

Chemtura CORP
Form 10-Q
August 09, 2007

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, 2007

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) 1-15339

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.

Yes

No

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

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Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of shares of common stock outstanding as of the latest practicable date is as follows:

Class	Number of shares outstanding at June 30, 2007
Common Stock - \$.01 par value	241,595,877

CHEMTURA CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements and Accompanying Notes

CHEMTURA CORPORATION AND SUBSIDIARIES
 Consolidated Statements of Operations (Unaudited)
 Quarter and Six months ended June 30, 2007 and 2006
(In millions, except per share data)

	Quarter ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net sales	\$ 1,059	\$ 971	\$ 1,968	\$ 1,842
Cost of products sold	793	713	1,488	1,349
Selling, general and administrative	114	98	217	199
Depreciation and amortization	71	44	134	94
Research and development	15	18	32	32
Facility closures, severance and related costs	22	(3)	25	(3)
Antitrust costs	18	32	30	45
Merger costs		5		15
Loss on sale of assets and business	15	12	15	12
Impairment of long-lived assets	7	6	7	6
Equity income	(1)	(1)	(1)	(1)
Operating profit	5	47	21	94
Interest expense	23	29	46	58
Loss on early extinguishment of debt		20		20
Other expense (income), net	6	(3)	5	(2)
(Loss) earnings from continuing operations before income taxes	(24)	1	(30)	18
Income tax expense	6	4	18	10
(Loss) earnings from continuing operations	(30)	(3)	(48)	8
Earnings from discontinued operations	3	4	6	6
Gain on sale of discontinued operations	25		27	
Net (loss) earnings	\$ (2)	\$ 1	\$ (15)	\$ 14
Basic (loss) earnings per common share:				
(Loss) earnings from continuing operations	\$ (0.12)	\$ (0.02)	\$ (0.20)	\$ 0.03
Earnings from discontinued operations	0.01	0.02	0.03	0.03
Gain on sale of discontinued operations	0.10		0.11	
Net (loss) earnings	\$ (0.01)	\$	\$ (0.06)	\$ 0.06
Diluted (loss) earnings per common share:				
(Loss) earnings from continuing operations	\$ (0.12)	\$ (0.02)	\$ (0.20)	\$ 0.03
Earnings from discontinued operations	0.01	0.02	0.03	0.03
Gain on sale of discontinued operations	0.10		0.11	
Net (loss) earnings	\$ (0.01)	\$	\$ (0.06)	\$ 0.06
Dividends per common share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

See accompanying notes to consolidated financial statements.

CHEMTURA CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2007 (Unaudited) and December 31, 2006
(In millions, except per share data)

	June 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 76	\$ 95
Accounts receivable	453	342
Inventories	684	660
Other current assets	214	288
Total current assets	1,427	1,385
NON-CURRENT ASSETS		
Property, plant and equipment	1,077	1,147
Cost in excess of acquired net assets	1,261	1,177
Intangible assets, net	596	551
Other assets	134	139
	\$ 4,495	\$ 4,399
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 81	\$ 48
Accounts payable	337	285
Accrued expenses	394	461
Income taxes payable	30	94
Total current liabilities	842	888
NON-CURRENT LIABILITIES		
Long-term debt	1,062	1,063
Pension and post-retirement health care liabilities	437	440
Other liabilities	430	329
STOCKHOLDERS' EQUITY		
Common stock - \$0.01 per value		
Authorized - 500.0 shares		
Issued - 253.1 shares at June 30, 2007 and 252.3 shares at December 31, 2006	3	3
Additional paid-in capital	3,019	3,005
Accumulated deficit	(1,167)	(1,128)
Accumulated other comprehensive income (loss)	36	(34)
Treasury stock at cost - 11.5 shares	(167)	(167)
Total stockholders' equity	1,724	1,679
	\$ 4,495	\$ 4,399

See accompanying notes to consolidated financial statements.

CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
Six months ended June 30, 2007 and 2006
(In millions)

Increase (decrease) in cash	Six months ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) earnings	\$ (15)	\$ 14
Adjustments to reconcile net (loss) earnings to net cash provided by operations:		
Loss on sale of assets and business	15	12
Gain on sale of discontinued operations	(27)	
Impairment of long-lived assets	7	6
Loss on early extinguishment of debt		20
Depreciation and amortization	138	97
Stock-based compensation expense	5	7
Equity income	(1)	(3)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(127)	(108)
Accounts receivable - securitization	27	252
Inventories	(13)	(22)
Accounts payable	38	
Pension and post-retirement health care liabilities	(6)	(52)
Other	6	(52)
Net cash provided by operations	47	171
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments	132	117
Payments for acquisitions, net of cash acquired	(164)	(7)
Merger transaction costs paid		(8)
Capital expenditures	(46)	(48)
Net cash (used in) provided by investing activities	(78)	54
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on credit facility		(389)
Proceeds from long-term borrowings		497
Payments on long term borrowings		(165)
Proceeds from (payments on) short-term borrowings	31	(48)
Premium paid on early extinguishment of debt		(16)
Payments for debt issuance costs		(5)
Dividends paid	(24)	(24)
Repayment of life insurance policy loan		(10)
Proceeds from exercise of stock options	4	3
Other financing activities		(2)
Net cash provided by (used in) financing activities	11	(159)
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	1	4
Change in cash and cash equivalents	(19)	70
Cash and cash equivalents at beginning of period	95	139
Cash and cash equivalents at end of period	\$ 76	\$ 209

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 and six months ended June 30, 2007 and June 30, 2006 is unaudited, but reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows 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 its wholly-owned and majority-owned subsidiaries that it controls, 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.

Certain financial information 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 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 and six months ended June 30, 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) 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 expense (income), net

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

(In millions)	Quarter ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Cost of securitization programs and other accounts receivable financing	\$ 5	\$ 5	\$ 11	\$ 7
Foreign exchange gain			(6)	(1)
Interest income	(2)	(5)	(3)	(7)
Minority interest	3	1	2	3
Equity income - Davis Standard LLC		(3)		(3)
Other items, individually less than \$1		(1)	1	(1)
Other expense (income), net	\$ 6	\$ (3)	\$ 5	\$ (2)

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 June 30, 2007 and December 31, 2006 is \$1 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.

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Included in accounts receivable are allowances for doubtful accounts of \$37 million and \$32 million at June 30, 2007 and December 31, 2006, respectively.

During the first six months of 2007 and 2006, the Company made interest payments of approximately \$45 million and \$52 million, respectively. During the first six months of 2007 and 2006, the Company made payments for income taxes (net of refunds) of \$28 million and \$40 million, respectively.

Discontinued operations in the second quarter of 2007 reflects the gain of \$25 million (net of \$13 million of tax) and earnings of \$3 million (net of \$2 million of tax) related to the divestiture of the Company's EPDM business, commonly known as crackless rubber. Discontinued operations for the second quarter of 2006 includes EPDM earnings of \$4 million (net of \$2 million of tax).

Discontinued operations in the six months ended June 30, 2007 reflect the gain of \$25 million (net of \$13 million of tax) and earnings of \$6 million (net of \$2 million of tax) related to the divestiture of the Company's EPDM business and a gain of \$2 million (net of \$1 million of tax) arising from additional contingent earn-out proceeds related to the OrganoSilicones business sold in 2003. Discontinued operations for the six months ended June 30, 2006 includes EPDM earnings of \$6 million (net of \$3 million of tax).

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 six months ended June 30, 2007 and financial position as of June 30, 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. 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. 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 Implementation

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 provisions of Statement No. 159 are effective as of the beginning of the Company's 2008 fiscal year. The Company is currently assessing the impact on its financial position and its results of operations.

