Chemtura CORP
Form 10-Q
November 07, 2008
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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 September 30, 2008

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) 1-15339

CHEMTURA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**52-2183153**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
199 Benson Road, Middlebury, Connecticut	**06749**
(Address of principal executive offices)	(Zip Code)

(203) 573–2000
(Registrant s telephone number,
including area code)

(Former name, former address and former fiscal year, if changed from last report)

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 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. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	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 number of shares of common stock outstanding as of the latest practicable date is as follows:

Class	**Number of shares outstanding at September 30, 2008**
Common Stock - $.01 par value	242,489,118

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CHEMTURA CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CHEMTURA CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(*In millions, except per share data*)

	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net sales	$ 924	$ 929	$ 2,856	$ 2,856
Cost of goods sold	731	727	2,231	2,197
Selling, general and administrative	80	87	253	292
Depreciation and amortization	54	59	180	192
Research and development	12	15	40	46
Facility closures, severance and related costs		9		34
Antitrust costs	1	2	12	32
Loss on sale of business	1	(1)	25	14
Impairment of long-lived assets	1	9	321	16
Equity income		(1)	(3)	(2)
Operating profit (loss)	44	23	(203)	35
Interest expense	(20)	(21)	(59)	(67)
Other income (expense), net	4	(7)	16	(11)
Earnings (loss) from continuing operations before income taxes	28	(5)	(246)	(43)
Income tax (expense) benefit	(17)	6	(37)	1
Earnings (loss) from continuing operations	11	1	(283)	(42)
Earnings from discontinued operations		3		14
(Loss) gain on sale of discontinued operations		(2)		25
Net earnings (loss)	$ 11	$ 2	$ (283)	$ (3)
Basic and Diluted earnings (loss) per common share:				
Earnings (loss) from continuing operations	$ 0.05	$ 0.01	$ (1.17)	$ (0.17)
Earnings from discontinued operations		0.01		0.06
(Loss) gain on sale of discontinued operations		(0.01)		0.10
Net earnings (loss)	$ 0.05	$ 0.01	$ (1.17)	$ (0.01)
Dividends per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15
Weighted average shares outstanding - basic and diluted	242.4	241.9	242.3	241.4

See accompanying notes to consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(*In millions, except per share data*)

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 107	$ 77
Accounts receivable	287	389
Inventories	720	676
Other current assets	212	239
Total current assets	1,326	1,381
NON-CURRENT ASSETS		
Property, plant and equipment	923	1,032
Goodwill	943	1,309
Intangible assets, net	537	585
Other assets	150	109
	$ 3,879	$ 4,416
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 379	$ 5
Accounts payable	261	285
Accrued expenses	301	353
Income taxes payable	66	38
Total current liabilities	1,007	681
NON-CURRENT LIABILITIES		
Long-term debt	717	1,058
Pension and post-retirement health care liabilities	322	361
Other liabilities	351	463
STOCKHOLDERS EQUITY		
Common stock - $0.01 par value		
Authorized - 500.0 shares		
Issued - 254.0 shares at September 30, 2008 and 253.6 shares at December 31, 2007	3	3
Additional paid-in capital	3,036	3,028
Accumulated deficit	(1,499)	(1,179)
Accumulated other comprehensive income	109	168
Treasury stock at cost - 11.5 shares	(167)	(167)
Total stockholders equity	1,482	1,853
	$ 3,879	$ 4,416

See accompanying notes to consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(*In millions*)

