Chemours Co
Form 10-Q
November 02, 2018

UNITED STATES

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 September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-36794

The Chemours Company

(Exact Name of Registrant as Specified in Its Charter)

Delaware	46-4845564
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1007 Market Street, Wilmington, Delaware 19899

(Address of Principal Executive Offices)

(302) 773-1000

(Registrant's Telephone Number)

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 171,084,799 shares of common stock, $0.01 par value, outstanding at October 29, 2018.

The Chemours Company

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Item 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Chemours Company

Interim Consolidated Statements of Operations (Unaudited)

(Dollars in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$1,628	$1,584	$5,174	$4,608
Cost of goods sold	1,151	1,119	3,603	3,347
Gross profit	477	465	1,571	1,261
Selling, general, and administrative expense	163	153	466	461
Research and development expense	20	20	61	62
Restructuring, asset-related, and other charges	12	8	32	31
Total other operating expenses	195	181	559	554
Equity in earnings of affiliates	10	9	32	26
Interest expense, net	(47)	(55)	(148)	(160)
Loss on extinguishment of debt	—	—	(38)	(1)
Other income, net	24	12	115	77
Income before income taxes	269	250	973	649
(Benefit from) provision for income taxes	(6)	43	119	130
Net income	275	207	854	519
Less: Net income attributable to non-controlling interests	—	—	1	1
Net income attributable to Chemours	$275	$207	$853	$518
Per share data				
Basic earnings per share of common stock	$1.56	$1.12	$4.77	$2.81
Diluted earnings per share of common stock	1.51	1.08	4.62	2.72

See accompanying notes to the interim consolidated financial statements.

The Chemours Company

Interim Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in millions)

	Three Months Ended September 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net income	$269	$6	$ 275	$250	$(43)	$ 207
Other comprehensive income (loss):						
Hedging activities:						
Unrealized loss on net investment hedge	(11)	3	(8)	(26)	10	(16)
Unrealized loss on cash flow hedge	(1)	—	(1)	—	—	—
Reclassifications to net income - cash flow hedge	(1)	—	(1)	—	—	—
Hedging activities, net	(13)	3	(10)	(26)	10	(16)
Cumulative translation adjustment	36	—	36	35	—	35
Defined benefit plans:						
Additions to accumulated other comprehensive loss:						
Net gain	—	—	—	5	—	5
Effect of foreign exchange rates	(2)	—	(2)	(9)	2	(7)
Reclassifications to net income:						
Amortization of prior service gain	—	—	—	(1)	—	(1)
Amortization of actuarial loss	4	(1)	3	5	(1)	4
Settlement loss	2	—	2	1	—	1
Defined benefit plans, net	4	(1)	3	1	1	2
Other comprehensive income	27	2	29	10	11	21
Comprehensive income	296	8	304	260	(32)	228
Less: Comprehensive income attributable to non-controlling interests	—	—	—	—	—	—
Comprehensive income attributable to Chemours	$296	$8	$ 304	$260	$(32)	$ 228

	Nine Months Ended September 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net income	$973	$(119)	$ 854	$649	$(130)	$ 519
Other comprehensive income (loss):						
Hedging activities:						
Unrealized gain (loss) on net	2	(1)	1	(76)	20	(56)

investment hedge						
Unrealized gain on cash flow hedge	6	—	6	—	—	—
Reclassifications to net income - cash flow hedge	(1)	—	(1)	—	—	—
Hedging activities, net	7	(1)	6	(76)	20	(56)
Cumulative translation adjustment	(17)	—	(17)	224	—	224
Defined benefit plans:						
Additions to accumulated other comprehensive loss:						
Net gain	—	—	—	5	—	5
Effect of foreign exchange rates	3	—	3	(36)	8	(28)
Reclassifications to net income:						
Amortization of prior service gain	(1)	—	(1)	(1)	—	(1)
Amortization of actuarial loss	11	(2)	9	15	(3)	12
Settlement loss	2	—	2	1	—	1
Defined benefit plans, net	15	(2)	13	(16)	5	(11)
Other comprehensive income	5	(3)	2	132	25	157
Comprehensive income	978	(122)	856	781	(105)	676
Less: Comprehensive income attributable to non-controlling interests	1	—	1	1	—	1
Comprehensive income attributable to Chemours	$977	$(122)	$ 855	$780	$(105)	$ 675

See accompanying notes to the interim consolidated financial statements.

