Chemtura CORP
Form 10-Q
August 10, 2009
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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 June 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

(Commission File Number) 1-15339

CHEMTURA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**52-2183153**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
199 Benson Road, Middlebury, Connecticut	**06749**
(Address of principal executive offices)	(Zip Code)

(203) 573–2000
(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed from last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o Yes x 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). o 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 June 30, 2009**
Common Stock - $.01 par value	242,935,715

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CHEMTURA CORPORATION AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

FORM 10-Q
FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CHEMTURA CORPORATION AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

Consolidated Statements of Operations (Unaudited)

Quarter and Six months ended June 30, 2009 and 2008

(*In millions, except per share data*)

	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net sales	$ 687	$ 1,023	1,204	$ 1,932
Cost of goods sold	535	775	953	1,500
Selling, general and administrative	70	88	140	173
Depreciation and amortization	43	57	87	126
Research and development	9	14	18	28
Facility closures, severance and related costs			3	
Antitrust costs	8	11	10	11
Loss on sale of business		1		24
Impairment of long-lived assets	97	320	97	320
Equity income		(2)		(3)
Operating loss	(75)	(241)	(104)	(247)
Interest expense (a)	(15)	(19)	(35)	(39)
Other (expense) income, net	(21)	(2)	(20)	13
Reorganization items, net	(6)		(46)	
Loss before income taxes	(117)	(262)	(205)	(273)
Income tax expense		(11)	(6)	(20)
Net loss	(117)	(273)	(211)	(293)
Less: net income attributable to non-controlling interests	(1)		(1)	(1)
Net loss attributable to Chemtura Corporation	$ (118)	$ (273)	(212)	$ (294)
Net loss attributable to Chemtura Corporation per share - Basic and Diluted	$ (0.49)	$ (1.13)	(0.87)	$ (1.22)
Weighted average shares outstanding - Basic and Diluted	242.9	242.2	242.9	242.2

(a) Interest expense excludes unrecorded contractual interest expense of $20 million and $23 million for the quarter and six months ended June 30, 2009, respectively.

See accompanying notes to consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)
Consolidated Balance Sheets

June 30, 2009 (Unaudited) and December 31, 2008

(*In millions, except per share data*)

	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 144	$ 68
Accounts receivable	539	392
Inventories	514	611
Other current assets	198	184
Total current assets	1,395	1,255
NON-CURRENT ASSETS		
Property, plant and equipment	774	862
Goodwill	234	265
Intangible assets, net	491	517
Other assets	209	158
	$ 3,103	$ 3,057
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 253	$ 3
Current portion of long-term debt		1,178
Accounts payable	127	243
Accrued expenses	230	361
Income taxes payable	21	28
Total current liabilities	631	1,813
NON-CURRENT LIABILITIES		
Long-term debt	2	23
Pension and post-retirement health care liabilities	171	508
Other liabilities	171	225
Total liabilities not subject to compromise	975	2,569
LIABILITIES SUBJECT TO COMPROMISE	1,809	
STOCKHOLDERS EQUITY		
Common stock - $0.01 par value Authorized - 500.0 shares Issued - 254.5 shares at June 30, 2009 and 254.1 shares at December 31, 2008	3	3
Additional paid-in capital	3,038	3,036
Accumulated deficit	(2,401)	(2,189)

Accumulated other comprehensive loss		(166)		(208)
Treasury stock at cost - 11.5 shares		(167)		(167)
Total Chemtura Corporation stockholders equity		307		475
Non-controlling interest		12		13
Total stockholders equity		319		488
	$	3,103	$	3,057

See accompanying notes to consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)
Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30, 2009 and 2008
(*In millions*)

	Six months ended June 30,	
Increase (decrease) in cash	**2009**	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (212)	$ (294)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Loss on sale of business		24
Impairment of long-lived assets	97	320
Depreciation and amortization	87	126
Stock-based compensation expense	2	5
Reorganization items, net	46	
Equity income		(3)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(33)	(128)
Impact of sale of accounts receivable	(103)	111
Inventories	104	(72)
Accounts payable	19	15
Pension and post-retirement health care liabilities	(5)	(25)
Liabilities subject to compromise	(27)	
Other	(30)	(53)
Net cash (used in) provided by operating activities	(55)	26
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments	3	68
Payments for acquisitions, net of cash acquired	(5)	(26)
Capital expenditures	(16)	(59)
Net cash used in investing activities	(18)	(17)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debtor-in-possession credit facility, net	250	
(Payments on) proceeds from credit facility, net	(65)	50
Proceeds from long term borrowings		1
Payments on long term borrowings	(9)	(31)
(Payments on) proceeds from short term borrowings, net	(1)	25
Dividends paid		(24)
Payments for debt issuance costs	(28)	
Proceeds from exercise of stock options		1
Other financing activities		(1)
Net cash provided by financing activities	147	21
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	2	3
Change in cash and cash equivalents	76	33
Cash and cash equivalents at beginning of period	68	77
Cash and cash equivalents at end of period	$ 144	$ 110

