

Celanese CORP
Form 10-Q
April 26, 2011

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**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 March 31, 2011
Or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Commission File Number) 001-32410

CELANESE CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

98-0420726
*(I.R.S. Employer
Identification No.)*

**1601 West LBJ Freeway,
Dallas, TX**
(Address of Principal Executive Offices)

75234-6034
(Zip Code)

(972) 443-4000
(Registrant's telephone number, including area code)

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 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 this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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 outstanding shares of the registrant's Series A common stock, \$0.0001 par value, as of April 21, 2011 was 156,219,771.

CELANESE CORPORATION AND SUBSIDIARIES

**Form 10-Q
For the Quarterly Period Ended March 31, 2011**

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	Three Months Ended March 31,	
	2011	2010
		As Adjusted (Note 3)
	(In \$ millions, except share and per share data)	
Net sales	1,589	1,388
Cost of sales	(1,238)	(1,170)
Gross profit	351	218
Selling, general and administrative expenses	(128)	(124)
Amortization of intangible assets	(16)	(15)
Research and development expenses	(23)	(18)
Other (charges) gains, net	3	(77)
Foreign exchange gain (loss), net	1	2
Operating profit (loss)	188	(14)
Equity in net earnings (loss) of affiliates	43	49
Interest expense	(55)	(49)
Interest income	1	1
Other income (expense), net	3	6
Earnings (loss) from continuing operations before tax	180	(7)
Income tax (provision) benefit	(42)	20
Earnings (loss) from continuing operations	138	13
Earnings (loss) from operation of discontinued operations	6	-
Gain (loss) on disposition of discontinued operations	-	2
Income tax (provision) benefit from discontinued operations	(2)	(1)
Earnings (loss) from discontinued operations	4	1
Net earnings (loss)	142	14
Net (earnings) loss attributable to noncontrolling interests	-	-
Net earnings (loss) attributable to Celanese Corporation	142	14
Cumulative preferred stock dividends	-	(3)
Net earnings (loss) available to common shareholders	142	11

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Amounts attributable to Celanese Corporation		
Earnings (loss) from continuing operations	138	13
Earnings (loss) from discontinued operations	4	1
Net earnings (loss)	142	14
Earnings (loss) per common share basic		
Continuing operations	0.88	0.06
Discontinued operations	0.03	0.01
Net earnings (loss) basic	0.91	0.07
Earnings (loss) per common share diluted		
Continuing operations	0.87	0.06
Discontinued operations	0.03	0.01
Net earnings (loss) diluted	0.90	0.07
Weighted average shares basic	155,966,259	150,272,227
Weighted average shares diluted	158,666,687	152,642,371

See the accompanying notes to the unaudited interim consolidated financial statements.

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)

	Three Months Ended	
	March 31,	
	2011	2010
		As Adjusted
		(Note 3)
	(In \$ millions)	
Net earnings (loss)	142	14
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on marketable securities	-	3
Foreign currency translation	58	(31)
Unrealized gain (loss) on interest rate swaps	9	(3)
Pension and postretirement benefits	3	4
Total other comprehensive income (loss), net of tax	70	(27)
Total comprehensive income (loss), net of tax	212	(13)
Comprehensive (income) loss attributable to noncontrolling interests	-	-
Comprehensive income (loss) attributable to Celanese Corporation	212	(13)

See the accompanying notes to the unaudited interim consolidated financial statements.