The Chemours Company

Interim Consolidated Balance Sheets

(Dollars in millions, except per share amounts)

	(Unaudited) September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,275	$ 1,556
Accounts and notes receivable, net	998	919
Inventories	1,086	935
Prepaid expenses and other	89	83
Total current assets	3,448	3,493
Property, plant, and equipment	8,885	8,511
Less: Accumulated depreciation	(5,678)	(5,503)
Property, plant, and equipment, net	3,207	3,008
Goodwill and other intangible assets, net	187	166
Investments in affiliates	179	173
Other assets	491	453
Total assets	$ 7,512	$ 7,293
Liabilities		
Current liabilities:		
Accounts payable	$ 1,123	$ 1,075
Current maturities of long-term debt	14	15
Other accrued liabilities	561	558
Total current liabilities	1,698	1,648
Long-term debt, net	3,985	4,097
Deferred income taxes	220	208
Other liabilities	463	475
Total liabilities	6,366	6,428
Commitments and contingent liabilities		
Equity		
Common stock (par value $0.01 per share; 810,000,000 shares authorized; 187,149,447 shares issued and 173,849,387 shares outstanding at September 30, 2018; 185,343,034 shares issued and 182,956,628 shares outstanding at December 31, 2017)	2	2
Treasury stock at cost (13,300,060 shares at September 30, 2018; 2,386,406 shares at December 31, 2017)	(636)	(116)
Additional paid-in capital	856	837
Retained earnings	1,358	579
Accumulated other comprehensive loss	(440)	(442)
Total Chemours stockholders’ equity	1,140	860
Non-controlling interests	6	5
Total equity	1,146	865

Total liabilities and equity	$ 7,512	$ 7,293

See accompanying notes to the interim consolidated financial statements.

The Chemours Company

Interim Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in millions, except per share amounts)

	Three Months Ended September 30, Common Stock			Treasury Stock						
	Shares	Amount	Dividends per Share	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interests	Total Equity
Balance at July 1, 2017	184,691,137	$ 2	$ —	—	$ —	$ 820	$ 186	$ (441)	$ 5	$ 572
Common stock issued - compensation plans	42,344	—	—	—	—	—	—	—	—	—
Exercise of stock options, net	358,577	—	—	—	—	4	—	—	—	4
Stock-based compensation expense	—	—	—	—	—	6	—	—	—	6
Cancellation of unissued stock awards withheld to cover taxes	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	207	—	—	207
Dividends	—	—	0.03	—	—	—	(5)	—	—	(5)
Other comprehensive income	—	—	—	—	—	—	—	21	—	21
Balance at September 30, 2017	185,092,058	$ 2	$ 0.03	—	$ —	$ 830	$ 388	$ (420)	$ 5	$ 805
Balance at July 1, 2018	186,594,368	$ 2	$ —	10,073,236	$ (500)	$ 859	$ 1,127	$ (469)	$ 6	$ 1,025
Common stock issued - compensation plans	431,744	—	—	—	—	—	—	—	—	—
	123,335	—	—	—	—	2	—	—	—	2

Exercise of stock options, net										
Purchases of treasury stock, at cost	—	—	—	3,226,824	(136)	—	—	—	—	(136)
Stock-based compensation expense	—	—	—	—	—	5	—	—	—	5
Cancellation of unissued stock awards withheld to cover taxes	—	—	—	—	—	(10)	—	—	—	(10)
Net income	—	—	—	—	—	—	275	—	—	275
Dividends	—	—	0.25	—	—	—	(44)	—	—	(44)
Other comprehensive income	—	—	—	—	—	—	—	29	—	29
Balance at September 30, 2018	187,149,447	$ 2	$ 0.25	13,300,060	$ (636)	$ 856	$ 1,358	$ (440)	$ 6	$ 1,146

	Nine Months Ended September 30, Common Stock			Treasury Stock						
	Shares	Amount	Dividends per Share	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interests	Total Equity
Balance at January 1, 2017	182,600,533	$ 2	$ —	—	$ —	$ 789	$ (114)	$ (577)	$ 4	$ 104
Common stock issued - compensation plans	504,098	—	—	—	—	—	—	—	—	—
Exercise of stock options, net	1,987,427	—	—	—	—	30	—	—	—	30
Stock-based compensation expense	—	—	—	—	—	21	—	—	—	21
Cancellation of unissued stock awards withheld to cover taxes	—	—	—	—	—	(10)	—	—	—	(10)
Net income	—	—	—	—	—	—	518	—	1	519
Dividends	—	—	0.09	—	—	—	(16)	—	—	(16)
Other comprehensive income	—	—	—	—	—	—	—	157	—	157