See accompanying notes to consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

Notes to Consolidated Financial Statements (Unaudited)

1) NATURE OF OPERATIONS AND BANKRUPTCY PROCEEDINGS

Nature of Operations

Chemtura Corporation, together with its consolidated subsidiaries (the Company or Chemtura) is dedicated to delivering innovative, market-focused specialty chemical solutions and consumer product offerings. Chemtura is headquartered in Middlebury, Connecticut and operates in a wide variety of end-use markets, including automotive, transportation, construction, packaging, agriculture, lubricants, plastics for durable and non-durable goods, electronics, and home pool and spa chemicals.

Chemtura is the successor to Crompton & Knowles Corporation, which was incorporated in Massachusetts in 1900 and engaged in the manufacture and sale of specialty chemicals beginning in 1954. Chemtura expanded its specialty chemical business through acquisitions in the United States and Europe, including the 1996 acquisition of Uniroyal Chemical Company, Inc. (Uniroyal), the 1999 merger with Witco Corporation (Witco) and the 2005 acquisition of Great Lakes Chemical Corporation (Great Lakes).

Liquidity and Bankruptcy Proceedings

The Company entered 2009 with significantly constrained liquidity. The fourth quarter of 2008 had seen an unprecedented reduction in orders for the Company s products as the global recession deepened and customers saw or anticipated reductions in demand in the industries they served. The impact was more pronounced on those business segments that served cyclically exposed industries. As a result, the Company s sales and overall financial performance deteriorated resulting in the Company s non-compliance with the two financial maintenance covenants under its Amended and Restated Credit Agreement, dated as of July 31, 2007 (the 2007 Credit Facility) as of December 31, 2008. On December 30, 2008, the Company obtained a 90-day waiver of compliance with these covenants from the lenders under the 2007 Credit Facility. This waiver was due to expire on March 30, 2009.

The Company s liquidity was further constrained in the fourth quarter of 2008 by changes in the availability under its accounts receivable financing facilities in the United States and Europe. The eligibility criteria and reserve requirements under the Company s prior U.S. accounts receivable facility (the U.S. Facility) tightened in the fourth quarter of 2008 following a credit rating downgrade, significantly reducing the value of accounts receivable that could be sold under the U.S. Facility compared with the third quarter of 2008. Additionally, the availability and access to the Company s European accounts receivable financing facility (the European Facility) was restricted in late December 2008 because of the Company s financial performance resulting in the Company s inability to sell additional receivables under the European Facility.

The crisis in the credit markets compounded the liquidity challenges faced by the Company. Under normal market conditions, the Company believed it would have been able to refinance its $370 million notes maturing on July 15, 2009 (the 2009 Notes) in the debt capital markets. However, with the deterioration of the credit market in the late summer of 2008 combined with the Company s deteriorating financial performance, the Company did not believe it would be able to refinance the 2009 Notes on commercially reasonable terms, if at all. As a result, the Company sought to refinance the 2009 Notes through the sale of one of its businesses.

On January 23, 2009, a special-purpose subsidiary of the Company entered into a new three-year U.S. accounts receivable financing facility (the 2009 U.S. Facility) that restored most of the liquidity that the Company had available to it under the prior U.S. accounts receivable facility before the fourth quarter of 2008 events described above. However, despite good faith discussions, the Company was unable to agree to terms under which it could resume the sale of accounts receivable under its European Facility during the first quarter of 2009. The balance of accounts receivable previously sold under the facility continued to decline, offsetting much of the benefit to liquidity gained by the new 2009 U.S. Facility. During the second quarter of 2009, with no agreement to restart the European Facility, the remaining balance of the accounts receivable previously sold under the facility were settled and the European Facility was terminated. The Company is currently evaluating alternatives to this program.

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January 2009 saw no improvement in customer demand from the depressed levels in December 2008 and some business segments experienced further deterioration. Although February and March of 2009 saw incremental improvement in net sales compared to January 2009, overall business conditions remained difficult as sales declined by 43% in the first quarter of 2009 compared to the first quarter of 2008. As awareness grew of the Company s constrained liquidity and deteriorating financial performance, suppliers began restricting trade credit and, as a result, liquidity dwindled further. Despite moderate cash generation through inventory reductions and restrictions on discretionary expenditures, the Company s trade credit continued to tighten, resulting in unprecedented restrictions on its ability to procure raw materials.

