Chemtura CORP
Form 10-Q
May 10, 2007

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, 2007

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 (State or other jurisdiction of incorporation or organization)	**52-2183153** (I.R.S. Employer Identification Number)
199 Benson Road, Middlebury, Connecticut (Address of principal executive offices)	**06749** (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 or a non-accelerated filed. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated Filer x Accelerated Filer o Non-accelerated filer 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 March 31, 2007**
Common Stock $.01 par value	241,222,997

CHEMTURA CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2007

INDEX **PAGE**

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements and Accompanying Notes

CHEMTURA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

Quarter ended March 31, 2007 and 2006

(*In thousands, except per share data*)

	Quarter ended March 31, 2007	**2006**
Net sales	$ 955,005	$ 915,761
Cost of products sold	732,891	674,837
Selling, general and administrative	106,299	100,793
Depreciation and amortization	65,316	51,711
Research and development	17,024	14,798
Facility closures, severance and related costs	2,558	504
Antitrust costs	12,294	12,808
Merger costs	351	10,045
Equity income	(575)	(274)
Operating profit	18,847	50,539
Interest expense	23,356	29,073
Other (income) expense, net	(1,930)	1,530
(Loss) earnings from continuing operations before income taxes	(2,579)	19,936
Income tax expense	12,904	6,731
(Loss) earnings from continuing operations	(15,483)	13,205
Gain on sale of discontinued operations	2,458	
Net (loss) earnings	$ (13,025)	$ 13,205
Basic earnings (loss) per common share:		
(Loss) earnings from continuing operations	$ (0.06)	$ 0.05
Gain on sale of discontinued operations	0.01	
Net (loss) earnings	$ (0.05)	$ 0.05
Diluted earnings (loss) per common share:		
(Loss) earnings from continuing operations	$ (0.06)	$ 0.05
Gain on sale of discontinued operations	0.01	
Net (loss) earnings	$ (0.05)	$ 0.05
Dividends per common share	$ 0.05	$ 0.05

See accompanying notes to consolidated financial statements.

2

CHEMTURA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2007 (Unaudited) and December 31, 2006

(*In thousands, except per share data*)

	March 31, 2007	**December 31, 2006**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 92,222	$ 95,113
Accounts receivable	419,975	342,141
Inventories	732,363	660,408
Other current assets	148,478	288,128
Total current assets	1,393,038	1,385,790
NON-CURRENT ASSETS		
Property, plant and equipment	1,142,300	1,147,233
Cost in excess of acquired net assets	1,249,511	1,176,809
Intangible assets, net	579,092	550,705
Other assets	159,405	138,869
	$ 4,523,346	$ 4,399,406
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 27,238	$ 48,118
Accounts payable	309,331	284,637
Accrued expenses	361,361	460,996
Income taxes payable	38,605	94,225
Total current liabilities	736,535	887,976
NON-CURRENT LIABILITIES		
Long-term debt	1,301,534	1,063,360
Pension and post-retirement health care liabilities	438,757	439,924
Other liabilities	375,855	329,242
STOCKHOLDERS EQUITY		
Common stock $.01 par value		
Authorized 500,000 shares		
Issued 252,713 shares at March 31, 2007 and 252,280 shares at December 31, 2006	2,527	2,522
Additional paid-in capital	3,012,775	3,005,101
Accumulated deficit	(1,152,833)	(1,127,870)
Accumulated other comprehensive loss	(24,962)	(34,007)
Treasury stock at cost 11,490 shares	(166,842)	(166,842)
Total stockholders equity	1,670,665	1,678,904
	$ 4,523,346	$ 4,399,406

See accompanying notes to consolidated financial statements.