Balance at September 30, 2017	185,092,058	$ 2	$ 0.09	—	$ —	$ 830	$ 388	$ (420)	$ 5	$ 805
Balance at January 1, 2018	185,343,034	$ 2	$ —	2,386,406	$ (116)	$ 837	$ 579	$ (442)	$ 5	$ 865
Common stock issued - compensation plans	787,451	—	—	—	—	—	—	—	—	—
Exercise of stock options, net	1,018,962	—	—	—	—	15	—	—	—	15
Purchases of treasury stock, at cost	—	—	—	10,926,065	(520)	—	—	—	—	(520)
Shares issued under employee stock purchase plan	—	—	—	(12,411)	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	20	—	—	—	20
Cancellation of unissued stock awards withheld to cover taxes	—	—	—	—	—	(16)	—	—	—	(16)
Net income	—	—	—	—	—	—	853	—	1	854
Dividends	—	—	0.42	—	—	—	(74)	—	—	(74)
Other comprehensive income	—	—	—	—	—	—	—	2	—	2
Balance at September 30, 2018	187,149,447	$ 2	$ 0.42	13,300,060	$ (636)	$ 856	$ 1,358	$ (440)	$ 6	$ 1,146

See accompanying notes to the interim consolidated financial statements.

The Chemours Company

Interim Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	$854	$519
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	213	204
Asset-related charges	—	3
Gain on sales of assets and businesses	(45)	(14)
Equity in earnings of affiliates, net	(4)	(26)
Loss on extinguishment of debt	38	1
Amortization of debt issuance costs and issue discounts	9	10
Deferred tax provision	3	53
Other operating charges and credits, net	9	26
Decrease (increase) in operating assets:		
Accounts and notes receivable, net	(87)	(110)
Inventories and other operating assets	(186)	(91)
(Decrease) increase in operating liabilities:		
Accounts payable and other operating liabilities	77	(238)
Cash provided by operating activities	881	337
Cash flows from investing activities		
Purchases of property, plant, and equipment	(344)	(246)
Acquisition of business, net	(37)	—
Proceeds from sales of assets and businesses, net	46	39
Foreign exchange contract settlements, net	8	5
Cash used for investing activities	(327)	(202)
Cash flows from financing activities		
Proceeds from issuance of debt, net	520	494
Debt repayments	(675)	(24)
Payments related to extinguishment of debt	(29)	(1)
Payments of debt issuance costs	(12)	(6)
Purchases of treasury stock, at cost	(520)	—
Proceeds from exercised stock options, net	15	30
Payments related to tax withholdings on vested restricted stock units	(16)	(10)
Payments of dividends	(106)	(16)
Cash (used for) provided by financing activities	(823)	467
Effect of exchange rate changes on cash and cash equivalents	(12)	31
(Decrease) increase in cash and cash equivalents	(281)	633
Cash and cash equivalents at January 1,	1,556	902
Cash and cash equivalents at September 30,	$1,275	$1,535

Supplemental cash flows information		
Non-cash investing and financing activities:		
Changes in property, plant, and equipment included in accounts payable	$12	$(16)
Obligations incurred under build-to-suit lease arrangement	41	—
Purchases of treasury stock not settled by period-end	10	—

See accompanying notes to the interim consolidated financial statements.

The Chemours Company

Notes to the Interim Consolidated Financial Statements (Unaudited)

(Dollars in millions, except per share amounts and par values)

Note 1. Background, Description of the Business, and Basis of Presentation

The Chemours Company (Chemours, or the Company) is a leading, global provider of performance chemicals that are key inputs in end-products and processes in a variety of industries. The Company delivers customized solutions with a wide range of industrial and specialty chemical products for markets, including plastics and coatings, refrigeration and air conditioning, general industrial, electronics, mining, and oil refining. The Company’s principal products include refrigerants, industrial fluoropolymer resins, sodium cyanide, performance chemicals and intermediates, and titanium dioxide (TiO_2) pigment. Chemours’ business consists of three reportable segments: Fluoroproducts, Chemical Solutions, and Titanium Technologies. The Fluoroproducts segment is a leading, global provider of fluoroproducts, including refrigerants and industrial fluoropolymer resins. The Chemical Solutions segment is a leading, North American provider of industrial chemicals used in gold production, industrials, and consumer applications. The Titanium Technologies segment is a leading, global provider of TiO_2 pigment, a premium white pigment used to deliver whiteness, brightness, opacity, and protection in a variety of applications.