2) COMPREHENSIVE INCOME (LOSS)

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

(In millions)	Quarter ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net (loss) earnings	\$ (2)	\$ 1	\$ (15)	\$ 14
Other comprehensive income				
Foreign currency translation adjustments	59	38	61	56
Unrecognized pension and other post-retirement benefit costs (net of tax)	2		3	

Other Items

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Change in fair value of derivatives (net of tax)		(2) 6	(10)
Comprehensive income	\$ 59	\$ 37	\$ 55	\$ 60	

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The components of accumulated other comprehensive income (loss) at June 30, 2007 and December 31, 2006 are as follows:

(In millions)	June 30, 2007	December 31, 2006
Foreign currency translation adjustment	\$ 168	\$ 107
Unrecognized pension and other post-retirement benefit costs (net of tax)	(131)	(134)
Fair value of derivatives (net of tax)	(1)	(7)
Accumulated other comprehensive income (loss)	\$ 36	\$ (34)

Reclassifications from other comprehensive income (loss) to earnings related to the Company's natural gas price swap contracts aggregated to \$4 million pre-tax loss and \$3 million pre-tax gain during the quarters ended June 30, 2007 and 2006, respectively, and \$8 million pre-tax loss and \$6 million pre-tax gain during the six months ended June 30, 2007 and 2006, respectively.

3) RESTRUCTURING ACTIVITIES

The Company has commenced a world-wide restructuring program to improve performance and growth which is comprised of several components:

- On April 4, 2007, the Company announced the realignment of its business segments, streamlining of the organization, reevaluation of its manufacturing footprint and the redirection of efforts to focus on end-use markets. In June 2007, the Company approved several locations for closure and is continuing to evaluate additional locations. As of June 30, 2007, the Company identified approximately 600 position reductions and recorded a pre-tax charge for severance of \$20 million to facility closures, severance and related costs in the consolidated statement of operations in the second quarter of 2007 related to these actions. The Company had recorded a pre-tax charge of \$2 million for severance related to these actions in the first quarter of 2007. The Company is continuing to evaluate its workforce and operating facilities and additional restructuring charges may result.

- On June 4, 2007, the Company formally announced its plan to close the antioxidant facilities at Pedrengo and Ravenna, Italy, and two intermediate chemical product lines at Catenoy, France. The actions, which are in addition to the restructuring plan announced on April 4, 2007, impact approximately 190 employees. The Company recorded pre-tax charges of \$32 million during the second quarter of 2007 (\$5 million for severance was recorded to facility closures, severance and related costs; \$21 million of accelerated depreciation was recorded to depreciation and amortization expense; \$2 million accelerated asset retirement obligations was recognized in cost of products sold; and a \$4 million asset impairment charge was recorded to impairment of long-lived assets).

Additionally, as of December 31, 2006, the Company had accrued \$7 million for 2006 programs and \$12 million related to 2004 and previous years programs for charges related to facility closures and employee reductions at several of its manufacturing and research and development facilities around the world, as well as amounts unrecoverable under future lease commitments at its Tarrytown, NY facility. During the second quarter of 2007, the Company reversed \$3 million of reserve related to its Tarrytown, NY facility due to the sublet of space at that location.

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

(In millions)	Severance and Related Costs	Other Facility Closure Costs	Total
Balance at January 1, 2007	\$ 9	\$ 10	\$ 19
2007 charges	27	(3)	24
Cash payments	(4)	(1)	(5)
Balance at June 30, 2007	\$ 32	\$ 6	\$ 38

At June 30, 2007, \$36 million of the above reserves was included in accrued expenses and \$2 million was included in other liabilities on the consolidated balance sheet. At December 31, 2006, \$13 million was included in accrued expenses and \$6 million was included in other

liabilities.

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4) ACQUISITIONS AND DIVESTITURESEPDM Divestiture

On June 29, 2007, the Company completed the sale of its EPDM business, the Celogen® foaming agents product line related to rubber chemicals, and its Geismar, Louisiana facilities to Lion Copolymer, LLC, an affiliate of Lion Chemical Capital, LLC (Lion) for cash proceeds of \$137 million, plus \$16 million in promissory notes payable in seven biweekly installments starting on July 5, 2007. All scheduled payments have been received as of July 31, 2007. The Company reported a net of tax gain of \$10 million (\$25 million related to the sale of the EPDM business in discontinued operations and a loss of \$15 million related to the sale of foaming agents in continuing operations). The Company utilized the cash proceeds to reduce debt. The assets sold include \$23 million in accounts receivable, \$35 million in inventories and \$63 million of assets at the Company's manufacturing facilities.

