Chemtura CORP
Form 10-Q
April 28, 2016
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, 2016

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)

1818 Market Street, Suite 3700, Philadelphia, Pennsylvania	19103
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 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 the chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

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

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

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

Class	Number of shares outstanding at March

	31, 2016
Common Stock - $.01 par value	63,960,031

CHEMTURA CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2016

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CHEMTURA CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
Quarters ended March 31, 2016 and 2015
(In millions, except per share data)

	Quarters ended March 31,	
	2016	2015
Net sales	$414	$438
Cost of goods sold	293	340
Selling, general and administrative	33	36
Depreciation and amortization	21	24
Research and development	5	5
Facility closures, severance and related costs	—	1
Loss on sale of business	—	3
Impairment charges	1	—
Pension settlement	162	—
Operating (loss) income	(101)	29
Interest expense	(8)	(8)
Other (expense) income, net	(2)	11
(Loss) earnings from continuing operations before income taxes	(111)	32
Income tax benefit (expense)	15	(11)
(Loss) earnings from continuing operations	(96)	21
Loss on sale of discontinued operations, net of tax	—	(1)
Net (loss) earnings	$(96)	$20
Basic per share information		
(Loss) earnings from continuing operations	$(1.46)	$0.31
Loss on sale of discontinued operations, net of tax	—	(0.01)
Net (loss) earnings	$(1.46)	$0.30
Diluted per share information		
(Loss) earnings from continuing operations	$(1.46)	$0.30
Loss on sale of discontinued operations, net of tax	—	(0.01)
Net (loss) earnings	$(1.46)	$0.29
Weighted average shares outstanding - Basic	65.7	68.8
Weighted average shares outstanding - Diluted	65.7	69.8

See accompanying notes to Consolidated Financial Statements.

CHEMTURA CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
Quarters ended March 31, 2016 and 2015
(In millions)

	Quarters ended March 31,	
	2016	2015
Net (loss) earnings	$(96)	$20
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	14	(38)
Pension and other post-retirement benefit costs	135	—
Unrealized gain on available for sale securities	—	4
Comprehensive income (loss)	$53	$(14)

See accompanying notes to Consolidated Financial Statements

CHEMTURA CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2016 (Unaudited) and December 31, 2015
(In millions, except par value data)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 194	$ 323
Accounts receivable, net	238	210
Inventories, net	328	315
Other current assets	125	130
Total current assets	885	978
NON-CURRENT ASSETS		
Property, plant and equipment, net	665	663
Goodwill	166	166
Intangible assets, net	86	88
Deferred tax asset	341	354
Other assets	126	111
Total assets	$ 2,269	$ 2,360
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 49	$ 46
Accounts payable	119	120
Accrued expenses	124	142
Below market contract obligation - current	38	38
Income taxes payable	24	15
Total current liabilities	354	361
NON-CURRENT LIABILITIES		
Long-term debt	465	465
Pension and post-retirement health care liabilities	233	270
Below market contract obligation - non-current	136	145
Deferred tax liability	5	7
Other liabilities	109	110
Total liabilities	1,302	1,358
EQUITY		
Common stock - $0.01 par value Authorized - 500.0 shares Issued - 100.6 shares at March 31, 2016 and 100.6 shares at December 31, 2015	1	1
Additional paid-in capital	4,367	4,371
Accumulated deficit	(2,222)	(2,126)
Accumulated other comprehensive loss	(313)	(462)
Treasury stock - at cost - 36.6 shares at March 31, 2016 and 33.4 shares at December 31, 2015	(867)	(783)
Total Chemtura stockholders' equity	966	1,001
Non-controlling interest	1	1
Total equity	967	1,002
Total liabilities and equity	$ 2,269	$ 2,360

See accompanying notes to Consolidated Financial Statements.

CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
Quarters ended March 31, 2016 and 2015
(In millions)

	Quarters ended March 31,	
	2016	2015
Increase (decrease) in cash		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) earnings	$(96)	$20
Adjustments to reconcile net (loss) earnings to net cash (used in) provided by operating activities:		
Loss on sale of discontinued operations	—	1
Loss on sale of business	—	3
Below market contract obligation	(9)	(9)
Pension settlement	162	—
Depreciation and amortization	21	24
Share-based compensation expense	3	3
Other non-cash transactions	1	—
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(24)	(23)
Inventories	(7)	1
Accounts payable	(3)	11
Pension and post-retirement health care liabilities	(49)	(4)
Other	(31)	(11)
Net cash (used in) provided by operating activities	(32)	16
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments	—	(2)
Capital expenditures	(15)	(13)
Net cash used in investing activities	(15)	(15)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(1)	(17)
Proceeds from short-term borrowings, net	2	—
Common shares acquired	(89)	(122)
Proceeds from exercise of stock options	—	3
Net cash used in financing activities	(88)	(136)
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	6	(12)
Change in cash and cash equivalents	(129)	(147)
Cash and cash equivalents at beginning of period	323	392
Cash and cash equivalents at end of period	$194	$245

See accompanying notes to Consolidated Financial Statements.