The accompanying interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America (U.S.) for interim financial information. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. The Company’s results for interim periods should not be considered indicative of its results for a full year, and the year-end consolidated balance sheet does not include all of the disclosures required by GAAP. As such, these interim consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Certain prior period amounts have been reclassified to conform to the current period presentation, the effect of which was not material to the Company’s interim consolidated financial statements.

Unless the context otherwise requires, references herein to “The Chemours Company,” “Chemours,” “the Company,” “our Company,” “we,” “us,” and “our” refer to The Chemours Company and its consolidated subsidiaries. References herein to “DuPont” refer to E. I. du Pont de Nemours and Company, a Delaware corporation, and its consolidated subsidiaries (other than Chemours and its consolidated subsidiaries), unless the context otherwise requires.

Note 2. Recent Accounting Pronouncements

Accounting Guidance Issued and Not Yet Adopted

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) (ASU No. 2016-02), which supersedes the leases requirements in Topic 840. The core principle of ASU No. 2016-02 is that a lessee should recognize on the balance sheet the lease assets and lease liabilities that arise from all lease arrangements with terms greater than 12 months. Recognition of these lease assets and lease liabilities represents a change from previous GAAP, which did not require lease assets and lease liabilities to be recognized for operating leases. Qualitative disclosures along with specific quantitative disclosures will be required to provide enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities.

The provisions of ASU No. 2016-02 are effective for the Company’s fiscal year beginning January 1, 2019, including interim periods within that fiscal year. The guidance includes a number of optional practical expedients that the Company may elect to apply.

In July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements, as an update to the previously issued guidance. This update added a transition option which allows for recognition of a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption without recasting the financial statements in periods prior to adoption. The Company plans to elect this transition option.

At adoption, the Company expects to recognize a material increase in total assets and total liabilities resulting from the recognition of right-of-use assets and the related lease liabilities initially measured at the present value of its future operating lease payments. The impact of adopting ASU No. 2016-02 will depend on the Company’s lease portfolio as of the adoption date. The Company continues to evaluate the impacts of adopting this guidance on its financial position, results of operations, and cash flows, and is updating its systems, processes, and internal controls to meet the new reporting and disclosure requirements in ASU No. 2016-02.

The Chemours Company

Notes to the Interim Consolidated Financial Statements (Unaudited)

(Dollars in millions, except per share amounts and par values)

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU No. 2018-02), which allows for a reclassification from accumulated other comprehensive income or loss to retained earnings for any stranded tax effects resulting from U.S. tax reform. The amendments in this update also require certain disclosures about stranded tax effects. ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a significant impact on its financial position.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU No. 2018-15), which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Pursuant to the amendments, the Company, when acting as a customer to a cloud computing arrangement that is a service contract, is required to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU No. 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted in any interim period. Upon adoption, the Company will have the option to elect whether it applies the amendments under ASU No. 2018-15 retrospectively, or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impacts of adopting this guidance on its financial position, results of operations, and cash flows.

Recently Adopted Accounting Guidance

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU No. 2014-09). The objective of this standard is to remove inconsistent practices with regard to revenue recognition between GAAP and International Financial Reporting Standards. The standard intends to improve the comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. Subsequent to the issuance of ASU No. 2014-09, the FASB issued multiple clarifying updates in connection with the standard (collectively, Topic 606).

Effective January 1, 2018, Chemours adopted the new revenue recognition guidance contained in Topic 606 using the modified retrospective transition method. The Company elected to utilize a practical expedient allowed under the modified retrospective transition method to apply the new standard only to contracts that are not completed on the date of initial adoption. In applying this guidance, the Company evaluated its population of open contracts with customers on January 1, 2018 and determined that the impact of adopting Topic 606 was not material to its consolidated financial statements as a whole. No cumulative adjustment to the Company’s opening retained earnings balance was required. As a result of applying this new guidance, there are changes to the classification of certain amounts in the consolidated statements of operations. Certain royalty income amounts for trademark licensing arrangements that were previously reflected as a component of other income, net in the consolidated statements of operations are now reflected as a component of net sales, which amounted to $1 and $4 for the three and nine months ended September 30, 2018, respectively. Additionally, certain expenses related to the Company’s provision of technical services to customers that were previously reflected as a component of selling, general, and administrative expense in the consolidated statements of operations will now be reflected as a component of the cost of goods sold, which amounted to less than $1 and $2 for the three and nine months ended September 30, 2018, respectively. Under the modified retrospective transition method, the Company’s comparative financial information as of and for the three and nine months ended September 30, 2017 and as of December 31, 2017 has not been restated, and as such, continues to be reported using the accounting standards in effect during those time periods.

