Chemtura CORP
Form 10-Q
November 13, 2006

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, 2006

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 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 September 30, 2006**
Common Stock - $.01 par value	240,675,031

CHEMTURA CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2006

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements and Accompanying Notes

CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)
Quarter and nine months ended September 30, 2006 and 2005
(*In thousands of dollars, except per share data*)

	Quarter ended		**Nine months ended**	
	2006	**2005**	**2006**	**2005**
Net sales	$ 917,011	$ 918,416	$ 2,849,095	$ 2,110,475
Cost of products sold	698,201	703,353	2,123,248	1,546,085
Selling, general and administrative	103,546	101,865	307,295	227,772
Depreciation and amortization	50,943	46,244	148,261	104,107
Research and development	16,593	15,582	49,115	36,565
Facility closures, severance and related costs	863	220	(1,913)	24,295
Antitrust costs	25,669	6,716	70,752	13,220
Merger costs	1,102	19,378	15,892	28,064
In-process research and development		75,400		75,400
(Gain) loss on sale of businesses, net	(113)		12,362	
Income related to sale of Gustafson joint venture	(1,500)		(1,500)	
Impairment of non-current assets	74,653		80,263	
Equity income	(1,074)	(602)	(1,545)	(776)
Operating profit (loss)	(51,872)	(49,740)	46,865	55,743
Interest expense	22,401	29,171	80,871	77,886
Loss on early extinguishment of debt	24,348	10,859	43,897	10,859
Other expense (income), net	3,129	1,923	(2,385)	7,572
Loss from continuing operations before income taxes	(101,750)	(91,693)	(75,518)	(40,574)
Income tax expense (benefit)	(15,933)	28,592	(3,326)	51,308
Loss from continuing operations	(85,817)	(120,285)	(72,192)	(91,882)
Earnings (loss) from discontinued operations		(25)		2,631
Gain (loss) on sale of discontinued operations	45,925	1,388	45,925	(26,234)
Net loss	$ (39,892)	$ (118,922)	$ (26,267)	$ (115,485)
Basic earnings (loss) per common share:				
Loss from continuing operations	$ (0.36)	$ (0.51)	$ (0.30)	$ (0.58)
Earnings (loss) from discontinued operations				0.02
Gain (loss) on sale of discontinued operations	0.19	0.01	0.19	(0.17)
Net loss	$ (0.17)	$ (0.50)	$ (0.11)	$ (0.73)
Diluted earnings (loss) per common share:				
Loss from continuing operations	$ (0.36)	$ (0.51)	$ (0.30)	$ (0.58)
Earnings (loss) from discontinued operations				0.02
Gain (loss) on sale of discontinued operations	0.19	0.01	0.19	(0.17)
Net loss	$ (0.17)	$ (0.50)	$ (0.11)	$ (0.73)
Dividends per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

See accompanying notes to condensed consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
September 30, 2006 (Unaudited) and December 31, 2005
(*In thousands of dollars*)

	September 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 127,324	$ 138,556
Accounts receivable	308,183	547,857
Inventories	678,796	661,617
Other current assets	232,939	193,570
Total current assets	1,347,242	1,541,600
NON-CURRENT ASSETS		
Property, plant and equipment, net	1,142,600	1,192,335
Cost in excess of acquired net assets	1,188,967	1,211,459
Intangible assets, net	567,122	620,677
Other assets	372,586	419,932
	$ 4,618,517	$ 4,986,003
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 49,929	$ 60,168
Accounts payable	267,233	310,485
Accrued expenses	407,675	444,336
Income taxes payable	134,013	160,700
Total current liabilities	858,850	975,689
NON-CURRENT LIABILITIES		
Long-term debt	1,069,059	1,309,603
Pension and post-retirement health care liabilities	576,642	618,539
Other liabilities	284,016	306,775
STOCKHOLDERS EQUITY		
Common stock	2,522	2,515
Additional paid-in capital	3,001,904	2,950,649
Accumulated deficit	(932,196)	(869,873)
Accumulated other comprehensive loss	(75,438)	(141,052)
Treasury stock at cost	(166,842)	(166,842)
Total stockholders equity	1,829,950	1,775,397
	$ 4,618,517	$ 4,986,003

