Celanese CORP
Form 10-Q
October 26, 2010

Table of Contents

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

Form 10-Q

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

For the quarterly period ended September 30, 2010

Or

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

(Commission File Number) 001-32410

CELANESE CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or Other Jurisdiction of Incorporation or Organization)*	**98-0420726** *(I.R.S. Employer Identification No.)*
1601 West LBJ Freeway, Dallas, TX *(Address of Principal Executive Offices)*	**75234-6034** *(Zip Code)*

(972) 443-4000
(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The number of outstanding shares of the registrant s Series A common stock, $0.0001 par value, as of October 21, 2010 was 155,663,714.

CELANESE CORPORATION

Form 10-Q
For the Quarterly Period Ended September 30, 2010

TABLE OF CONTENTS

Table of Contents

Item 1. ***Financial Statements***

CELANESE CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009 As Adjusted (Note 3)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009 As Adjusted (Note 3)
	(In $ millions, except share and per share data)			
Net sales	1,506	1,304	4,411	3,694
Cost of sales	(1,160)	(1,038)	(3,544)	(2,980)
Gross profit	346	266	867	714
Selling, general and administrative expenses	(123)	(110)	(369)	(338)
Amortization of intangible assets	(15)	(20)	(45)	(58)
Research and development expenses	(19)	(18)	(56)	(56)
Other (charges) gains, net	36	(96)	(47)	(123)
Foreign exchange gain (loss), net	(1)	(2)	1	1
Gain (loss) on disposition of businesses and assets, net	(3)	45	12	41
Operating profit (loss)	221	65	363	181
Equity in net earnings (loss) of affiliates	37	36	131	77
Interest expense	(48)	(51)	(146)	(156)
Interest income	-	2	2	7
Refinancing expense	(16)	-	(16)	-
Dividend income cost investments	1	1	73	57
Other income (expense), net	(4)	(5)	1	(2)
Earnings (loss) from continuing operations before tax	191	48	408	164
Income tax (provision) benefit	(44)	350	(85)	328
Earnings (loss) from continuing operations	147	398	323	492
Earnings (loss) from operation of discontinued operations	(3)	-	(8)	-
Gain (loss) on disposition of discontinued operations	-	-	2	-
Income tax (provision) benefit from discontinued operations	1	-	2	-
	(2)	-	(4)	-

Earnings (loss) from discontinued operations				
Net earnings (loss)	145	398	319	492
Net (earnings) loss attributable to noncontrolling interests	-	-	-	-
Net earnings (loss) attributable to Celanese Corporation	145	398	319	492
Cumulative preferred stock dividends	-	(3)	(3)	(8)
Net earnings (loss) available to common shareholders	145	395	316	484
Amounts attributable to Celanese Corporation				
Earnings (loss) from continuing operations	147	398	323	492
Earnings (loss) from discontinued operations	(2)	-	(4)	-
Net earnings (loss)	145	398	319	492
Earnings (loss) per common share basic				
Continuing operations	0.94	2.75	2.08	3.37
Discontinued operations	(0.01)	-	(0.03)	-
Net earnings (loss) basic	0.93	2.75	2.05	3.37
Earnings (loss) per common share diluted				
Continuing operations	0.93	2.53	2.04	3.14
Discontinued operations	(0.01)	-	(0.03)	-
Net earnings (loss) diluted	0.92	2.53	2.01	3.14
Weighted average shares basic	155,859,508	143,591,231	154,173,120	143,542,405
Weighted average shares diluted	157,883,548	157,562,916	158,408,403	156,678,265

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents

CELANESE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

	As of September 30, 2010	As of December 31, 2009 As Adjusted (Note 3)
	(In $ millions, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	884	1,254
Trade receivables third party and affiliates (net of allowance for doubtful accounts 2010: $14; 2009: $18)	897	721
Non-trade receivables	264	262
Inventories	578	522
Deferred income taxes	42	42
Marketable securities, at fair value	2	3
Assets held for sale	9	2
Other assets	91	50
Total current assets	2,767	2,856
Investments in affiliates	817	792
Property, plant and equipment (net of accumulated depreciation 2010: $1,159; 2009: $1,130)	2,884	2,797
Deferred income taxes	499	484
Marketable securities, at fair value	79	80
Other assets	292	311
Goodwill	785	798
Intangible assets, net	271	294
Total assets	8,394	8,412
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings and current installments of long-term debt third party and affiliates	261	242
Trade payables third party and affiliates	640	649
Other liabilities	589	611
Deferred income taxes	33	33
Income taxes payable	114	72
Total current liabilities	1,637	1,607