In January and February of 2009, the Company was in the midst of the asset sale process with the objective of closing a transaction prior to the July 15, 2009 maturity of the 2009 Notes. Potential buyers conducted due diligence and worked towards submitting their final offers on several of the Company s businesses. However, with the continuing recession and speculation about the financial condition of the Company, potential buyers became progressively more cautious. Certain potential buyers expressed concern about the Company s ability to perform its obligations under a sale agreement, increased their due diligence requirements or decided not to proceed with a transaction. In March 2009, the Company concluded that although there were potential buyers of its businesses, a sale was unlikely to be closed in sufficient time to offset the continued deterioration in liquidity or at a value that would provide sufficient liquidity to both operate the business and meet the Company s impending debt maturities.

By March 2009, dwindling liquidity and growing restrictions on available trade credit resulted in production stoppages as raw materials could not be purchased on a timely basis. At the same time, the Company concluded that it was improbable that it could resume sales of accounts receivable under its European Facility or complete the sale of a business in sufficient time to provide the immediate liquidity it needed to operate. Absent such an infusion of liquidity, the Company would likely experience increased production stoppages or sustained limitations on its business operations that ultimately would have a detrimental effect on the value of the Company s business as a whole. Specifically, the inability to maintain and stabilize its business operations would result in depleted inventories, missed supply obligations and damaged customer relationships.

Having carefully explored and exhausted all possibilities to gain near-term access to liquidity, the Company determined that debtor-in-possession financing presented the best available alternative for the Company to meet its immediate and ongoing liquidity needs and preserve the value of the business. As a result, having obtained the commitment of a $400 million senior secured debtor-in-possession credit facility agreement (DIP Credit Facility), Chemtura, the parent company, and 26 of its subsidiaries organized in the United States (collectively, the Debtors) filed for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code (the Bankruptcy Code) on March 18, 2009 in the United States Bankruptcy Court for the Southern District of New York (the Court). The Chapter 11 cases are being jointly administered by the Court. The Company s non-U.S. subsidiaries and certain U.S. subsidiaries were not included in the filing and are not subject to the requirements of the Bankruptcy Code. The Company s U.S. and worldwide operations are expected to continue without interruption during the Chapter 11 reorganization process.

The Debtors own substantially all of the Company s U.S. assets. The Debtors consist of Chemtura, the parent company, and the following subsidiaries:

- A&M Cleaning Products LLC
- Aqua Clear Industries, LLC
- ASEPSIS, Inc.
- ASCK, Inc.
- BioLab, Inc.
- BioLab Company Store, LLC
- Biolab Franchise Company, LLC
- Crompton Colors Incorporated
- Crompton Holding Corporation
- Crompton Monochem, Inc.
- GLCC Laurel, LLC
- Great Lakes Chemical Corporation
- Great Lakes Chemical Global, Inc.
- GT Seed Treatment, Inc.
- Kem Manufacturing Corporation
- Laurel Industries Holdings, Inc.
- Monochem, Inc.
- Naugatuck Treatment Company
- Recreational Water Products, Inc.
- Uniroyal Chemical Company Limited
- Weber City Road LLC

- BioLab Textile Additives, LLC
- CNK Chemical Realty Corporation
- HomeCare Labs, Inc
- ISCI, Inc.
- WRL of Indiana, Inc.

The principal U.S. assets and business operations of the Debtors are owned by Chemtura, BioLab, Inc. and Great Lakes Chemical Corporation.

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On March 18, 2009, Raymond E. Dombrowski, Jr. was appointed Chief Restructuring Officer. In connection with this appointment, the Company entered into an agreement with Alvarez & Marsal North America, LLC (A&M) to compensate A&M for Mr. Dombrowski s services as Chief Restructuring Officer on a monthly basis at a rate of $150 thousand per month and incentive compensation in the amount of $3 million payable upon the earlier of (a) the consummation of a Chapter 11 plan of reorganization or (b) the sale, transfer, or other disposition of all or a substantial portion of the assets or equity of the Company. Mr. Dombrowski is independently compensated pursuant to arrangements with A&M, a financial advisory and consulting firm specializing in corporate restructuring. Mr. Dombrowski will not receive any compensation directly from the Company and will not participate in any of the Company s employee benefit plans.

The Chapter 11 cases were filed to gain liquidity for continuing operations while the Debtors restructure their balance sheets to allow the Company to be a viable going concern. While the Company believes it will be able to achieve these objectives through the Chapter 11 reorganization process, there can be no certainty that it will be successful in doing so.