3

CHEMTURA CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Quarter ended March 31, 2007 and 2006

(*In thousands*)

Increase (decrease) in cash	**Quarter ended March 31, 2007**	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) earnings	$ (13,025)	$ 13,205
Adjustments to reconcile net (loss) earnings to net cash used in operations:		
Gain on sale of discontinued operations	(2,458)	
Depreciation and amortization	65,316	51,711
Stock-based compensation expense	3,124	3,579
Equity income	(575)	(371)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(95,723)	(102,272)
Accounts receivable securitization	48,105	57,161
Inventories	(30,975)	(29,412)
Accounts payable	11,465	(3,440)
Pension and post-retirement health care liabilities	(3,656)	(5,733)
Other	(12,760)	(56,666)
Net cash used in operations	(31,162)	(72,238)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments		19,390
Payments for acquisitions, net of cash acquired	(159,601)	(6,733)
Merger transaction costs paid	(301)	(4,737)
Capital expenditures	(20,113)	(17,562)
Net cash used in investing activities	(180,015)	(9,642)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from credit facility	240,000	86,993
Proceeds from long-term borrowings	348	
(Payments on) proceeds from short-term borrowings	(21,801)	5,844
Dividends paid	(12,059)	(12,007)
Proceeds from exercise of stock options	1,634	848
Other financing activities	(598)	433
Net cash provided by financing activities	207,524	82,111
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	762	2,503
Change in cash and cash equivalents	(2,891)	2,734
Cash and cash equivalents at beginning of period	95,113	138,556
Cash and cash equivalents at end of period	$ 92,222	$ 141,290

See accompanying notes to consolidated financial statements.

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 ended March 31, 2007 and March 31, 2006 is unaudited, but reflect 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 financial information and note disclosures included in the annual financial statements have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. 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 2006 Annual Report on Form 10-K. The consolidated results of operations for the quarter ended March 31, 2007 are not necessarily indicative of the results expected for the full year.

Accounting Policies

Operating Costs and Expenses

Cost of products sold includes all costs incurred in manufacturing products, including raw materials, direct manufacturing costs and manufacturing overhead. Cost of products sold 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 expense (SG&A) includes costs and expenses related to the following functions and activities: selling, advertising, information technology, legal, provision for doubtful accounts, corporate facilities and corporate administration. SG&A also includes accounting, finance and human resources, excluding direct support in manufacturing operations, which is included as cost of products sold. Research and development expenses (R&D) include basic and applied research and development activities of a technical and non-routine nature. R&D costs are expensed as incurred. Costs of products sold, 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) expenses, net

The following table is a summary of items included in the other (income) expense, net line in the consolidated statements of operations for all periods presented.

	Quarter ended March 31,	
(In thousands)	**2007**	**2006**
Costs of securitization programs and other accounts receivable financing	$ 5,687	$ 2,107
Foreign exchange gain	(5,756)	(778)
Interest income	(1,222)	(1,659)
Minority interest	(121)	1,717
Pension and other post-retirement benefits		

of legacy Witco businesses	234	104
Equity income Davis Standard LLC		(97)
Other items, individually less than $1,000	(752)	136
Other (income) expense, net	$ (1,930)	$ 1,530

5

Pension and other post-retirement benefits of legacy Witco plans represents the accretion of interest on obligations assumed in connection with the purchase of Witco in 1999 relating to businesses for which the Company and the plan participants did not have any continuing involvement either prior or subsequent to the acquisition.

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 March 31, 2007 and December 31, 2006 are $0.8 million 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 $32.3 million and $32.1 million at March 31, 2007 and December 31, 2006, respectively.

Depreciation expense amounted to $55.6 million and $40.4 million for the three months ended March 31, 2007 and 2006, respectively. Depreciation expense includes accelerated depreciation due to the change in useful life of certain fixed assets at several of the Company s manufacturing facilities of $13.8 million and $2.9 million for the three months ended March 31, 2007 and 2006, respectively.