Long-term debt	3,010	3,259
Deferred income taxes	132	137
Uncertain tax positions	266	229
Benefit obligations	1,257	1,288
Other liabilities	1,175	1,306
Commitments and contingencies		
Shareholders equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized (2010: 0 issued and outstanding; 2009: 9,600,000 issued and outstanding)	-	-
Series A common stock, $0.0001 par value, 400,000,000 shares authorized (2010: 177,616,053 issued and 155,543,775 outstanding; 2009: 164,995,755 issued and 144,394,069 outstanding)	-	-
Series B common stock, $0.0001 par value, 100,000,000 shares authorized (2010 and 2009: 0 issued and outstanding)	-	-
Treasury stock, at cost (2010: 22,075,178; 2009: 20,601,686)	(822)	(781)
Additional paid-in capital	544	522
Retained earnings	1,801	1,505
Accumulated other comprehensive income (loss), net	(606)	(660)
Total Celanese Corporation shareholders equity	917	586
Noncontrolling interests	-	-
Total shareholders equity	917	586
Total liabilities and shareholders equity	8,394	8,412

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents

CELANESE CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Nine Months Ended September 30, 2010	
	Shares	Amount As Adjusted (Note 3)
	(In $ millions, except share data)	
Preferred stock		
Balance as of the beginning of the period	9,600,000	-
Redemption of preferred stock	(9,600,000)	-
Balance as of the end of the period	-	-
Series A common stock		
Balance as of the beginning of the period	144,394,069	-
Stock option exercises	479,268	-
Conversion of preferred stock	12,084,942	-
Redemption of preferred stock	7,437	-
Purchases of treasury stock	(1,473,492)	-
Stock awards	51,551	-
Balance as of the end of the period	155,543,775	-
Treasury stock		
Balance as of the beginning of the period	20,601,686	(781)
Purchases of treasury stock, including related fees	1,473,492	(41)
Balance as of the end of the period	22,075,178	(822)
Additional paid-in capital		
Balance as of the beginning of the period		522
Stock-based compensation, net of tax		14
Stock option exercises, net of tax		8
Balance as of the end of the period		544
Retained earnings		
Balance as of the beginning of the period		1,505
Net earnings (loss) attributable to Celanese Corporation		319
Series A common stock dividends		(20)
Preferred stock dividends		(3)
Balance as of the end of the period		1,801

Accumulated other comprehensive income (loss), net	
Balance as of the beginning of the period	(660)
Unrealized gain (loss) on securities	6
Foreign currency translation	39
Unrealized gain (loss) on interest rate swaps	1
Pension and postretirement benefits	8
Balance as of the end of the period	(606)
Total Celanese Corporation shareholders equity	917
Noncontrolling interests	
Balance as of the beginning of the period	-
Net earnings (loss) attributable to noncontrolling interests	-
Balance as of the end of the period	-
Total shareholders equity	917
Comprehensive income (loss)	
Net earnings (loss)	319
Other comprehensive income (loss), net of tax	
Unrealized gain (loss) on securities	6
Foreign currency translation	39
Unrealized gain (loss) on interest rate swaps	1
Pension and postretirement benefits	8
Total comprehensive income (loss), net of tax	373
Comprehensive (income) loss attributable to noncontrolling interests	-
Comprehensive income (loss) attributable to Celanese Corporation	373