Under Chapter 11 of the Bankruptcy Code, the Debtors are operating their U.S. businesses as a debtor-in-possession (DIP) under the protection of the Court from their pre-filing creditors and claimants. Since the filing, all orders of the Court sufficient to enable the Debtors to conduct normal business activities, including first day motions and the interim and final approval of the DIP Credit Facility, have been entered by the Court. While the Debtors are subject to Chapter 11, all transactions outside the ordinary course of business will require the prior approval of the Court.

As a consequence of the Chapter 11 cases, pending litigation against the Debtors is generally subject to an automatic stay, and no party may take any action to collect pre-petition claims except pursuant to an order of the Court.

On March 20, 2009, the Court approved the Debtors first day motions. Specifically, the Court granted the Debtors, among other things, interim approval to access $190 million of its $400 million DIP Credit Facility, approval to pay outstanding employee wages, health benefits, and certain other employee obligations and authority to continue to honor their current customer policies and programs, in order to ensure the reorganization process will not adversely impact their customers. On April 29, 2009, the Court entered a final order providing full access to the $400 million DIP Credit Facility. The Court also approved Amendment No. 1 to the DIP Credit Facility which provided for, among other things, (i) an increase in the outstanding amount of inter-company loans the Debtors could make to the non-debtor foreign subsidiaries of the Company from $8 million to $40 million; (ii) a reduction in the required level of borrowing availability under the minimum availability covenant; and (iii) the elimination of the requirement to pay additional interest expense if a specified level of accounts receivable financing was not available to the Company s European subsidiaries.

On July 13, 2009, the Company and the parties to the DIP Credit Facility entered into Amendment No. 2 to the DIP Credit Facility subject to approvals by the Court and the Company s Board of Directors which approvals were obtained on July 14 and July 15, 2009, respectively. The DIP Credit Facility was amended to provide for, among other things, an option by the Company to extend the maturity of the DIP Credit Facility for two consecutive three month periods subject to the satisfaction of certain conditions. Prior to Amendment No. 2, the DIP Credit Facility matured on the earlier of 364 days, the effective date of a plan of reorganization or the date of termination in whole of the Commitments (as defined in the DIP Credit Facility).

The Court has not yet established a general deadline for the filing of proofs of claim against the Debtor s estate for certain pre-petition amounts claimed (Bar Date). The Company will provide notice of the Bar Date once set by the Court.

As provided by the Bankruptcy Code, the Debtors have the exclusive right to file a plan of reorganization for 120 days after the petition date. The Company filed a motion with the Court to request an extension of exclusivity and on July 28, 2009 the Court approved an extension of the exclusive right for the Debtors to file a plan of reorganization that expires on November 13, 2009. There can be no assurance that a plan of reorganization will be filed by the Debtors or confirmed by the Court, or that any such plan will be consummated. After a plan of reorganization has been filed with the Court, the plan, along with a disclosure statement approved by the Court, will be sent to all creditors, equity holders and parties in interest. Following the solicitation period, the Court will consider whether to confirm the plan. In order to confirm a plan of reorganization, the Court must make certain findings as required by the Bankruptcy Code. The Court may confirm a plan of reorganization notwithstanding the non-acceptance of the plan by an impaired class of creditors or equity security holders if certain requirements of the Bankruptcy Code are met.

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The ultimate recovery by the Debtors creditors and the Company s shareholders, if any, will not be determined until confirmation and implementation of a plan of reorganization. No assurance can be given as to what recoveries, if any, will be assigned in the Chapter 11 proceeding to each of these constituencies. A plan of reorganization could result in the Company s shareholders receiving little or no value for their interests and holders of the Debtors unsecured debt, including trade debt, receiving less, and potentially substantially less, than payment in full for their claims. Because of such possibilities, the value of the common stock and unsecured debt is highly speculative. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in any of these securities. Although the shares of the Company s common stock continue to trade on the Pink Sheets Electronic Quotation Service (Pink Sheets) under the symbol CEMJQ, the trading prices may have little or no relationship to the actual recovery, if any, by the holders under any eventual court-approved reorganization plan. The opportunity for any recovery by holders of the Company s common stock under such reorganization plan is uncertain and shares of the Company s common stock may be cancelled without any compensation pursuant to such plan.