The Chemours Company

Notes to the Interim Consolidated Financial Statements (Unaudited)

(Dollars in millions, except per share amounts and par values)

The following table sets forth the impacts of the adoption of Topic 606 on the Company's consolidated statements of operations for the three months ended September 30, 2018.

	Three Months Ended September 30, 2018		
	Without Topic 606	Topic 606 Adjustments	As Reported
Net sales	$1,627	$ 1	$ 1,628
Cost of goods sold	1,151	—	1,151
Gross profit	476	1	477
Selling, general, and administrative expense	163	—	163
Research and development expense	20	—	20
Restructuring, asset-related, and other charges	12	—	12
Total other operating expenses	195	—	195
Equity in earnings of affiliates	10	—	10
Interest expense, net	(47)	—	(47)
Loss on extinguishment of debt	—	—	—
Other income, net	25	(1)	24
Income before income taxes	269	—	269
Benefit from income taxes	(6)	—	(6)
Net income	275	—	275
Less: Net income attributable to non-controlling interests	—	—	—
Net income attributable to Chemours	$275	$ —	$ 275

The following table sets forth the impacts of the adoption of Topic 606 on the Company's consolidated statements of operations for the nine months ended September 30, 2018.

	Nine Months Ended September 30, 2018		
	Without Topic 606	Topic 606 Adjustments	As Reported
Net sales	$5,170	$ 4	$ 5,174
Cost of goods sold	3,601	2	3,603
Gross profit	1,569	2	1,571
Selling, general, and administrative expense	468	(2)	466
Research and development expense	61	—	61

Restructuring, asset-related, and other charges	32	—	32
Total other operating expenses	561	(2)	559
Equity in earnings of affiliates	32	—	32
Interest expense, net	(148)	—	(148)
Loss on extinguishment of debt	(38)	—	(38)
Other income, net	119	(4)	115
Income before income taxes	973	—	973
Provision for income taxes	119	—	119
Net income	854	—	854
Less: Net income attributable to non-controlling interests	1	—	1
Net income attributable to Chemours	$ 853	$ —	$ 853

The adoption of Topic 606 did not impact the Company's consolidated balance sheets or consolidated statements of cash flows as of and for the nine months ended September 30, 2018 and is not expected to have a material impact on the Company's financial position, results of operations, or cash flows in future periods.

The Chemours Company

Notes to the Interim Consolidated Financial Statements (Unaudited)

(Dollars in millions, except per share amounts and par values)

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued various updates to ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU No. 2016-15), which clarifies and amends the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The provisions of ASU No. 2016-15 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and are to be applied using a retrospective transition method. The Company adopted ASU No. 2016-15 on January 1, 2018, the impact of which was not material to its cash flows. There were no adjustments to prior periods resulting from the retrospective application of this guidance.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU No. 2017-01), which changes the definition of a business to assist entities in evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. ASU No. 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance on January 1, 2018, the result of which did not have a significant impact on its financial position, results of operations, or cash flows.

Retirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715) (ASU No. 2017-07), which requires that employers offering their employees defined benefit pension plans disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The provisions of ASU No. 2017-07 are effective for fiscal years beginning after December 31, 2017, as well as interim periods within those fiscal years, and should be applied (i) retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic post-retirement benefit cost in the income statement, and (ii) prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. The Company adopted this guidance on January 1, 2018, which resulted in a reclassification of non-operating pension income from the operating expense captions of the consolidated statements of operations to other income, net for the three and nine months ended September 30, 2017.

The following table sets forth a reclassification of the Company’s non-operating pension and other post-retirement employee benefit income for the three months ended September 30, 2017.