Net sales, pre-tax earnings and earnings from discontinued operations for 2007 and 2006 are as follows:

(In millions)	Quarter ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net sales	\$ 50	\$ 46	\$ 96	\$ 91
Pre-tax earnings from discontinued operations	\$ 5	\$ 6	\$ 8	\$ 9
Income tax expense	(2)	(2)	(2)	(3)
Earnings from discontinued operations	\$ 3	\$ 4	\$ 6	\$ 6

In connection with this sale, the Company and Lion entered into certain transitional service and supply agreements for periods initially ranging from 90 days to six months. Such agreements may be extended at the mutual consent of both parties. At June 30, 2007, the Company does not have any continuing involvement in the EPDM business. The Company continues to manufacture and market its remaining rubber chemicals product lines.

Kaufman Acquisition

On January 31, 2007, the Company completed the acquisition of the stock of Kaufman Holdings Corporation (Kaufman) for \$160 million plus an additional \$4 million for working capital adjustments. Additionally, a deferred payment of \$5 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 allocated as follows:

	In millions
Net working capital	\$ 46
Property, plant and equipment	42
Cost in excess of acquired net assets	60
Intangibles, net	58
Other assets	2
Other long term liabilities	(39)
Total purchase price	\$ 169

Kaufman reported net sales of \$205 million in 2006. The Kaufman acquisition complements the Company's existing Performance Specialties segment offering related products in key customer areas, providing the opportunity to strengthen alliances with major suppliers, and offering potential distribution synergies.

Marshall

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On July 31, 2007, the Company completed the sale of its organic peroxides business located at the Company's Marshall, Texas facility. As a result, the Company recorded a pre-tax asset impairment charge of \$4 million in the quarter ended June 30, 2007, to reduce the carrying value of the property, plant and equipment to be sold to its estimated fair value.

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OrganoSilicones Divestiture

During the first quarter of 2007, the Company recorded a gain on sale of discontinued operations of \$2 million (net of income taxes of \$1 million) arising from the final settlement of additional contingent earn-out proceeds related to the 2003 sale of the OrganoSilicones business.

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 \$155 million and \$141 million as of June 30, 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 \$234 million and \$143 million as of June 30, 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 \$175 million of their eligible accounts receivable to an agent bank as of June 30, 2007. International accounts receivable sold under this program were \$151 million and \$139 million as of June 30, 2007 and December 31, 2006, respectively. Under the international program, certain foreign subsidiaries of the Company sell eligible accounts receivable directly to an agent bank.

The total costs associated with these programs of \$5 million and \$4 million for the quarters ended June 30, 2007 and 2006, respectively, and \$11 million and \$6 million for the six months ended June 30, 2007 and 2006, respectively, are included in other expense (income), 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 millions)	June 30, 2007	December 31, 2006
Finished goods	\$ 467	\$ 457
Work in process	32	37
Raw materials and supplies	185	166
	\$ 684	\$ 660

Included in the net inventory balances are inventory obsolescence reserves of approximately \$54 million and \$53 million at June 30, 2007 and December 31, 2006, respectively.

7) PROPERTY, PLANT AND EQUIPMENT

(In millions)	June 30, 2007	December 31, 2006
Land and improvements	\$ 95	\$ 76
Buildings and improvements	304	308
Machinery and equipment	1,297	1,528
Information systems equipment	137	164
Furniture, fixtures and other	41	47
Construction in progress	71	84
	1,945	2,207
Less accumulated depreciation	868	1,060
	\$ 1,077	\$ 1,147

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Depreciation expense from continuing operations amounted to \$61 million and \$34 million for the quarters ended June 30, 2007 and 2006, respectively, and \$115 million and \$72 million for the six months ended June 30, 2007 and 2006,

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respectively. Depreciation expense from continuing operations includes accelerated depreciation due to the change in useful life of certain fixed assets at several of the Company's manufacturing facilities associated with the Company's restructuring programs of \$22 million and \$3 million for the quarters ended June 30, 2007 and 2006, respectively, and \$36 million and \$6 million for the six months ended June 30, 2007 and 2006, respectively.