Continuation of the Company as a going concern is contingent upon, among other things, the Company s and/or Debtors ability (i) to comply with the terms and conditions of the DIP Credit Facility; (ii) to obtain confirmation of a plan of reorganization under the Bankruptcy Code; (iii) to return to profitability; (iv) to generate sufficient cash flow from operations; and (v) to obtain financing sources to meet the Company s future obligations. These matters raise substantial doubt about the Company s ability to continue as a going concern. The consolidated financial statements do not reflect any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of these uncertainties. Additionally, a plan of reorganization could materially change amounts reported in the consolidated financial statements, which do not give effect to all adjustments of the carrying value of assets and liabilities that are necessary as a consequence of reorganization under Chapter 11 of the Bankruptcy Code. In addition, as part of our emergence from bankruptcy protection, the Company may be required to adopt fresh start accounting in a future period. If fresh start accounting is applicable, our assets and liabilities will be recorded at fair value as of the fresh start reporting date. The fair value of our assets and liabilities as of such fresh start reporting date may differ materially from the recorded values of assets and liabilities on our Consolidated Balance Sheets. Further, if fresh start accounting is required, the financial results of the Company after the application of fresh start accounting may be different from historical trends.

2) BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The information in the foregoing consolidated financial statements for the quarters and six months ended June 30, 2009 and June 30, 2008 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 the consolidated financial statements.

The foregoing consolidated financial statements include the accounts of Chemtura and the wholly-owned and majority-owned subsidiaries that it controls. 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 in consolidation.

The consolidated financial statements have been prepared in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting under the Bankruptcy Code (SOP 90-7). SOP 90-7 does not ordinarily affect or change the application of U.S. generally accepted accounting principles (GAAP), however it does require the Company to distinguish transactions and events that are directly associated with the reorganization in connection with the Chapter 11 proceedings from the ongoing operations of the business. The pre-petition liabilities subject to compromise are disclosed separately on the June 30, 2009 Consolidated Balance Sheet. Expenses incurred and settlement impacts due to the Chapter 11 proceedings are reported separately as reorganization items, net on the Consolidated Statements of Operations for the quarter and six months ended June 30, 2009. Interest expense related to pre-petition indebtedness has been reported only to the extent that it will be paid during the pendency of the Chapter 11 proceedings or is permitted by Court approval or is expected to be an allowed claim.

Certain reclassifications have been made to the 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 Annual Report on Form 10-K for the period ended December 31, 2008. The consolidated results of operations for the quarter and six months ended June 30, 2009 are not necessarily indicative of the results expected for the full year.

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Accounting Policies

Operating Costs and Expenses

Cost of goods sold (COGS) includes all costs incurred in manufacturing goods, including raw materials, direct manufacturing costs and manufacturing overhead. COGS 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 expenses (SG&A) include costs and expenses related to the following functions and activities: selling, advertising, legal, provision for doubtful accounts, corporate facilities and corporate administration. SG&A also includes accounting, information technology, finance and human resources, excluding direct support in manufacturing operations, which is included as COGS. Research and development expenses (R&D) include basic and applied R&D activities of a technical and non-routine nature. R&D costs are expensed as incurred. COGS, 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

Other (expense) income, net includes costs associated with the Company s sale of accounts receivable facilities, foreign exchange gains (losses) and interest income.

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, 2009 and December 31, 2008 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.

Included in accounts receivable are allowances for doubtful accounts of $30 million and $26 million, as of June 30, 2009 and December 31, 2008, respectively.

During the six months ended June 30, 2009 and 2008, the Company made interest payments of approximately $27 million and $40 million, respectively. During the six months ended June 30, 2009 and 2008, the Company made payments for income taxes (net of refunds) of $18 million and $31 million, respectively.

Accounting Developments

Implemented in 2009

In December 2007, the FASB issued Statement No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (FAS 160), which requires companies to treat non-controlling interests (commonly referred to as minority interests) as a separate component of shareholders equity and not as a liability. The provisions of FAS 160 are effective as of the beginning of the Company s 2009 fiscal year. The presentation and disclosure requirements of FAS 160 were applied on a retrospective basis for all periods presented.

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations (FAS 141(R)), which requires, among other items, that identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination be recorded at full fair value. The provisions of FAS 141(R) are effective as of the beginning of the Company s 2009 fiscal year. The adoption of FAS 141(R) did not have a material impact on the Company s consolidated financial position and results of operations. Future adjustments made to valuation allowances and acquired tax contingencies on deferred taxes associated with acquisitions made prior to 2009 will impact the statement of operations based on the provisions of FAS 141(R).

In February 2008, the FASB issued FSP FAS 157-2, which delays the effective date of Statement No. 157, Fair Value Measurements (FAS 157) for all non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The adoption of FAS 157 for non-financial assets did not have a material impact on the Company s consolidated financial position and results of operations.

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In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161), which requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), and how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows. The provisions of FAS 161 are effective as of the beginning of the Company s 2009 fiscal year.