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents

CELANESE CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009 As Adjusted (Note 3)
	(In $ millions)	
Operating activities		
Net earnings (loss)	319	492
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities		
Other charges (gains), net of amounts used	17	77
Depreciation, amortization and accretion	226	242
Deferred income taxes, net	(24)	(367)
(Gain) loss on disposition of businesses and assets, net	(12)	(41)
Refinancing expense	16	-
Other, net	22	(1)
Operating cash provided by (used in) discontinued operations	5	(1)
Changes in operating assets and liabilities		
Trade receivables third party and affiliates, net	(162)	(79)
Inventories	(63)	86
Other assets	11	40
Trade payables third party and affiliates	15	24
Other liabilities	(7)	(64)
Net cash provided by (used in) operating activities	363	408
Investing activities		
Capital expenditures on property, plant and equipment	(122)	(130)
Acquisitions, net of cash acquired	(46)	(1)
Proceeds from sale of businesses and assets, net	22	168
Deferred proceeds on Ticona Kelsterbach plant relocation	-	412
Capital expenditures related to Ticona Kelsterbach plant relocation	(219)	(248)
Proceeds from sale of marketable securities	-	15
Other, net	(16)	(25)
Net cash provided by (used in) investing activities	(381)	191
Financing activities		
Short-term borrowings (repayments), net	(4)	31
Proceeds from long-term debt	600	-
Repayments of long-term debt	(848)	(56)
Refinancing costs	(24)	(3)
Purchases of treasury stock, including related fees	(41)	-
Stock option exercises	8	1
Series A common stock dividends	(20)	(17)

Preferred stock dividends	(3)	(8)
Net cash provided by (used in) financing activities	(332)	(52)
Exchange rate effects on cash and cash equivalents	(20)	70
Net increase (decrease) in cash and cash equivalents	(370)	617
Cash and cash equivalents at beginning of period	1,254	676
Cash and cash equivalents at end of period	884	1,293

See the accompanying notes to the unaudited interim consolidated financial statements.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and Basis of Presentation

Description of the Company

Celanese Corporation and its subsidiaries (collectively the Company) is a leading, global technology and specialty materials company. The Company s business involves processing chemical raw materials, such as methanol, carbon monoxide and ethylene, and natural products, including wood pulp, into value-added chemicals, thermoplastic polymers and other chemical-based products.

Basis of Presentation

The unaudited interim consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 contained in this Quarterly Report on Form 10-Q (Quarterly Report) were prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for all periods presented. The unaudited interim consolidated financial statements and other financial information included in this Quarterly Report, unless otherwise specified, have been presented to separately show the effects of discontinued operations. In this Quarterly Report, the term Celanese refers to Celanese Corporation and not its subsidiaries. The term Celanese US refers to the Company s subsidiary, Celanese US Holdings LLC, a Delaware limited liability company, and not its subsidiaries. The term Purchaser refers to our subsidiary, Celanese Europe Holding GmbH & Co. KG, and not its subsidiaries, except where otherwise indicated.

In the opinion of management, the accompanying unaudited consolidated balance sheets and related unaudited interim consolidated statements of operations, cash flows and shareholders equity and comprehensive income (loss) include all adjustments, consisting only of normal recurring items necessary for their fair presentation in conformity with US GAAP. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission (SEC). These unaudited interim consolidated financial statements should be read in conjunction with the Company s consolidated financial statements as of and for the year ended December 31, 2009, as filed on February 12, 2010 with the SEC as part of the Company s Annual Report on Form 10-K (the 2009 Form 10-K).

Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the entire year.

In the ordinary course of the business, the Company enters into contracts and agreements relative to a number of topics, including acquisitions, dispositions, joint ventures, supply agreements, product sales and other arrangements. The Company endeavors to describe those contracts or agreements that are material to its business, results of operations or financial position. The Company may also describe some arrangements that are not material but in which the Company believes investors may have an interest or which may have been subject to a Form 8-K filing. Investors should not assume the Company has described all contracts and agreements relative to the Company s business in this Quarterly Report.

Estimates and Assumptions

The preparation of unaudited interim consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amounts of revenues, expenses and allocated charges during the reporting period. Significant estimates pertain to impairments of goodwill, intangible assets and other long-lived assets, purchase price allocations, restructuring costs and other (charges) gains, net, income taxes, pension and other postretirement benefits, asset retirement obligations, environmental liabilities and loss contingencies, among others. Actual results could differ from those estimates.