Increase (decrease) in cash	**Nine months ended September 30, 2008**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (283)	$ (3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on sale of business	25	14
Gain on sale of discontinued operations		(25)
Impairment of long-lived assets	321	16
Depreciation and amortization	180	197
Stock-based compensation expense	6	8
Equity income	(3)	(2)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(3)	1
Accounts receivable - securitization	75	24
Inventories	(96)	23
Accounts payable	(17)	(33)
Pension and post-retirement health care liabilities	(28)	(10)
Other	(83)	(39)
Net cash provided by operating activities	94	171
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments	68	157
Payments for acquisitions, net of cash acquired	(37)	(164)
Capital expenditures	(94)	(73)
Net cash used in investing activities	(63)	(80)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from credit facility, net	70	
Proceeds on long term borrowings	1	
Payments on long term borrowings	(31)	
Payments on short term borrowings		(46)
Dividends paid	(36)	(36)
Proceeds from exercise of stock options	1	7
Other financing activities		(1)
Net cash used in (provided by) financing activities	5	(76)
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	(6)	4
Change in cash and cash equivalents	30	19
Cash and cash equivalents at beginning of period	77	95
Cash and cash equivalents at end of period	$ 107	$ 114

See accompanying notes to consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The information in the foregoing consolidated financial statements for the quarter and nine months ended September 30, 2008 and September 30, 2007 is unaudited, but reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise disclosed in the accompanying notes to the consolidated financial statements.

The foregoing consolidated financial statements include the accounts of Chemtura Corporation and the wholly-owned and majority-owned subsidiaries that it controls, which are collectively referred to as the Company. Other affiliates in which the Company has a 20% to 50% ownership interest or a non-controlling majority interest are accounted for in accordance with the equity method. Other investments in which the Company has less than 20% ownership are recorded at cost. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s 2007 Annual Report on Form 10-K. The consolidated results of operations for the quarter and nine months ended September 30, 2008 are not necessarily indicative of the results expected for the full year.

ACCOUNTING POLICIES

Operating Costs and Expenses

Cost of goods sold (COGS) includes all costs incurred in manufacturing goods, including raw materials, direct manufacturing costs and manufacturing overhead. COGS also includes warehousing, distribution, engineering, purchasing, customer service, environmental, health and safety functions, and shipping and handling costs for outbound product shipments. Selling, general and administrative expenses (SG&A) include costs and expenses related to the following functions and activities: selling, advertising, legal, provision for doubtful accounts, corporate facilities and corporate administration. SG&A also includes accounting, information technology, finance and human resources, excluding direct support in manufacturing operations, which is included as COGS. Research and development expenses (R&D) include basic and applied R&D activities of a technical and non-routine nature. R&D costs are expensed as incurred. COGS, SG&A and R&D expenses exclude depreciation and amortization expenses, which are presented on a separate line in the consolidated statements of operations.

Other income (expense), net

Other income (expense), net includes costs associated with the Company s securitization programs, foreign exchange gains (losses), interest income and minority interest income (expense).

Other Items

Cash and cash equivalents include bank term deposits with original maturities of three months or less. Included in cash and cash equivalents in the Company s consolidated balance sheets at September 30, 2008 and December 31, 2007 are $1 million and $2 million, respectively, of restricted cash that is required to be on deposit to support certain letters of credit and performance guarantees, the majority of which will be settled within one year.

Included in accounts receivable are allowances for doubtful accounts of $32 million at both September 30, 2008 and December 31, 2007.

During the first nine months of 2008 and 2007, the Company made interest payments of approximately $60 million and $67 million, respectively. During the first nine months of 2008 and 2007, the Company made payments for income taxes (net of refunds) of $28 million and $35 million, respectively.

On October 31, 2008, the Company announced that it would suspend payment of dividends to conserve cash and expand liquidity.

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Earnings from discontinued operations for the third quarter of 2007 were $3 million (net of $2 million of tax) and primarily reflect the operations of the fluorine and optical monomers businesses that were subsequently sold. Earnings from discontinued operations in the nine months ended September 30, 2007 of $14 million (net of $7 million of tax) primarily represent the operations of the EPDM, fluorine and optical monomers businesses that were subsequently sold.

Loss on sale of discontinued operations in the third quarter of 2007 of $2 million (net of $1 million of tax) related to the sale of the EPDM business. The gain on sale of discontinued operations in the nine months ended September 30, 2007 of $25 million (net of $13 million of tax), represents $23 million related to the sale of the EPDM business and $2 million related to the final contingent earn-out proceeds related to the sale of the OrganoSilicones business.