8) GOODWILL AND INTANGIBLE ASSETS

Goodwill by reportable segment is as follows:

The increase in goodwill since December 31, 2006 is primarily due to the acquisition of Kaufman on January 31, 2007, partially offset by the implementation of FIN 48 (see Note 10, Income Taxes) and a pre-merger tax adjustment to reverse a valuation allowance related to entities acquired in the Great Lakes acquisition.

(In millions)	December 31, 2006	Kaufman Acquisition	Adoption of FIN 48	Great Lakes Acquisition Tax Adjustment	Sale of EPDM	Foreign Currency Translation	June 30, 2007
Polymer Additives	\$ 458	\$	\$ (3))\$ (1))\$	\$ 11	\$ 465
Performance Specialties	104	60				1	165
Consumer Products	554		(5)	(1)		23	571
Crop Protection	57						57
Other	4				(2)) 1	3
	\$ 1,177	\$ 60	\$ (8))\$ (2))\$ (2))\$ 36	\$ 1,261

The Company has elected to perform its annual goodwill impairment procedures for all of its reporting units in accordance with Statement No. 142, Goodwill and Other Intangible Assets as of July 31, or sooner, if events occur or circumstances change that could reduce the value of a reporting unit below its carrying value.

The Company's intangible assets (excluding goodwill) are comprised of the following:

(In millions)	June 30, 2007		December 31, 2006	
	Gross Cost	Accumulated Amortization	Gross Cost	Accumulated Amortization
Patents	\$ 144	\$ (40)	\$ 141	\$ (37)
Trademarks	322	(58)	311	(50)
Customer relationships	162	(25)	140	(20)
Production rights	45	(9)	45	(6)
Other	90	(35)	60	(33)
	\$ 763	\$ (167)	\$ 697	\$ (146)

The increase in intangible assets since December 31, 2006 is primarily due to the acquisition of Kaufman on January 31, 2007.

Amortization expense from continuing operations related to intangible assets (excluding investments in unconsolidated affiliates) amounted to \$10 million for the quarters ended June 30, 2007 and 2006, and \$19 million for the six months ended June 30, 2007 and 2006.

9) INDEBTEDNESS

The Company has an available credit facility of \$750 million. There were no borrowings under the credit facility at June 30, 2007 and at December 31, 2006.

In February 2007, amendments were made to the interest coverage ratio and leverage ratio for the quarterly periods March 31, 2007 through September 30, 2007. In May 2007, further amendments were made to the Credit Agreement, after the rating agency downgrade, to permit the sale of certain non-core businesses. On July 31, 2007, the Company entered into an amendment to its Credit Agreement that generally increased covenant levels for a series of events including: accounts receivable securitization; liens; investments; asset sales and the debt ceiling before security is required to be granted. The Company was in compliance with the covenants of its various debt agreements at June 30, 2007 and anticipates compliance in the future.

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As a result of the May 2007 rating agency downgrade of the long-term senior unsecured debt to Ba2 by Moody's Investors Services, the Company and the Domestic Subsidiary Guarantors were required to provide security interest in the stock of their first tier subsidiaries and other equity interests (limited to 66% of the voting stock of first-tier foreign subsidiaries) pursuant to a covenant in the Company's credit facility. Additionally, under the terms of the indentures for the 7% Notes due 2009, 6.875% Notes due 2016 and the 6.875% Debentures (the "Notes"), the Company would be required to grant security interest in assets on an equal and ratable basis if certain secured debt thresholds are exceeded. The Company amended its Pledge Agreement, dated July 31, 2007, such that no borrowings under the Credit Facility would require that these Notes become secured. The Company's credit rating at June 30, 2007 is BB+ (Stable) by Standard and Poors and Ba2 (Stable) by Moody's Investors Services, Inc.