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2011	As of December 31, 2010
(In \$ millions, except share data)		
ASSETS		
Current assets		
Cash and cash equivalents	722	740
Trade receivables – third party and affiliates (net of allowance for doubtful accounts – 2011: \$9; 2010: \$12)	950	827
Non-trade receivables, net	269	253
Inventories	688	610
Deferred income taxes	94	92
Marketable securities, at fair value	74	78
Assets held for sale	9	9
Other assets	45	59
Total current assets	2,851	2,668
Investments in affiliates	822	838
Property, plant and equipment (net of accumulated depreciation – 2011: \$1,203; 2010: \$1,131)	3,153	3,017
Deferred income taxes	438	443
Other assets	302	289
Goodwill	804	774
Intangible assets, net	252	252
Total assets	8,622	8,281
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current installments of long-term debt – third party and affiliates	219	228
Trade payables – third party and affiliates	740	673
Other liabilities	554	596
Deferred income taxes	29	28
Income taxes payable	68	17
Total current liabilities	1,610	1,542
Long-term debt	3,003	2,990
Deferred income taxes	122	116
Uncertain tax positions	285	273

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Benefit obligations	1,352	1,359
Other liabilities	1,114	1,075
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized (2011 and 2010: 0 issued and outstanding)	-	-
Series A common stock, \$0.0001 par value, 400,000,000 shares authorized (2011: 178,384,999 issued and 156,046,321 outstanding; 2010: 178,028,571 issued and 155,759,293 outstanding)	-	-
Series B common stock, \$0.0001 par value, 100,000,000 shares authorized (2011 and 2010: 0 issued and outstanding)	-	-
Treasury stock, at cost (2011: 22,338,678 shares; 2010: 22,269,278 shares)	(832)	(829)
Additional paid-in capital	583	574
Retained earnings	1,985	1,851
Accumulated other comprehensive income (loss), net	(600)	(670)
Total Celanese Corporation shareholders' equity	1,136	926
Noncontrolling interests	-	-
Total shareholders' equity	1,136	926
Total liabilities and shareholders' equity	8,622	8,281

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents**CELANESE CORPORATION AND SUBSIDIARIES****UNAUDITED INTERIM CONSOLIDATED STATEMENT OF
SHAREHOLDERS EQUITY**

	Three Months Ended March 31, 2011	
	Shares	Amount
	(In \$ millions, except share data)	
Preferred stock		
Balance as of the beginning of the period	-	-
Issuance of preferred stock	-	-
Balance as of the end of the period	-	-
Series A common stock		
Balance as of the beginning of the period	155,759,293	-
Stock option exercises	229,704	-
Purchases of treasury stock	(69,400)	-
Stock awards	126,724	-
Balance as of the end of the period	156,046,321	-
Treasury stock		
Balance as of the beginning of the period	22,269,278	(829)
Purchases of treasury stock, including related fees	69,400	(3)
Balance as of the end of the period	22,338,678	(832)
Additional paid-in capital		
Balance as of the beginning of the period		574
Stock-based compensation, net of tax		4
Stock option exercises, net of tax		5
Balance as of the end of the period		583
Retained earnings		
Balance as of the beginning of the period		1,851
Net earnings (loss) attributable to Celanese Corporation		142
Series A common stock dividends		(8)
Balance as of the end of the period		1,985

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Accumulated other comprehensive income (loss), net	
Balance as of the beginning of the period	(670)
Other comprehensive income (loss)	70
Balance as of the end of the period	(600)
Total Celanese Corporation shareholders' equity	1,136
Noncontrolling interests	
Balance as of the beginning of the period	-
Net earnings (loss) attributable to noncontrolling interests	-
Balance as of the end of the period	-
Total shareholders' equity	1,136