ACCOUNTING DEVELOPMENTS

Implemented in 2008

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which provides companies with an option to report selected financial assets and liabilities at fair value in an attempt to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The provisions of FAS 159 are effective as of the beginning of the Company s 2008 fiscal year. The Company elected to not fair value existing eligible items, beginning January 1, 2008.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (FAS 157), which establishes a comprehensive framework for measuring fair value and expands disclosures about fair value measurements. The provisions of FAS 157, specifically for financial assets and liabilities, are effective as of the beginning of the Company s 2008 fiscal year. The Company values financial instruments using Level 2, observable inputs. The Company carries derivative instruments at fair value.

Future Implementations

In February 2008, the FASB issued FSP FAS 157-2, which delays the effective date of FAS 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company is currently evaluating the potential impact that the application of FAS 157 to its nonfinancial assets and liabilities will have on its consolidated results of operations.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (FAS 160), which will require companies to treat noncontrolling interests (commonly referred to as minority interest) as a separate component of shareholders equity and not as a liability. The provisions of FAS 160 are effective as of the beginning of the Company s 2009 fiscal year. The Company is assessing the impact of adopting FAS 160 on its consolidated financial position and results of operations.

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations (FAS 141(R)), which requires that identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination be recorded at full fair value. The provisions of FAS

141(R) are effective as of the beginning of the Company s 2009 fiscal year. The Company is assessing the impact of adopting FAS 141(R) on its consolidated financial position and results of operations.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161), which will require companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, and how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows. The provisions of FAS 161 are effective as of the beginning of the Company s 2009 fiscal year. The Company is assessing the impact of adopting FAS 161 on its consolidated financial position and results of operations.

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2) COMPREHENSIVE (LOSS) INCOME

An analysis of the Company s comprehensive (loss) income follows:

(In millions)	Quarter ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Net earnings (loss)	$ 11	$ 2	$ (283)	$ (3)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(148)	63	(58)	124
Unrecognized pension and other post-retirement benefit costs (net of tax)	1	1	(1)	4
Change in fair value of derivatives (net of tax)	(4)			6
Comprehensive (loss) income	$ (140)	$ 66	$ (342)	$ 131

The components of accumulated other comprehensive income at September 30, 2008 and December 31, 2007 are as follows:

(In millions)	September 30, 2008	December 31, 2007
Foreign currency translation adjustment	$ 194	$ 252
Unrecognized pension and other post-retirement benefit costs (net of tax)	(85)	(84)
Accumulated other comprehensive income	$ 109	$ 168

Reclassifications from other comprehensive income to earnings related to the Company s natural gas price swap contracts aggregated to an immaterial pre-tax loss and a $1 million pre-tax loss during the quarters ended September 30, 2008, and 2007, respectively, and a $1 million pre-tax loss and an $10 million pre-tax loss during the nine months ended September 30, 2008 and 2007, respectively.

3) ACQUISITIONS AND DIVESTITURES

Baxenden and GLCC Laurel Acquisitions

On February 29, 2008, the Company acquired the remaining stock of Baxenden Chemicals Limited Plc for approximately $26 million. Assets acquired included plant, property and equipment of $18 million; accounts receivable of $7 million; intangible assets of $7 million; goodwill of $6 million; inventory of $4 million and other assets of $3 million offset by a pension liability of $7 million; accounts payable of $6 million; deferred taxes of $5 million and accrued expenses of $1 million.

On March 12, 2008, the Company purchased the remaining interest in GLCC Laurel, LLC for a note payable of $11 million. The note was paid in September 2008. As GLCC Laurel, LLC was already being consolidated by the Company, the purchase price was allocated to reduce the minority interest liability by $23 million. The value of the long-lived assets was reduced by $14 million (as the fair value of the assets exceeded the purchase price). The residual purchase price was allocated to other assets.