See accompanying notes to condensed consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine months ended September 30, 2006 and 2005
(*In thousands of dollars*)

Increase (decrease) in cash	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (26,267)	$ (115,485)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Loss on sale of businesses, net	12,362	
(Gain) loss on sale of discontinued operations	(45,925)	26,234
Income related to sale of Gustafson	(1,500)	
Impairment of non-current assets	80,263	
Loss on early extinguishment of debt	43,897	10,859
Depreciation and amortization	148,261	106,887
Stock-based compensation expense	10,079	3,291
Equity income	(7,309)	(776)
In-process research and development		75,400
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	51,414	112,878
Accounts receivable - securitization	213,759	(58,158)
Inventories	(4,659)	45,195
Accounts payable	(48,798)	(95,699)
Deposit for civil antitrust settlement		(40,315)
Pension and post-retirement health care liabilities	(58,710)	(47,750)
Other	(85,156)	(48,617)
Net cash provided by (used in) operations	281,711	(26,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments	135,742	92,002
Acquisitions, net of cash acquired	(6,734)	69,405
Merger transaction costs paid	(8,409)	(16,360)
Capital expenditures	(77,844)	(58,303)
Other investing activities	406	(56)
Net cash provided by investing activities	43,161	86,688
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments on) proceeds from credit facility	(414,095)	122,000
Proceeds on long-term borrowings	497,262	9,000
Payments on long-term borrowings	(323,689)	(132,241)
Payments on short-term borrowings	(13,963)	(413)
Premium paid on early extinguishment of debt	(35,570)	(3,323)
Payment for debt issuance costs	(5,775)	(2,478)
Dividends paid	(36,065)	(23,997)
Repayment of life insurance policy loan	(9,854)	
Proceeds from exercise of stock options	3,191	74,752
Other financing activities	(2,177)	(1,833)
Net cash (used in) provided by financing activities	(340,735)	41,467
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	4,631	(8,535)
Change in cash and cash equivalents	(11,232)	93,564
Cash and cash equivalents at beginning of period	138,556	158,700
Cash and cash equivalents at end of period	$ 127,324	$ 252,264

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CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited) - Continued
Nine months ended September 30, 2006 and 2005
(*In thousands of dollars*)

	2005
SUPPLEMENTAL SCHEDULE FOR NON-CASH INVESTING TRANSACTIONS:	
Fair value of non-cash assets acquired in acquisition	$ 2,768,012
Cash acquired in acquisition	125,747
In-process research and development	75,400
Issuance of common stock in acquisition, net of registration costs	(1,852,624)
Treasury stock acquired	166,842
Liabilities assumed in acquisition	$ 1,283,377

See accompanying notes to condensed consolidated financial statements.

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

On July 1, 2005, Crompton Corporation (Crompton) and Great Lakes Chemical Corporation (Great Lakes) combined their businesses by merging a wholly-owned subsidiary of Crompton with and into Great Lakes (the Merger). Under the terms of the merger agreement, Great Lakes shareholders received 2.2232 shares of the Company s common stock for each share of Great Lakes common stock and Great Lakes became a wholly-owned subsidiary of Crompton. The Company also changed its name to Chemtura Corporation.

ACCOUNTING POLICIES

Presentation of Condensed Consolidated Financial Statements

The information in the foregoing condensed consolidated financial statements for the quarter and nine months ended September 30, 2006 and September 30, 2005 are 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 condensed consolidated financial statements.

The foregoing condensed consolidated financial statements include the accounts of Chemtura Corporation and the wholly-owned and majority-owned subsidiaries that it controls, including the results of operations of Great Lakes commencing July 1, 2005, 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. All significant intercompany balances and transactions have been eliminated in consolidation.

On June 24, 2005, the Refined Products business was sold to Sun Capital Partners Group, Inc. Accordingly, the accompanying condensed consolidated financial statements for 2005 reflect the results of the Refined Products business as earnings from discontinued operations (net of tax) through the date of the sale. The condensed consolidated statements of cash flows have not been adjusted to separately reflect the discontinued operation and thus include the cash flows of the Refined Products business through the sale date. Refer to the discontinued operations footnote for further information.