See the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents**CELANESE CORPORATION AND SUBSIDIARIES****UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended March 31,	
	2011	2010
	As Adjusted (Note 3)	
	(In \$ millions)	
Operating activities		
Net earnings (loss)	142	14
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities		
Other charges (gains), net of amounts used	(9)	48
Depreciation, amortization and accretion	75	93
Deferred income taxes, net	(2)	(7)
Other, net	38	33
Operating cash provided by (used in) discontinued operations	(2)	(3)
Changes in operating assets and liabilities		
Trade receivables third party and affiliates, net	(108)	(82)
Inventories	(60)	(38)
Other assets	(18)	23
Trade payables third party and affiliates	75	32
Other liabilities	1	(58)
Net cash provided by (used in) operating activities	132	55
Investing activities		
Capital expenditures on property, plant and equipment	(77)	(44)
Acquisitions, net of cash acquired	(8)	-
Proceeds from sale of businesses and assets, net	4	5
Capital expenditures related to Ticona Kelsterbach plant relocation	(54)	(85)
Other, net	(16)	(8)
Net cash provided by (used in) investing activities	(151)	(132)
Financing activities		
Short-term borrowings (repayments), net	(5)	1
Proceeds from long-term debt	11	-
Repayments of long-term debt	(9)	(10)
Purchases of treasury stock, including related fees	(3)	-
Stock option exercises	5	3
Series A common stock dividends	(8)	(6)
Preferred stock dividends	-	(3)
Other, net	(2)	-
Net cash provided by (used in) financing activities	(11)	(15)
Exchange rate effects on cash and cash equivalents	12	(23)

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Net increase (decrease) in cash and cash equivalents	(18)	(115)
Cash and cash equivalents at beginning of period	740	1,254
Cash and cash equivalents at end of period	722	1,139

See the accompanying notes to the unaudited interim consolidated financial statements.

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CELANESE CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and Basis of Presentation

Description of the Company

Celanese Corporation and its subsidiaries (collectively the Company) is a global technology and specialty materials company. The Company's business involves processing chemical raw materials, such as methanol, carbon monoxide and ethylene, and natural products, including wood pulp, into value-added chemicals, thermoplastic polymers and other chemical-based products.

Basis of Presentation

The unaudited interim consolidated financial statements for the three months ended March 31, 2011 and 2010 contained in this Quarterly Report on Form 10-Q (Quarterly Report) were prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for all periods presented. The unaudited interim consolidated financial statements and other financial information included in this Quarterly Report, unless otherwise specified, have been presented to separately show the effects of discontinued operations. In this Quarterly Report, the term Celanese refers to Celanese Corporation, a Delaware corporation, and not its subsidiaries. The term Celanese US refers to the Company's subsidiary, Celanese US Holdings LLC, a Delaware limited liability company, and not its subsidiaries.

In the opinion of management, the accompanying unaudited consolidated balance sheets and related unaudited interim consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity include all adjustments, consisting only of normal recurring items necessary for their fair presentation in conformity with US GAAP. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission (SEC). These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as of and for the year ended December 31, 2010, filed on February 11, 2011 with the SEC as part of the Company's Annual Report on Form 10-K (the 2010 Form 10-K).

Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire year.

In the ordinary course of business, the Company enters into contracts and agreements relative to a number of topics, including acquisitions, dispositions, joint ventures, supply agreements, product sales and other arrangements. The Company endeavors to describe those contracts or agreements that are material to its business, results of operations or financial position. The Company may also describe some arrangements that are not material but in which the Company believes investors may have an interest in or which may have been included in a Form 8-K filing. Investors should not assume the Company has described all contracts and agreements relative to the Company's business in this Quarterly Report.

Estimates and Assumptions

The preparation of unaudited interim consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of

contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amounts of revenues, expenses and allocated charges during the reporting period. Significant estimates pertain to impairments of goodwill, intangible assets and other long-lived assets, purchase price allocations, restructuring costs and other (charges) gains, net, income taxes, pension and other postretirement benefits, asset retirement obligations, environmental liabilities and loss contingencies, among others. Actual results could differ from those estimates.

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The Company has reclassified certain prior period amounts to conform to the current period's presentation.

2. Recent Accounting Pronouncements

There were no new accounting pronouncements issued during the three months ended March 31, 2011 that had an impact on the Company.

3. Acquisitions, Dispositions, Ventures and Plant Closures***Acquisitions***

On February 6, 2011, the Company acquired a business primarily consisting of emulsions process technology from Crown Paints Limited. The acquired operations are included in the Industrial Specialties segment. Pro forma financial information since the acquisition date has not been provided as the acquisition did not have a material impact on the Company's financial information.