	Three Months Ended September 30, 2017		
		ASU No. 2017-07	
	As Reported	Adjustments	As Reclassified
Net sales	$1,584	$ —	$ 1,584
Cost of goods sold	1,117	2	1,119
Gross profit	467	(2)	465
Selling, general, and administrative expense	148	5	153
Research and development expense	20	—	20
Restructuring, asset-related, and other charges	8	—	8
Total other operating expenses	176	5	181
Equity in earnings of affiliates	9	—	9
Interest expense, net	(55)	—	(55)
Loss on extinguishment of debt	—	—	—
Other income, net	5	7	12
Income before income taxes	250	—	250
Provision for income taxes	43	—	43
Net income	207	—	207
Less: Net income attributable to non-controlling interests	—	—	—
Net income attributable to Chemours	$207	$ —	$ 207

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(Dollars in millions, except per share amounts and par values)

The following table sets forth a reclassification of the Company's non-operating pension and other post-retirement employee benefit income for the nine months ended September 30, 2017.

	Nine Months Ended September 30, 2017		
		ASU No. 2017-07	
	As Reported	Adjustments	As Reclassified
Net sales	$4,608	$ —	$ 4,608
Cost of goods sold	3,341	6	3,347
Gross profit	1,267	(6)	1,261
Selling, general, and administrative expense	444	17	461
Research and development expense	61	1	62
Restructuring, asset-related, and other charges	31	—	31
Total other operating expenses	536	18	554
Equity in earnings of affiliates	26	—	26
Interest expense, net	(160)	—	(160)
Loss on extinguishment of debt	(1)	—	(1)
Other income, net	53	24	77
Income before income taxes	649	—	649
Provision for income taxes	130	—	130
Net income	519	—	519
Less: Net income attributable to non-controlling interests	1	—	1
Net income attributable to Chemours	$518	$ —	$ 518

Derivatives and Hedging

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) (ASU No. 2017-12), which simplifies financial statement reporting for qualifying hedging relationships by eliminating the requirement to separately measure and report hedge ineffectiveness. For net investment hedges, the entire change in fair value of the hedging instruments is recorded in the currency translation adjustment section of other comprehensive income or loss. Pursuant to the amendments, these amounts are required to be subsequently reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is presented when the hedged item affects earnings. The provisions of ASU No. 2017-12 are effective for the Company's fiscal year beginning January 1, 2019, including interim periods within that fiscal year. Early adoption is permitted in any interim period. The amendments in this update are applied to hedging relationships existing on the date of adoption, which includes a cumulative-effect adjustment to eliminate any ineffectiveness recorded to accumulated other comprehensive income or loss with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year in which adoption occurred. Presentation and disclosure amendments are required to be applied prospectively. The Company elected to adopt this guidance during the second quarter of 2018, the result of which did not have an impact on its financial position, results of operations, or cash flows.

Note 3. Significant Transactions and Events

Sale of Land in Linden, New Jersey

In March 2016, the Company entered into an agreement to sell a 210-acre plot of land that formerly housed a DuPont manufacturing site located in Linden, New Jersey. The land was assigned to Chemours in connection with its separation from DuPont, and the Company completed the sale in March 2018 for a gain of $42 and net cash proceeds of $39. As part of the sales agreement, the buyer agreed to assume certain costs associated with ongoing environmental remediation activities at the site amounting to $3, which have been reflected as a component of prepaid expenses and other on the consolidated balance sheets. Chemours remains responsible for certain other ongoing environmental remediation activities at the site, which were previously accrued as a component of other liabilities on the consolidated balance sheets.

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Acquisition of ICOR International, Inc.

In April 2018, the Company, through its wholly-owned subsidiary, The Chemours Company FC, LLC, entered into a Stock Purchase Agreement (SPA) to acquire all of the outstanding stock of ICOR International, Inc. (ICOR), a closely-held private company that produces, sells, and distributes replacement refrigerant gases for use in commercial, industrial, and automotive refrigerant applications. Pursuant to the terms of the SPA, the Company paid $37 in total consideration at closing in the all-cash acquisition, which included customary working capital and other adjustments made within a specified time period. The acquisition of ICOR complements the Company's existing portfolio of product offerings within the Fluoroproducts segment, as well as provides the Company with access to ICOR's established customer base and assembled workforce.

The Company accounted for the acquisition of ICOR as a business combination, and as such, all assets acquired and liabilities assumed were recorded at their estimated fair values. The excess of the consideration transferred over the fair value of the identifiable net assets acquired was recorded as goodwill within the Fluoroproducts segment, which represents the expected future benefits arising from the assembled workforce and other synergies to be realized from the acquisition of ICOR. The Company intends to elect to treat the acquisition of ICOR as an asset acquisition under the Internal Revenue Code, and as such, expects that all of the related goodwill will be deductible for federal income tax purposes.

