payments to development stage properties accounted for as equity method investments	(4,593)		(15,911)	
Sale of property	8,132	538	8,855	5,347
Other	143		143	
Net cash used for investing activities	(111,850)	(122,518)	(340,063)	(189,685)
FINANCING ACTIVITIES				
Debt incurred		1,489,674		1,489,674
Debt repaid	(5,000)	(5,000)	(10,250)	(5,000)
Capitalized debt issuance cost		(8,155)		(8,155)
Dividends paid to common stockholders	(476,000)	(382,500)	(969,004)	(747,998)
Distributions to non-controlling interest	(1,412)	(1,822)	(3,605)	(2,971)
Repurchase of common shares	(148,068)	(380)	(148,068)	(380)
Other	714	292	(504)	367
Net cash (used for) provided from financing activities	(629,766)	1,092,109	(1,131,431)	725,537
Effect of exchange rate changes on cash and cash equivalents	19,446	(4,687)	14,872	1,471
Increase (decrease) in cash and cash equivalents	(519,456)	1,492,659	(738,836)	1,372,317
Cash and cash equivalents, at beginning of period	1,973,297	651,964	2,192,677	772,306

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Cash and cash equivalents, at end of period	\$	1,453,841	\$	2,144,623	\$	1,453,841	\$	2,144,623
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Southern Copper Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 DESCRIPTION OF THE BUSINESS:

In the opinion of Southern Copper Corporation, (the Company, Southern Copper or SCC), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the Company's financial position as of June 30, 2011 and the results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2011 and 2010. The results of operations for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year. The December 31, 2010 balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (USGAAP). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements at December 31, 2010 and notes included in the Company's 2010 annual report on Form 10-K.

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS:

In the first six months of 2011 the Company adopted the following Accounting Standard Updates (ASU) to the FASB Accounting Standards Codification (the ASC) issued by the Financial Accounting Standard Board (FASB).

ASU No. 2010-06: In January 2010, the FASB issued ASU No. 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, an update of ASC Subtopic 820-10 Fair Value Measurements and Disclosures - Overall.

With the adoption of this ASU in 2011, the Company has expanded its financial instruments disclosures to include those related to purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Please see disclosures required in Note 17 Financial instruments.

NOTE 3 AMC's BUSINESS COMBINATION PROPOSAL:

On July 22, 2010, the Company received a non-binding proposal from its parent company, Americas Mining Corporation (AMC), offering to effect an all-stock business combination of Southern Copper and AMC, the parent company of ASARCO LLC (Asarco), in which all stockholders of Southern Copper would receive 1.237 common shares of AMC in exchange for each share of SCC. Under the proposal

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presented by AMC, the stock of AMC would be registered and listed on the New York, Mexico and the Lima Stock Exchanges. Once the listing and registration of the AMC shares are completed, SCC's shares would be delisted from the exchanges.

In August 2010, the Company formed a special committee of independent directors to evaluate AMC's proposal. The special committee has engaged independent legal, financial and technical advisors to assist in the evaluation. There is no specific deadline to complete this evaluation.

Table of Contents**NOTE 4 SHORT-TERM INVESTMENTS:**

Short-term investments were as follows (\$ in millions):

	At June 30, 2011		At December 31, 2010	
Trading securities	\$	216.4	\$	66.9
Weighted average interest rate		2.02%		1.14%
Available for sale	\$	9.0	\$	9.3
Weighted average interest rate		0.37%		1.01%
Total	\$	225.4	\$	76.2

Trading securities: consist of bonds issued by public companies. Each financial instrument is independent of the others. The Company has the intention to sell these bonds in the short-term.

Available for sale investments consist of securities issued by public companies. Each security is independent of the others and at June 30, 2011 and December 31, 2010, included corporate bonds and asset and mortgage backed obligations. As of June 30, 2011 and December 31, 2010, gross unrealized gains and losses on available for sale securities were not material.

Related to these investments the Company earned interest, which was recorded as interest income in the condensed consolidated statement of earnings. Also the Company redeemed some of these securities and recognized gains (losses) due to changes in fair value, which were recorded as other income (expense) in the condensed consolidated statement of earnings.

The following table summarizes the activity of these investments by category (in millions):