In May 2009, the FASB issued Statement No. 165, Subsequent Events (FAS 165) which provides authoritative accounting literature related to evaluating subsequent events that was previously addressed only in the auditing literature under Auditing Standard (AU 560). FAS 165 is similar to the current guidance with some exceptions that are not intended to result in significant change to current practice. FAS 165 defines subsequent events and also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The provisions of FAS 165 are effective for interim or annual financial periods ending after June 15, 2009. The Company has adopted the provisions of FAS 165 effective as of June 30, 2009 and its adoption did not have a material impact on its results of operations, financial condition or its disclosures. The Company has evaluated subsequent events through August 10, 2009.

Future Implementations

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46(R) (FAS No. 167). This Statement amends certain guidance in FASB Interpretation 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51 (FIN 46(R)) for determining whether an entity is a variable interest entity (VIE). FAS No. 167 requires an enterprise to perform an analysis to determine whether the Company s variable interests give it a controlling financial interest in a VIE. A company would be required to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has the power to direct the activities of the VIE that most significantly impact the entity s economic performance. In addition, this Statement amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. The standard is effective for financial statements for interim or annual reporting periods that begin after November 15, 2009. Earlier application is prohibited. The Company is currently evaluating the impact of this Statement.

In June 2009, FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. (FAS 168) This standard replaces Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles (FAS 162) and establishes only two levels of GAAP, authoritative and non-authoritative. The FASB Accounting Standards Codification (the Codification) will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. The standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on the Company s financial position and results of operations.

3) CONDENSED DEBTOR COMBINED FINANCIAL STATEMENTS

Condensed combined financial statements for the Debtors as of June 30, 2009 and for the quarter and six months then ended are presented below. These condensed combined financial statements include investments in subsidiaries carried under the equity method.

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Condensed Combined Statement of Operations

(Debtor-in-Possession)

(*In millions*)

	Chemtura Corporation and Subsidiaries in Reorganization Quarter Ended June 30, 2009	Chemtura Corporation and Subsidiaries in Reorganization Six Months Ended June 30, 2009
Net sales	$ 518	$ 904
Cost of goods sold	426	772
Selling, general and administrative	45	89
Depreciation and amortization	28	57
Research and development	5	10
Antitrust costs	7	9
Impairment of long-lived assets	49	49
Operating profit (loss)	(42)	(82)
Interest expense	(15)	(38)
Other expense, net	(14)	(12)
Reorganization items, net	(6)	(46)
Equity in net loss of subsidiaries	(44)	(36)
Loss before income taxes	(121)	(214)
Income tax expense	3	2
Net loss	$ (118)	$ (212)

Condensed Combined Balance Sheet

(Debtor-in-Possession)

as of June 30, 2009

(*In millions*)

	Chemtura Corporation and Subsidiaries in Reorganization
ASSETS	
Current assets	$ 672
Intercompany receivables	437
Investment in subsidiaries	1,951
Property, plant and equipment	450
Goodwill	149
Other assets	422

Total assets	$	4,081
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities	$	433
Intercompany payables		27
Other long-term liabilities		66
Total liabilities not subject to compromise		526
Liabilities subject to compromise (a)		3,236
Total stockholders equity		319
Total liabilities and stockholders equity	$	4,081

(a) Includes inter-company payables of $1,427 million.

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Condensed Combined Statement of Cash Flows

(Debtor-in-Possession)

Six months ended June 30, 2009

(*In millions*)

Increase (decrease) to cash	**Chemtura Corporation and Subsidiaries in Reorganization**
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (212)
Adjustments to reconcile net loss to net cash used in operating activities:	
Impairment of long-lived assets	49
Depreciation and amortization	57
Stock-based compensation expense	2
Reorganization items, net	46
Changes in assets and liabilities, net	(60)
Net cash used in operating activities	(118)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net proceeds from divestments	3
Payments for acquisitions, net of cash acquired	(5)
Capital expenditures	(12)
Net cash used in investing activities	(14)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from debtor-in-possession facility, net	250
Payments on credit facility, net	(65)
Payments on long term borrowings	(9)
Payments for debt issuance costs	(28)
Net cash provided by financing activities	148
CASH AND CASH EQUIVALENTS	
Change in cash and cash equivalents	16
Cash and cash equivalents at beginning of period	23
Cash and cash equivalents at end of period	$ 39

4) LIABILITIES SUBJECT TO COMPROMISE AND REORGANIZATION ITEMS, NET

Under Chapter 11 of the Bankruptcy Code, certain claims against the Debtors in existence prior to the filing of the petitions for relief are stayed while the Debtors continue business operations as a debtor-in-possession. These estimated claims are reflected in the Consolidated Balance Sheet as liabilities subject to compromise as of June 30, 2009 and are summarized in the table below. Such claims remain subject to future adjustments. Adjustments may result from actions of the Court, negotiations, rejection or acceptance of executory contracts, determination as to the value of any collateral securing claims, proofs of claim or other events.