Table of Contents

Reclassifications

The Company has reclassified certain prior period amounts to conform to the current period s presentation.

2. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which amends FASB Accounting Standards Codification (ASC) Topic 820-10, *Fair Value Measurements and Disclosures*. The update provides additional disclosures for transfers in and out of Levels 1 and 2 and for activity in Level 3 and clarifies certain other existing disclosure requirements. The Company adopted ASU 2010-06 beginning January 15, 2010. This update had no impact on the Company s financial position, results of operations or cash flows.

3. Acquisitions, Dispositions, Ventures and Plant Closures

Acquisitions

In May 2010, the Company acquired two product lines, Zenite® liquid crystal polymer (LCP) and Thermx® polycyclohexylene-dimethylene terephthalate (PCT), from DuPont Performance Polymers. The acquisition will continue to build upon the Company s position as a global supplier of high performance materials and technology-driven applications. These two product lines broaden the Company s Ticona Engineering Polymers offerings within its Advanced Engineered Materials segment, enabling the Company to respond to a globalizing customer base, especially in the high growth electrical and electronics application markets. Pro forma financial information since the acquisition date has not been provided as the acquisition did not have a material impact on the Company s financial information. The Company incurred $1 million in direct transaction costs as a result of this acquisition.

The Company allocated the purchase price of the acquisition to identifiable intangible assets acquired based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. Intangible assets were valued using the relief from royalty and discounted cash flow methodologies which are considered a Level 3 measurement under FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (FASB ASC Topic 820). The relief from royalty method estimates the Company s theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates. Discount rates, royalty rates, growth rates and sales projections are the assumptions most sensitive and susceptible to change as they require significant management judgment. The key assumptions used in the discounted cash flow valuation model include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment. The Company, with the assistance of third-party valuation consultants, calculated the fair value of the intangible assets acquired to allocate the purchase price at the respective acquisition date.

The consideration paid for the product lines and the amounts of the intangible assets acquired recognized at the acquisition date are as follows:

	Weighted Average Life (In years)

		(In $ millions)
Cash consideration		46
Intangible assets acquired		
Trademarks and trade names	indefinite	9
Customer-related intangible assets	10	6
Developed technology	10	7
Covenant not to compete and other	3	11
Goodwill		13
Total		46

In connection with the acquisition, the Company has committed to purchase certain inventory at a future date valued at a range between $12 million and $17 million.

In December 2009, the Company acquired the business and assets of FACT GmbH (Future Advanced Composites Technology) (FACT), a German company, for a purchase price of 5 million ($7 million). FACT develops, produces and markets long-fiber reinforced thermoplastics. As part of the acquisition, the Company entered into a ten year lease agreement with the seller for the property and buildings on which the FACT business is located with an option to purchase the property at various times throughout the lease. The acquired business is included in the Advanced Engineered Materials segment.

Dispositions

In July 2009, the Company completed the sale of its polyvinyl alcohol (PVOH) business to Sekisui Chemical Co., Ltd. (Sekisui) for a net cash purchase price of $168 million, resulting in a gain on disposition of $34 million. The net cash purchase price excludes the accounts receivable and payable retained by the Company. The transaction includes long-term supply agreements between Sekisui and the Company and therefore, does not qualify for treatment as a discontinued operation. The PVOH business is included in the Industrial Specialties segment.

Ventures

The Company indirectly owns a 25% interest in its National Methanol Company (Ibn Sina) affiliate through CTE Petrochemicals Company (CTE), a joint venture with Texas Eastern Arabian Corporation Ltd. (which also indirectly owns 25%). The remaining interest in Ibn Sina is held by Saudi Basic Industries Corporation (SABIC). SABIC and CTE entered into the Ibn Sina joint venture agreement in 1981. In April 2010, the Company announced that Ibn Sina will construct a 50,000 ton polyacetal (POM) production facility in Saudi Arabia and that the term of the joint venture agreement was extended until 2032. Upon successful startup of the POM facility, the Company s indirect economic interest in Ibn Sina will increase from 25% to 32.5%. SABIC s economic interest will remain unchanged.