The Company allocated the purchase price of the acquisition to developed technology acquired based on its estimated fair value. The excess of purchase price over the fair value of the developed technology was recorded as goodwill. Developed technology was valued using the relief from royalty methodology which is considered a Level 3 measurement under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (FASB ASC Topic 820). The relief from royalty method estimates the Company's theoretical royalty savings from ownership of the intangible asset. Key assumptions used in this model include discount rates, royalty rates, growth rates, sales projections and terminal value rates, all of which require significant management judgment and, therefore, are susceptible to change.

The consideration paid and the amounts of the intangible assets acquired recognized at the acquisition date are as follows:

	Weighted Average Life (In years)	(In \$ millions)
Cash consideration		8
Intangible assets acquired		
Developed technology	4	7
Goodwill		1
Total		8

In May 2010, the Company acquired two product lines, Zenite[®] liquid crystal polymer (LCP) and Thermax polycyclohexylene-dimethylene terephthalate (PCT), from DuPont Performance Polymers. The acquisition continues to build upon the Company's position as a global supplier of high performance materials and technology-driven

applications. These two product lines broaden the Company's Ticona Engineering Polymers offerings within its Advanced Engineered Materials segment, enabling the Company to respond to a globalizing customer base, especially in the high growth electrical and electronics applications.

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In connection with the acquisition, the Company committed to purchase certain inventories at a future date valued at a range between \$12 million and \$17 million. Inventories purchased pursuant to the acquisition agreement are as follows:

	Three Months Ended March 31, 2011 (In \$ Millions)	Total From Acquisition Through March 31, 2011
Inventories purchased	9	12

The Company has no further commitment to purchase additional inventory in connection with the acquisition agreement.

Ventures

The Company indirectly owns a 25% interest in its National Methanol Company (Ibn Sina) affiliate through CTE Petrochemicals Company (CTE), a joint venture with Texas Eastern Arabian Corporation Ltd. (which also indirectly owns 25%). The remaining interest in Ibn Sina is held by Saudi Basic Industries Corporation (SABIC). SABIC and CTE entered into an Ibn Sina joint venture agreement in 1981. In April 2010, the Company announced that Ibn Sina will construct a 50,000 ton polyacetal (POM) production facility in Saudi Arabia and that the term of the joint venture agreement was extended until 2032. Ibn Sina s existing natural gas supply contract expires in 2022. Upon successful startup of the POM facility, the Company s indirect economic interest in Ibn Sina will increase from 25% to 32.5%. SABIC s economic interest will remain unchanged.

In connection with this transaction, the Company reassessed the factors surrounding the accounting method for this investment and changed from the cost method of accounting for investments to the equity method of accounting for investments beginning April 1, 2010. Financial information relating to this investment for prior periods has been retrospectively adjusted to apply the equity method of accounting. Effective April 1, 2010, the Company moved its investment in the Ibn Sina affiliate from its Acetyl Intermediates segment to its Advanced Engineered Materials segment to reflect the change in the affiliate s business dynamics and growth opportunities as a result of the future construction of the POM facility. Business segment information for prior periods has been retrospectively adjusted to reflect the change and to conform to the current year presentation (Note 18).

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The retrospective effect of applying the equity method of accounting to this investment to the unaudited interim consolidated statements of operations is as follows:

	As Originally Reported	Three Months Ended March 31, 2010 As Adjusted for Retrospective Application	Effect of Change
	(In \$ millions, except per share data)		
Equity in net earnings (loss) of affiliates	26	49	23
Dividend income cost investments	27	-	(27)
Earnings (loss) from continuing operations before tax	(3)	(7)	(4)
Earnings (loss) from continuing operations	17	13	(4)
Net earnings (loss)	18	14	(4)
Net earnings (loss) attributable to Celanese Corporation	18	14	(4)
Net earnings (loss) available to common shareholders	15	11	(4)
Earnings (loss) per common share basic			
Continuing operations	0.09	0.06	(0.03)
Discontinued operations	0.01	0.01	-