Fluorine Divestiture

On January 31, 2008, the Company completed the sale of its fluorine chemical business located at the Company s El Dorado, Arkansas facility for an immaterial net loss. The assets sold consisted of patents and intangible assets of $12 million, inventory of $8 million, fixed assets of $8 million and other current liabilities of $1 million. The fluorine chemical business had revenues of approximately $49 million in 2007. The fluorine chemical business is reported as a discontinued operation in the accompanying consolidated financial statements.

Oleochemicals Divestiture

On February 29, 2008, the Company completed the sale of its oleochemicals business and recorded a net loss of $26 million. The assets sold included inventory of $26 million, accounts receivable of $24 million, goodwill of $12 million, net fixed assets of $7 million, and intangible assets of $1 million. The oleochemicals business had revenues of approximately $175 million in 2007. Proceeds from the transaction were used to reduce debt.

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4) ACCOUNTS RECEIVABLE PROGRAMS

The Company has a committed domestic accounts receivable securitization program to provide funding for up to $275 million of domestic receivables to agent banks until August 28, 2010. Accounts receivable sold under this program were $136 million and $119 million as of September 30, 2008 and December 31, 2007, respectively. Under the domestic program, certain subsidiaries of the Company sell their accounts receivable to a special purpose entity (SPE) that has been created for the purpose of acquiring such receivables and selling an undivided interest therein to agent banks. In accordance with the domestic sale agreement, the agent banks purchase an undivided ownership interest in the accounts receivable owned by the SPE. The amount of such undivided ownership interest will vary based on the level of eligible accounts receivable as defined in the agreement. In addition, the agent banks retain a security interest in all the receivables owned by the SPE, which was $149 million and $163 million as of September 30, 2008 and December 31, 2007, respectively. The balance of the unsold receivables owned by the SPE is included in the Company s accounts receivable balance on the consolidated balance sheet.

In addition, the Company s European subsidiaries have a separate program to sell up to approximately $254 million of their eligible accounts receivable to an agent bank as of September 30, 2008. International accounts receivable sold under this program were $177 million and $120 million as of September 30, 2008 and December 31, 2007, respectively. Under the international program, certain foreign subsidiaries of the Company sell eligible accounts receivable directly to agent banks.

The total costs associated with these programs of $4 million and $5 million for the quarters ended September 30, 2008 and 2007, respectively, and $12 million and $16 million for the nine months ended September 30, 2008 and 2007, respectively, are included in other income (expense), net in the consolidated statements of operations. During the period, the Company had an obligation to service the accounts receivable sold under its domestic and international programs. The Company has treated the transfer of receivables under its domestic and international receivable programs as a sale of accounts receivable.

5) INVENTORIES

Components of inventories are as follows:

(In millions)		**September 30, 2008**		**December 31, 2007**
Finished goods	$	442	$	437
Work in process		39		48
Raw materials and supplies		239		191
	$	720	$	676

Included in the above net inventory balances are inventory obsolescence reserves of approximately $32 million and $40 million at September 30, 2008 and December 31, 2007, respectively.

6) PROPERTY, PLANT AND EQUIPMENT

(In millions)	September 30, 2008	December 31, 2007
Land and improvements	$ 87	$ 94
Buildings and improvements	238	208
Machinery and equipment	1,227	1,384
Information systems equipment	194	201
Furniture, fixtures and other	63	65
Construction in progress	117	87
	1,926	2,039
Less accumulated depreciation	1,003	1,007
	$ 923	$ 1,032

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Depreciation expense from continuing operations amounted to $43 million and $48 million for the quarters ended September 30, 2008 and 2007, respectively, and $148 million and $163 million for the nine months ended September 30, 2008 and 2007, respectively. Depreciation expense from continuing operations includes accelerated depreciation of certain fixed assets associated with the Company s restructuring programs, divestment activities and the consolidation of its legacy ERP systems of $8 million and $10 million for the quarters ended September 30, 2008 and 2007, respectively, and $39 million and $46 million for the nine months ended September 30, 2008 and 2007, respectiv