Certain financial information and footnote disclosures included in the annual financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s 2005 Annual Report on Form 10-K. The consolidated results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results expected for the full year.

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 (other than polymer processing equipment design engineering); purchasing; customer service and 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, polymer processing equipment design engineering, 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 condensed consolidated statements of earnings.

Also included in cost of products sold for the third quarter and nine months ended September 30, 2005 is $37.1 million related to the fair value impact of purchase accounting on inventory resulting from the Merger.

Other (Income) and Expenses

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

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(In thousands)	Quarter ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Costs of securitization programs and other accounts receivable financing	$ 4,181	$ 3,289	$ 11,005	$ 9,846
Equity (income) loss Davis Standard LLC	(2,790)	(395)	(5,764)	248
Favorable settlement of contractual matter			(4,300)	
Foreign exchange (gain)/ loss	3,171	(590)	2,065	(728)
Interest income	(900)	(2,742)	(7,701)	(7,634)
Minority interest	(945)	1,651	2,239	3,703
Pension and other post-retirement benefits of legacy Witco businesses	80	712	240	2,138
Other items, individually less than $1,000	332	(2)	(169)	(1)
Other (income) expense, net	$ 3,129	$ 1,923	$ (2,385)	$ 7,572

The interest income for the nine months ended September 30, 2006 and the nine months ended September 30, 2005 include interest income resulting from tax settlements of $4.0 million and $2.2 million, respectively.

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

Included in cash and cash equivalents in the Company s condensed consolidated balance sheets at September 30, 2006 and December 31, 2005, are $2.5 million and $2.4 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. There are no additional legal restrictions on these cash balances. In addition, at September 30, 2006, the Company had approximately $7.0 million in an escrow account that is restricted to pay existing antitrust settlement liabilities, which has been recorded in other current assets in the condensed consolidated balance sheet.

Included in accounts receivable are allowances for doubtful accounts of $28.6 million at September 30, 2006 and $30.5 million at December 31, 2005.

Accumulated depreciation amounted to $1,006.7 million at September 30, 2006 and $861.7 million at December 31, 2005.

During the first nine months of 2006 and 2005, the Company made interest payments of approximately $81.2 million and $90.6 million, respectively. The decrease was primarily due to the tendering of the Senior Floating Rate Notes due 2010 and the tendering of the 9.875% Senior Notes due 2012, partially offset by the inclusion of the debt of Great Lakes. During the first nine months of 2006 and 2005, the Company made payments for income taxes (net of refunds) of $54.7 million and $29.1 million, respectively.

RECLASSIFICATIONS

In the third quarter of 2006, the Company reclassified certain amounts related to operations from other (income) expense, net to SG&A, (gain) loss on sale of businesses, net and income related to the sale of Gustafson joint venture in the condensed consolidated statement of earnings. The items reclassified include (a) legacy Witco pension and other post-retirement benefit obligations related to businesses for which the Company has continuing involvement, (b) gains and losses on the sale of businesses which did not meet the criteria to be considered discontinued operations and (c) gains on the sale of equity method investees for which income had previously been reported within operating profit (loss). Although the Company properly classified these items within earnings (loss) from continuing operations, the Company improperly did not include these items as a component of operating profit (loss) in prior periods.

The following tables represent the effect of these reclassifications on prior period interim financial statements for all periods previously reported in 2006 and 2005. Additionally, the Company has provided the effect of such reclassifications on previously reported financial statements for the years ended December 31, 2005, 2004 and 2003.

The effect of the 2006 reclassification on the consolidated statements of earnings for the prior quarters and first six months of 2006 is as follows:

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	Periods Ended in 2006		
(In thousands)	**Three-Months March 31,**	**Three Months June 30,**	**Six Months June 30,**
Increase to SG&A	$ 130	$ 128	$ 258
(Gain) loss on sale of business, net		12,475	12,475
Decrease to operating profit	$		