10) INCOME TAXES

The Company reported income tax expense from continuing operations for the quarters ended June 30, 2007 and June 30, 2006 of \$6 million and \$4 million, respectively and the six months ended June 30, 2007 and June 30, 2006 of \$18 million and \$10 million, respectively. The Company has established a valuation allowance against the tax benefits associated with the Company's year to date U.S. net operating loss. The Company will continue to adjust its tax provision rate through the establishment, or release, of the non-cash valuation allowance attributable to currently generated U.S. pre-tax losses until such time as the U.S. operations have evidenced the ability to consistently generate income such that in future years the Company can expect that the deferred tax assets can be utilized on a more likely than not basis. The Company also provides a valuation allowance against its pre-tax losses in numerous countries including Switzerland, Spain, Canada, Germany and Argentina.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was \$60 million. As a result of the implementation of FIN 48, the Company recognized a \$2 million decrease in the income taxes payable liability for unrecognized tax benefits which was accounted for as follows:

	(In millions)
Increase in non-current deferred tax assets	\$ 6
Decrease in goodwill	8
Decrease in income taxes payable	\$ 2

Included in the balance of unrecognized tax benefits at January 1, 2007 are \$44 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007 is \$16 million of tax benefits that, if recognized, would result in a decrease to goodwill recorded in purchase business combinations.

As of June 30, 2007, the amount of unrecognized tax benefits was \$68 million. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$52 million.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in its provision for income tax expense. Upon adoption of FIN 48, the Company had accrued interest and penalties related to unrecognized tax benefits of \$4 million.

In January 2006, the Internal Revenue Service completed an examination of the Company's corporate income tax returns for tax years 2002 and 2003. The Company challenged two adjustments from the final Revenue Agent's Report and requested a review at the Internal Revenue Service Appellate level. These issues were resolved at Appeals in December 2006 and the Company is awaiting final approval at the Joint Committee on Taxation. Accordingly, the US federal statute of limitations remains open for the year 2002 onward. Examinations are currently in process with the Internal Revenue Service for tax years 2004 and 2005.

In June 2007, the Company agreed to the Revenue Agent's Report resulting from the completed Internal Revenue Service examination of the corporate income tax returns for Great Lakes Chemical Company for tax years 2003 and 2004. The Company had adequate reserves to cover the examination results.

Foreign and United States jurisdictions have statutes of limitations generally ranging from 3 to 5 years. The Company has a number of state, local and foreign examinations currently in process. Major foreign examinations in process include Belgium (2004 onward), Canada (2001 onward) and the United Kingdom (2004 onward). The Company considered the uncertain positions associated with the examinations in process during the implementation of FIN 48.

The Company expects that the amount of unrecognized tax benefits will continue to change in the next twelve months as a result of ongoing tax deductions, the outcomes of audits and the passing of the statute of limitations, but that these changes are not expected to have a significant impact on the results of operations or the financial position of the Company.

9) INDEBTEDNESS

11) EARNINGS PER COMMON SHARE

The computation of basic earnings per common share is based on the weighted average number of common shares outstanding. The computation of diluted earnings per common share is based on the weighted average number of common and common equivalent shares outstanding. The computation of diluted earnings per common share equals the basic earnings per common share for the quarters ended June 30, 2007 and 2006, and six months ended June 30, 2007 since the common stock equivalents were antidilutive. Common stock equivalents amounted to 0.8 million shares for the quarters ended June 30, 2007 and 2006, respectively, and 1.0 million shares for the six months ended June 30, 2007.

The following is a reconciliation of the shares used in the computations:

(In millions)	Quarter ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Weighted average common shares outstanding	241.4	240.5	241.2	240.3
Effect of dilutive stock options and other equivalents				1.0
Weighted average common shares adjusted for dilution	241.4	240.5	241.2	241.3

The Company's outstanding stock options of 8.0 million and 9.9 million at June 30, 2007 and 2006, respectively, were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the Company's common stock, and therefore, the inclusion would have been antidilutive. These options could be dilutive if the average share price increases and is greater than the exercise price of these options. The Company's performance-based restricted shares of 1.6 million and 1.5 million at June 30, 2007 and 2006, respectively, were also excluded from the calculation of diluted earnings per share because the specified performance criteria for the vesting of these shares had not yet been met. These restricted shares could be dilutive in the future if the specified performance criteria are met.

12) STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (revised 2004), Share-Based Payment. Stock-based compensation expense, including amounts for restricted stock and options, was \$2 million and \$3 million for the quarters ended June 30, 2007 and 2006, respectively, and \$5 million and \$7 million for the six months ended June 30, 2007 and 2006, respectively. In 2007, stock-based compensation is presented 84% in SG&A, 13% in cost of products sold and 3% in R&D.

Stock Option Plans

In February and April 2007, the Company's Board of Directors approved the grant of options covering 1.7 million and 0.1 million shares, respectively, with an exercise price equal to the fair market value of the underlying common stock at the date of grant. These options will vest ratably over a four year period.

The Company uses the Black-Scholes option-pricing model to determine the compensation expense related to stock options. The Company has elected to recognize compensation cost for option awards granted equally over the requisite service period for each separately vesting tranche, as if multiple awards were granted. Using this method, the weighted average fair value of stock options granted during the quarters ended June 30, 2007 and 2006 was \$4.91 and \$3.87, respectively, and for the six months ended June 30, 2007 and 2006 was \$5.41 and \$4.86, respectively. Total remaining unrecognized compensation cost associated with unvested stock options at June 30, 2007 was \$10 million, which will be recognized over the weighted average period of approximately one year.

Restricted Stock Plans

In February 2007, the Board of Directors granted long-term incentive awards in the amount of 0.1 million shares of restricted stock. The grant of 0.1 million shares will vest three and a half years from the date of grant.

In February 2007, the Board of Directors approved a grant of long-term incentive awards of restricted stock, which carries a performance condition requirement. The performance award will be based on accomplishment against goal for 2007, 2008 and 2009 cumulative earnings before interest, taxes, depreciation and amortization (EBITDA). Results of EBITDA will be adjusted for non-GAAP factors as defined. The awards are for a maximum of 0.5 million shares. Share awards based upon the achievement of the performance milestones will become vested and distributed on February 1, 2010. In April 2007, an additional grant of restricted stock for a maximum of 0.1 million shares was granted under this program.

9) INDEBTEDNESS

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Additionally, in February 2007, grants of 0.1 million shares of restricted stock to non-employee directors of the Chemtura Board of Directors were approved. The grants of shares do not contain market condition requirements and vest upon retirement from the Board. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at June 30, 2007 was \$8 million, which will be recognized over the weighted average period of approximately one year.

13) PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Components of net periodic benefit cost (credit) for the quarters ended June 30, 2007 and 2006 are as follows:

(In millions)	Defined Benefit Plans Qualified Domestic Plans		International and Non-Qualified Plans		Post-Retirement Health Care Plans	
	Quarter ended June 30, 2007	2006	Quarter ended June 30, 2007	2006	Quarter ended June 30, 2007	2006
Service cost	\$ 11	\$ 12	\$ 2	\$ 1	\$ 3	\$ 2
Interest cost	(15)	(15)	(4)	(4)	(1)	(1)
Expected return on plan assets						
Amortization of:						
Prior service cost					(1)	(1)
Transition obligation						
Actuarial losses	1	2	1	1	1	
Net periodic benefit cost (credit)	\$ (3)	\$ (1)	\$ 5	\$ 3	\$ 2	\$

Components of net periodic benefit cost (credit) for the six months ended June 30, 2007 and 2006 are as follows:

(In millions)	Defined Benefit Plans Qualified Domestic Plans		International and Non-Qualified Plans		Post-Retirement Health Care Plans	
	Six months ended June 30, 2007	2006	Six months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Service cost	\$ 23	\$ 24	\$ 9	\$ 10	\$ 5	\$ 5
Interest cost	(31)	(29)	(5)	(7)	(1)	(1)
Expected return on plan assets						
Amortization of:						
Prior service cost						
Transition obligation						
Actuarial losses	1	2	1	1	1	
Net periodic benefit cost (credit)	\$ (8)	\$ (5)	\$ 5	\$ 4	\$ 5	\$ 5