The following table sets forth the Company's preliminary fair value estimates of the assets acquired and liabilities assumed in the acquisition of ICOR. These amounts are subject to further adjustment as additional information is obtained during the applicable measurement period, which includes the finalization of a third-party appraisal. The Company expects to complete its assessment by the end of 2018.

	Fair Value At Acquisition Date	Measurement Period Adjustments	Adjusted Fair Value	Weighted-average Useful Life (Years)
Assets acquired:				
Accounts receivable - trade	$ 4	$ —	$ 4	
Inventories	8	—	8	
Property, plant, and equipment	1	—	1	
Identifiable intangible asset:				
Customer relationships (1)	20	2	22	5
Total assets acquired	33	2	35	

Liabilities assumed:			
Accounts payable	1	—	1
Other accrued liabilities	1	—	1
Total liabilities assumed	2	—	2
Total identifiable net assets acquired	31	2	33
Goodwill (1)	6	(2)	4
Net assets acquired	$ 37	$ —	$ 37

(1) During the three months ended September 30, 2018, the Company recorded a measurement period adjustment to its customer relationships based on an ongoing analysis associated with the preparation of a third-party appraisal.

The fair value of the customer relationships was determined using the excess earnings method, which is a discounted cash flows approach. This method takes into account significant unobservable inputs and is a Level 3 fair value measurement within the fair value hierarchy. The use of this valuation methodology requires management to make various assumptions, including, but not limited to, assumptions about future profitability, cash flows, and discount rates applicable to the acquired business and, where applicable, market participants. These assumptions are based on management's best estimates and include considerations related to management's knowledge and experience, historical trends, general economic conditions, and other situational factors.

The Company's consolidated financial statements include ICOR's results of operations from April 2, 2018, the date of acquisition, through September 30, 2018. Net sales and net income attributable to Chemours contributed by ICOR during this period were not material to the Company's or its Fluoroproducts segment's results of operations. Acquisition-related expenses amounted to less than $1 during the three and nine months ended September 30, 2018 and are included as a component of selling, general, and administrative expense in the consolidated statements of operations.

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Note 4. Net Sales

Revenue Recognition

Prior to the adoption of Topic 606, Chemours recognized revenue when the earnings process was complete. Revenue for product sales was recognized when product was shipped to the customer in accordance with the terms of the agreement, when title and the risk of loss were transferred, when collectability was reasonably assured, and when pricing was fixed or determinable. Any payments received in advance were recorded as deferred revenue and recognized as shipments were made and title, ownership, and the risk of loss were transferred to the customer. The Company accrued for sales returns and other allowances based on its historical experience, with cash sales incentives reflected as a reduction in revenue and non-cash sales incentives reflected as a charge to the cost of goods sold recorded contemporaneously with the related revenue or selling expense, depending on the nature of the incentive. Amounts billed to customers for shipping and handling fees were included in net sales, and the costs incurred by the Company for the delivery of goods were classified as a component of the cost of goods sold in the consolidated statements of operations. Taxes on revenue-producing transactions were excluded from net sales.

Licensing and royalty income was recognized as a component of other income, net in the consolidated statements of operations in accordance with agreed-upon terms, when performance obligations were satisfied, when collectability was reasonably assured, and when pricing was fixed or determinable.

With the adoption of Topic 606, Chemours recognizes revenue using a five-step model resulting in revenue being recognized as performance obligations within a contract have been satisfied. The steps within that model include: (i) identifying the existence of a contract with a customer; (ii) identifying the performance obligations within the contract; (iii) determining the contract's transaction price; (iv) allocating the transaction price to the contract's performance obligations; and, (v) recognizing revenue as the contract's performance obligations are satisfied. A contract with a customer exists when: (i) the Company enters into an enforceable agreement that defines each party's rights regarding the goods or services to be transferred, and the related payment terms; (ii) the agreement has commercial substance; and, (iii) it is probable that the Company will collect the consideration to which it is entitled to in the exchange. A performance obligation is a promise in a contract to transfer a distinct good or service, or a series of distinct goods or services to a customer and serves as the unit of account for Topic 606. The transaction price is the customary amount of consideration that the Company expects to be entitled to in exchange for a transfer of the promised goods or services to a customer, excluding any amounts collected by the Company on behalf of third-parties (e.g., sales and use taxes). Judgment is required to apply the principles-based, five-step model for revenue recognition outlined in Topic 606. Management is required to make certain estimates and assumptions about the Company's contracts with its customers, including, among others, the nature and extent of its performance obligations, its transaction price amounts and any allocations thereof, the critical events which constitute satisfaction of its performance obligations, and when control of any promised goods or services is transferred to its customers.