During the first three months of 2007 and 2006, the Company made interest payments of approximately $23.4 million and $42.7 million, respectively. The decrease was primarily due to early retirement of the Senior Floating Rate Notes due 2010 in May 2006 and the 9.875% Senior Notes due 2012 in July 2006. During the first three months of 2007 and 2006, the Company made payments for income taxes (net of refunds) of $17.4 million and $27.0 million, respectively. The first quarter of 2007 includes a gain on sale of discontinued operations of $2.5 million (net of income taxes of $1.2 million), arising from additional contingent earn-out proceeds related to the OrganoSilicones business that was sold in 2003.

ACCOUNTING DEVELOPMENTS

Implemented in 2007

In March 2006, the FASB issued Statement No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. Statement No. 156 provides additional guidance for initially recognizing servicing assets and liabilities at fair value, if practical and is effective for fiscal years beginning after September 15, 2006. The adoption of Statement No. 156 did not have a material impact on the Company s consolidated results of operations for the three months ended March 31, 2007 and financial position as of March 31, 2007.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS 109). The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. See Note 10, Income Taxes for information relating to implementation of this interpretation.

Future Implementations

In September 2006, the FASB issued Statement No. 157 Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of Statement No. 157 are effective as of the beginning of the Company s 2008 fiscal year. The Company is assessing the impact of adopting Statement No. 157 on its financial position and results of operations.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which provides companies with an option to report selected financial assets and liabilities at fair value in an attempt to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company is currently assessing the impact on its financial position and its results of operations.

6

2) COMPREHENSIVE (LOSS) INCOME

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

(In thousands)	Quarter ended March 31, 2007	2006
Net (loss) earnings	$ (13,025)	$ 13,205
Other comprehensive income		
Foreign currency translation adjustments	2,285	17,986
Unrecognized pension and other post retirement benefit costs (net of tax)	273	
Change in fair value of derivatives (net of tax)	6,487	(8,156)
Other		64
Comprehensive (loss) income	$ (3,980)	$ 23,099

The components of accumulated other comprehensive loss at March 31, 2007 and December 31, 2006 are as follows:

(In thousands)	March 31, 2007	December 31, 2006
Foreign currency translation adjustment	$ 108,884	$ 106,599
Unrecognized pension and other post retirement benefit costs (net of tax)	(133,600)	(133,873)
Fair value of derivatives (net of tax)	(269)	(6,756)
Other	23	23
Accumulated other comprehensive loss	$ (24,962)	$ (34,007)

Reclassifications from other comprehensive loss to earnings related to the Company s natural gas price swap contracts aggregated to $4.6 million pre-tax loss and $3.5 million pre-tax gain during the quarter ended March 31, 2007 and 2006, respectively.

3) FACILITY CLOSURES, SEVERANCE AND RELATED COSTS

On April 4, 2007, the Company announced that it is implementing an industry-based business model in order to improve performance and accelerate growth. The Company intends to realign its business segments, streamline its organization and redirect its efforts to focus on end-use markets. This restructuring plan is expected to result in a reduction of the Company s global workforce by approximately 10%. As a result of this plan, the Company recorded a pre-tax charge for severance of $1.7 million to facility closures, severance and related costs in the consolidated statement of operations in the first quarter of 2007. Additional severance related charges will occur in the second quarter of 2007 as a result of the announced plan. The Company is continuing to evaluate its workforce and operating facilities and additional restructuring charges may result.

In 2006, the Company implemented cost savings initiatives to support its continuing efforts to become more efficient and reduce costs. As a result of these initiatives, the Company recorded a pre-tax charge of $0.9 million during the first quarter of 2007 and $1.6 million during the first quarter of 2006. The pre-tax charge for the full year of 2006 was $10.7 million. These charges were primarily for severance costs related to facility closures and employee reductions at several of the Company s manufacturing and research and development facilities around the world.