The Debtors have received approval from the Court to pay or otherwise honor certain of their pre-petition obligations, including approval to pay outstanding employee wages, health benefits, and certain other employee obligations. Additionally, the Debtors are authorized to continue to honor their current customer policies and programs to ensure the reorganization process will not adversely impact customers.

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The amounts of liabilities subject to compromise consist of the following:

(In millions)		As of June 30, 2009
6.875% Notes due 2016 (a)	$	500
7% Notes due July 2009 (a)		370
6.875% Debentures due 2026 (a)		150
Senior credit facility (a)		115
Other borrowings		12
Total debt subject to compromise		1,147
Pension and post-retirement health care liabilities		351
Accounts payable		129
Environmental reserves		35
Litigation reserves		60
Accrued interest expense		7
Other miscellaneous liabilities		80
Total liabilties subject to compromise	$	1,809

(a) The carrying value of pre-petition debt has been adjusted to its respective face value as this represents the expected allowable claim under the Chapter 11 proceedings. As a result, debt issuance costs, discounts and premiums were charged to reorganization items, net on the Consolidated Statement of Operations.

Reorganization items are presented separately in the Consolidated Statement of Operations and represent items realized or incurred by the Company as a direct result of the Debtors petition filings under Chapter 11 of the Bankruptcy Code.

The reorganization items recorded in the Statements of Operations consist of the following:

(In millions)		Quarter Ended June 30, 2009		Six Months Ended June 30, 2009
Write-off debt discounts and premiums	$		$	24
Write-off debt issuance costs				7
Professional fees		18		23
Gain on settlement of pre-petition liabilities		(12)		(12)
Write-off deferred charges related to termination of U.S. accounts receivable facility				4
Total reorganization items, net	$	6	$	46

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5) COMPREHENSIVE (LOSS) INCOME

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

(In millions)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net loss	$ (117)	$ (273)	$ (211)	$ (293)
Other comprehensive (loss) income:				
Foreign currency translation adjustments (net of tax)	93	12	38	89
Unrecognized pension and other post-retirement benefit costs (net of tax)	5	(4)	4	(2)
Change in fair value of derivatives (net of tax)		2		4
Comprehensive loss	(19)	(263)	(169)	(202)
Comprehensive income attributable to the non-controlling interest		(2)		(1)
Comprehensive loss attributable to Chemtura Corporation	$ (19)	$ (265)	$ (169)	$ (203)

The components of accumulated other comprehensive loss at June 30, 2009 and December 31, 2008 are as follows:

(In millions)	June 30, 2009	December 31, 2008
Foreign currency translation adjustment (net of tax)	$ 101	$ 63
Unrecognized pension and other post-retirement benefit costs (net of tax)	(266)	(270)
Fair value of derivatives (net of tax)	(1)	(1)
Accumulated other comprehensive loss	$ (166)	$ (208)

Reclassifications from other comprehensive loss to earnings related to the Company s natural gas price swap contracts aggregated to an immaterial pre-tax loss and a $1 million pre-tax loss during the quarters ended June 30, 2009 and 2008, respectively and $1 million pre-tax loss and a $1 million pre-tax loss during the six months ended June 30, 2009 and 2008, respectively.

6) ACQUISITIONS AND DIVESTITURES

GLCC Laurel, LLC Acquisition

On March 12, 2008, the Company purchased the remaining interest in GLCC Laurel, LLC for a note payable of $11 million. The note was paid in September 2008. As GLCC Laurel, LLC was already being consolidated by the Company in its financial statements, the purchase price was allocated to reduce the minority interest liability by $23 million. The value of the long-lived assets was reduced by $14 million (as the fair value of the assets exceeded the purchase price) with the residual amounts allocated to other assets.

Baxenden Acquisition

On February 29, 2008, the Company acquired the remaining stock of Baxenden Chemicals Limited Plc for approximately $26 million. The purchase price was allocated to goodwill of $9 million; intangible assets of $7 million; property, plant, and equipment of $5 million; and other net assets of $5 million.

Fluorine Divestiture

On January 31, 2008, the Company completed the sale of its fluorine chemical business located at the Company s El Dorado, Arkansas facility for an immaterial net loss. The assets sold consisted of patents and intangible assets of $12 million, inventory of $8 million, fixed assets of $8 million and other current liabilities of $1 million. The fluorine chemical business is reported as a discontinued operation in the accompanying consolidated financial statements.