The Company's revenue from contracts with customers is reflected in the consolidated statements of operations as net sales, the vast majority of which represents product sales that consist of a single performance obligation. Product sales to customers are made under a purchase order (PO), or in certain cases, in accordance with the terms of a master services agreement (MSA) or similar arrangement, which documents the rights and obligations of each party to the contract. When a customer submits a PO for product or requests product under an MSA, a contract for a specific quantity of distinct goods at a specified price is created, and the Company's performance obligation under the contract is satisfied when control of the product is transferred to the customer, which is indicated by shipment of the product and the transfer of title and the risk of loss to the customer. Revenue is recognized on consignment sales when control transfers to the customer, generally at the point of customer usage of the product. The transaction price for product sales is generally the amount specified in the PO or in the request under an MSA; however, as is common in Chemours' industry, the Company offers variable consideration in the form of rebates, volume discounts, early payment discounts, pricing based on formulas or indices, price matching, and guarantees to certain customers. Such amounts are included in the Company's estimated transaction price using either the expected value method or the most-likely amount, depending on the nature of the variable consideration included in the contract. The Company regularly assesses its customers' creditworthiness, and product sales are made based on established credit limits. Payment terms for the Company's invoices are typically less than 90 days.

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The Company also licenses the right to access certain of its trademarks to customers under specified terms and conditions in certain arrangements, which is recognized as a component of net sales in the consolidated statements of operations under Topic 606. Under such arrangements, the Company may receive a royalty payment for a trademark license that is entered into on a stand-alone basis or incorporated into an overall product sales arrangement. Royalty income is generally based on customer sales and recognized under the sales-based exception as the customer sale occurs. When minimum guaranteed royalty amounts are included in the transaction price, the Company recognizes royalty income ratably over the license period for the minimum amount. When there is no consideration specified for the use of the Company’s trademark, the entire transaction price is recognized in connection with the transfer of control of product. Royalty income resulting from the right to use the Company’s technology is considered outside the scope of Topic 606 as it is not a part of the Company’s ongoing major or central activities, and consistent with past practice, is recognized as a component of other income, net in the consolidated statements of operations in accordance with agreed-upon terms at the point or points in time that performance obligations are satisfied.

Consistent with the fact that the vast majority of the Company’s payment terms are less than 90 days from the point at which control of the promised goods or services is transferred, no adjustments have been made for the effects of a significant financing component under Topic 606. Additionally, the Company has elected to recognize the incremental costs associated with obtaining contracts as an expense when incurred if the amortization period of the assets that the Company would have recognized is one year or less. Amounts billed to customers for shipping and handling fees are considered a fulfillment cost and are included in net sales, and the costs incurred by the Company for the delivery of goods are classified as a component of the cost of goods sold in the consolidated statements of operations.

Disaggregation of Net Sales

The following table sets forth a disaggregation of the Company’s net sales by geographic region, product group, and segment for the three months ended September 30, 2018.

	Three Months Ended September 30, 2018			
	Fluoroproducts	Chemical Solutions	Titanium Technologies	Total
Net sales by geographic region (1)				
North America	$273	$ 87	$ 228	$588
Asia Pacific	168	21	251	440
Europe, the Middle East, and Africa	188	5	189	382
Latin America (2)	53	42	123	218

Total net sales	$682	$ 155	$ 791	$1,628
Net sales by product group				
Fluorochemicals	$345	$ —	$ —	$345
Fluoropolymers	337	—	—	337
Mining solutions	—	74	—	74
Performance chemicals and intermediates	—	81	—	81
Titanium dioxide and other minerals	—	—	791	791
Total net sales	$682	$ 155	$ 791	$1,628

(1) Net sales are attributable to countries based on customer location.
(2) Latin America includes Mexico.

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The following table sets forth a disaggregation of the Company’s net sales by geographic region, product group, and segment for the nine months ended September 30, 2018.

	Nine Months Ended September 30, 2018			
	Fluoroproducts	Chemical Solutions	Titanium Technologies	Total
Net sales by geographic region (1)				
North America	$888	$ 259	$ 700	$1,847
Asia Pacific	505	63	754	1,322
Europe, the Middle East, and Africa	657	14	682	1,353
Latin America (2)				