A summary of charges for all the Company s cost savings and restructuring programs are as follows:

(In thousands)	Severance and Related	Other Facility Closure	Total

	Costs	Costs	
Balance at January 1, 2007	$ 9,105	$ 9,728	$ 18,833
2007 charges	2,558		2,558
Cash payments	(548)	(784)	(1,332)
Non-cash charges and accretion	(151)	143	(8)
Balance at March 31, 2007	$ 10,964	$ 9,087	$ 20,051

7

The Company has included $14.3 million and $12.6 million of the above reserves in accrued expenses at March 31, 2007 and December 31, 2006, respectively, and $5.7 million and $6.2 million, respectively, in other liabilities in its consolidated balance sheets.

4) MERGERS ACQUISITIONS AND DIVESTITURES

Kaufman Acquisition

On January 31, 2007, the Company completed the acquisition of the stock of Kaufman Holdings Corporation (Kaufman) for $159.6 million plus an additional $4.1 million for working capital adjustments. Additionally, a deferred payment of $5.0 million will be paid to the sellers on the second anniversary of the closing date subject to any indemnification claims.

The acquired assets and assumed liabilities have been recorded at their fair value and the excess cost of the acquired net assets over their fair value has been recorded as goodwill. The total purchase price has been allocated to the acquired net tangible and intangible assets and assumed liabilities based upon valuations and estimates of fair value. The valuations and estimates utilized to determine the purchase price allocation are preliminary and subject to change. The purchase price has been primarily allocated as follows:

	In thousands
Net working capital	$ 46,398
Property, plant and equipment	25,947
Excess cost of acquisition	83,178
Other intangibles	33,473
Other assets	724
Other long term liabilities	(21,020)
Total purchase price	$ 168,700

Kaufman had net sales of $205.1 million in 2006. The Kaufman acquisition complements the Company s existing Petroleum Additives segment in that it offers related products in key customer areas, providing the opportunity to strengthen alliances with major suppliers, and may offer potential distribution synergies.

Great Lakes Merger

Effective July 1, 2005, the Company and Great Lakes Chemical Corporation completed an all-stock merger transaction (the Merger). As of December 31, 2006, the Company had substantially completed all its merger integration efforts.

As a result of the Merger, the Company recorded charges for costs directly related to the Merger as a component of operating profit. The Company recorded $0.4 million and $10.0 million of merger costs during the quarter ended March 31, 2007 and 2006, respectively, primarily for relocation and consulting costs related to the integration of the two companies.

EPDM Divestiture

On February 3, 2007, the Company signed an asset purchase agreement to sell its EPDM business and portions of its Rubber Chemical business to an affiliate of Lion Chemical Capital, LLC. The transaction is expected to close in the second quarter of 2007 and is subject to certain conditions, including regulatory approvals, financing and a financial audit.

5) ACCOUNTS RECEIVABLE PROGRAMS

The Company has a domestic accounts receivable securitization program to provide funding for up to $275 million of domestic receivables to agent banks. Accounts receivable sold under this program were $171.8 million and $140.5 million as of March 31, 2007 and December 31, 2006 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 $160.3 million and $143.0 million as of March 31, 2007 and December 31, 2006, 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 $206.9 million of their eligible accounts receivable to an agent bank as of March 31, 2007. International accounts receivable sold under this program

8

were $155.7 million and $139 million as of March 31, 2007 and December 31, 2006, 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 $5.5 million and $2.1 million for the three months ended March 31, 2007 and 2006, 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.

6) INVENTORIES

Components of inventories are as follows:

(In thousands)	**March 31, 2007**	**December 31, 2006**
Finished goods	$ 504,425	$ 457,254
Work in process	35,385	36,510
Raw materials and supplies	192,553	166,644
	$ 732,363	$ 660,408

Included in the above net inventory balances are inventory obsolescence reserves of approximately $53.0 million at both March 31, 2007 and December 31, 2006.

7) PROPERTY, PLANT AND EQUIPMENT

(In thousands)	**March 31, 2007**	**December 31, 2006**
Land and improvements	$ 80,706	$ 76,247
Buildings and improvements	308,057	308,091
Machinery and equipment	1,575,125	1,527,908
Information systems equipment	165,881	164,587
Furniture, fixtures and other		