CHEMTURA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Chemtura Corporation, together with our consolidated subsidiaries, is a global specialty chemical company dedicated to delivering innovative, performance-driven engineered specialty chemical solutions which are used as additives, ingredients or intermediates that add value to our customers' end products. We are committed to global sustainability through "greener technology" and developing engineered chemical solutions that meet our customers' evolving needs. We operate in a wide variety of end-use industries, including automotive, building and construction, electronics, energy, lubricants, packaging and transportation. We are a leader in many of our key product lines and transact business in more than 80 countries.

Our principal executive offices are located in Philadelphia, PA and Middlebury, CT.

When we use the terms "Corporation," "Company," "Chemtura," "Registrant," "We," "Us" and "Our," unless otherwise indica the context otherwise requires, we are referring to Chemtura Corporation and our consolidated subsidiaries.

The information in the foregoing Consolidated Financial Statements for the quarters ended March 31, 2016 and 2015 is unaudited but reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise disclosed in the accompanying notes to our Consolidated Financial Statements.

Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of Chemtura and our wholly-owned and majority-owned subsidiaries that we control. Other affiliates in which we have 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 we have less than 20% ownership are recorded at cost. All significant intercompany balances and transactions have been eliminated in consolidation.

Our Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"), which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K"). The consolidated results of operations for the quarter ended March 31, 2016 are not necessarily indicative of the results expected for the full year.

In accordance with the requirements of ASC 740, Income Taxes, we calculate our interim period income tax expense based upon an estimated effective tax rate for the annual period multiplied by our interim earnings (loss) before income taxes, adjusted for discrete items as necessary.

Accounting Policies and Other Items

Included in accounts receivable are allowances for doubtful accounts of $2 million as of March 31, 2016 and December 31, 2015.

During the three months ended March 31, 2016 and 2015, we made cash interest payments of $14 million and cash payments for income taxes (net of refunds) of $2 million and $18 million, respectively.

At March 31, 2016 and December 31, 2015, $1 million of our asset retirement obligation was included in accrued expenses and $15 million was included in other liabilities in our Consolidated Balance Sheet.

Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective on January 1, 2018. Early adoption is permitted in 2017 for calendar year entities. We currently do not intend to early adopt. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that the ASU will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under current U.S. GAAP, debt issuance costs are reported on the balance sheet as assets and amortized as interest expense. This ASU requires that they be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, which is similar to the presentation of debt discounts or premiums. The costs will continue to be amortized to interest expense using the effective interest method. We adopted this guidance retrospectively during the first quarter of 2016. As a result of adoption of this guidance, total assets and total liabilities as of December 31, 2015 decreased as discussed below:

	December 31, 2015		
(in millions)	Previously reported	Reclassification	Current presentation
Other assets	$117	(6)	$ 111
Total assets	$2,366	(6)	$ 2,360
Long-term debt	$471	(6)	$ 465
Total liabilities	$1,364	(6)	$ 1,358
Total liabilities and equity	$2,366	(6)	$ 2,360

In July 2015, the FASB issued ASU No. 2015-11 Simplifying the Measurement of Inventory, which requires inventory to be measured at the lower of cost and net realizable value. This new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and is to be applied prospectively. While early adoption is permitted we do not intend to early adopt these provisions. We are evaluating the impact of this new standard on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The provisions of ASU 2016-02 are effective for fiscal years and interim periods beginning after December 15, 2018 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We are currently evaluating the impact this accounting standard will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which changes several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, employee tax withholding, calculation of shares for use in diluted earnings per share and classification on the statement of cash flows. The provisions of ASU 2016-09 are effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact this accounting standard will have on our consolidated financial statements and related disclosures.

2) DIVESTITURES

In November 2014, we sold our Chemtura AgroSolutions business to Platform Specialty Products Corporation ("Platform") under a Stock and Asset Purchase Agreement ("SAPA") for approximately $1 billion, consisting of $950 million in cash and 2 million shares of Platform's common stock. During 2015, we sold the 2 million shares of Platform common stock for net proceeds of $54 million. The purchase price was subject to customary post-closing adjustments, primarily for working capital which was settled during 2015.

Under the terms of the SAPA, we retained most of the property, plant and equipment used to manufacture products of the Chemtura AgroSolutions business and continue to manufacture products for Platform under several supply agreements and a tolling agreement (collectively, the "supply agreements") with minimum terms of between