In connection with this transaction, the Company reassessed the factors surrounding the accounting method for this investment and changed the accounting from the cost method of accounting for investments to the equity method of accounting for investments beginning April 1, 2010. Financial information relating to this investment for prior periods has been retrospectively adjusted to apply the equity method of accounting. Effective April 1, 2010, the Company moved its investment in the Ibn Sina affiliate from its Acetyl Intermediates segment to its Advanced Engineered Materials segment to reflect the change in the affiliate s business dynamics and growth opportunities as a result of the future construction of the POM facility. Business segment information for prior periods included in Note 18 has been retrospectively adjusted to reflect the change.

Table of Contents

The retrospective effect of applying the equity method of accounting to this investment to the unaudited interim consolidated statements of operations is as follows:

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	As Originally Reported	As Adjusted for Retrospective Application	Effect of Change	As Originally Reported	As Adjusted for Retrospective Application	Effect of Change
	(In $ millions, except per share data)					
Equity in net earnings (loss) of affiliates	19	36	17	44	77	33
Dividend income cost investments	19	1	(18)	81	57	(24)
Earnings (loss) from continuing operations before tax	49	48	(1)	155	164	9
Earnings (loss) from continuing operations	399	398	(1)	483	492	9
Net earnings (loss)	399	398	(1)	483	492	9
Net earnings (loss) attributable to Celanese Corporation	399	398	(1)	483	492	9
Net earnings (loss) available to common shareholders	396	395	(1)	475	484	9
Earnings (loss) per common share basic						
Continuing operations	2.76	2.75	(0.01)	3.31	3.37	0.06
Discontinued operations	-	-	-	-	-	-
Net earnings (loss) basic	2.76	2.75	(0.01)	3.31	3.37	0.06
Earnings (loss) per common share diluted						
Continuing operations	2.53	2.53	-	3.08	3.14	0.06
Discontinued operations	-	-	-	-	-	-
Net earnings (loss) diluted	2.53	2.53	-	3.08	3.14	0.06

The retrospective effect of applying the equity method of accounting to this investment to the unaudited consolidated balance sheet is as follows:

	As of December 31, 2009		
	As Originally	As Adjusted for Retrospective	Effect of

	Reported	Application	Change
		(In $ millions)	
Investments in affiliates	790	792	2
Total assets	8,410	8,412	2
Retained earnings	1,502	1,505	3
Accumulated other comprehensive income (loss), net	(659)	(660)	(1)
Total Celanese Corporation shareholders equity	584	586	2
Total shareholders equity	584	586	2
Total liabilities and shareholders equity	8,410	8,412	2

Table of Contents

The retrospective effect of applying the equity method of accounting to this investment to the unaudited interim consolidated statement of cash flows is as follows:

	Nine Months Ended September 30, 2009		
	As Originally Reported	As Adjusted for Retrospective Application	Effect of Change
		(In $ millions)	
Net earnings (loss)	483	492	9
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities			
Other, net	8	(1)	(9)

Plant Closures

Spondon, Derby, United Kingdom

In April 2010, the Company announced it was considering a plan to consolidate its global acetate manufacturing capabilities by proposing the closure of its acetate flake and tow manufacturing operations in Spondon, Derby, United Kingdom. The consolidation is designed to strengthen the Company s competitive position, reduce fixed costs and align future production capacities with anticipated industry demand trends. The consolidation is also driven by a global shift in product consumption. The Company would expect to serve its acetate customers under this proposal by optimizing its global production network, which includes facilities in Lanaken, Belgium; Narrows, Virginia; and Ocotlan, Mexico, as well as the Company s acetate affiliate facilities in China.

During the first quarter of 2010, the Company concluded that certain long-lived assets of the Spondon, Derby, United Kingdom facility were partially impaired. Accordingly, during the nine months ended September 30, 2010, the Company recorded long-lived asset impairment losses of $72 million (Note 13) to Other (charges) gains, net in the unaudited interim consolidated statements of operations. The Spondon, Derby, United Kingdom facility is included in the Consumer Specialties segment.