Oleochemical Divestiture

On February 29, 2008, the Company completed the sale of its oleochemicals business which included the Company s Memphis, Tennessee facility and recorded a net loss of $26 million. Proceeds from the transaction were used to reduce debt. The assets sold included inventory of $26 million, accounts receivable of $23 million, goodwill of $13 million, net fixed assets of $7 million, and intangible assets of $1 million. The oleochemicals business had revenues of approximately $160 million in 2007. As the Company does not capture fully absorbed costs, and certain assets and liabilities at the level of an individual product line (such as oleochemicals), cash flows for this business were determined not to be clearly distinguishable from the rest of the Company and therefore the operational results for oleochemicals were not classified as a discontinued operation.

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7) SALE OF ACCOUNTS RECEIVABLE

At December 31, 2008, the Company had a committed U.S. Facility which provided funding for the sale of up to $100 million of its eligible U.S. receivables to certain purchasers. On January 23, 2009, the Company entered into the 2009 U.S. Facility with up to $150 million of capacity and a three-year term with certain lenders under its 2007 Credit Facility. Lenders who participated reduced their commitments to the 2007 Credit Facility pro-rata to their commitments to purchase U.S. eligible accounts receivable under the 2009 U.S. Facility. Accounts receivable sold under the former facility amounted to $36 million as of December 31, 2008. The former U.S. Facility was terminated upon the effectiveness of the 2009 U.S. Facility.

Under the respective U.S. facilities, certain subsidiaries of the Company were able to sell their accounts receivable to a special purpose entity (SPE) that was created for the purpose of acquiring such receivables and selling an undivided interest therein to certain purchasers. In accordance with the receivables purchase agreements, the purchasers were granted 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 purchasers retain a security interest in all the receivables owned by the SPE, which was $209 million as of December 31, 2008. The balance of the unsold receivables owned by the SPE was included in the Company s accounts receivable balance on the consolidated balance sheet.

The 2009 U.S. Facility was terminated on March 23, 2009 as a condition of the Debtors entering into the DIP Credit Facility. All accounts receivables were sold back by the purchasers and the SPE to their original selling entity using proceeds of $117 million from the DIP Credit Facility.

Following the termination of the 2009 U.S. Facility, deferred financing costs of approximately $4 million related to this facility were charged to reorganization items, net in the Consolidated Statement of Operations.

Certain of the Company s European subsidiaries maintained a separate European Facility to sell up to approximately $247 million of the eligible accounts receivable directly to a purchaser. International accounts receivable sold under this facility was $67 million as of December 31, 2008. This facility terminated during the quarter and there were no outstanding accounts receivable that had been sold as of June 30, 2009. The availability and access to the European Facility was restricted by the purchaser in late December 2008 in light of the Company s financial performance. As a result, the Company was unable to sell additional accounts receivables under this program during the first and second quarters of 2009. Despite good faith discussions, the Company has been unable to conclude an agreement to resume sales of accounts receivable under the European Facility either prior to the Chapter 11 filing or thereafter. During the second quarter, with no agreement to restart the facility, the remaining balance of the accounts receivable previously sold under the facility was settled and the facility was terminated. The Company is currently evaluating alternatives to this program.

8) INVENTORIES

Components of inventories are as follows:

(In millions)		June 30, 2009		December 31, 2008
Finished goods	$	326	$	416
Work in process		43		34
Raw materials and supplies		145		161
	$	514	$	611

Included in the above net inventory balances are inventory obsolescence reserves of approximately $32 million and $31 million at June 30, 2009 and December 31, 2008, respectively.

9) ASSET IMPAIRMENTS

In the second quarter of 2009, the Company experienced continued year-over-year revenue reductions from the impact of the global recession in the electronic, building and construction industries. In addition, the Consumer Performance Products segment revenues were impacted by cooler and wetter than normal weather in the northeastern and mid-western regions of the United States. Based on these factors, the Company reviewed the recoverability of the long-lived assets of its segments in accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). The Company evaluates the recoverability of the carrying value of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company realizes that events and changes in circumstances can be more frequent in the course of a U.S. bankruptcy process. Under such circumstances, the Company assesses whether the projected undiscounted cash flows of its businesses are sufficient to recover the existing unamortized carrying value of its long-lived assets. If the undiscounted projected cash flows are not sufficient, the Company calculates the impairment amount by several methodologies, including discounting the projected cash flows using its weighted average cost of capital and valuation estimates from third parties. The amount of the impairment is written-off against earnings in the period in which the impairment has been determined in accordance with FAS 144.

For PVC Additives, a component of the Industrial Engineered Products reporting segment, the long-lived assets were in excess of the undiscounted cash flows. As a result, the Company recorded a pre-tax impairment charge of $60 million to write-down the value of property, plant and equipment, net by $48 million and intangible assets, net by $12 million as of June 30, 2009. The $60 million charge is included within impairment of long lived assets in the consolidated statements of operations.

Due to the factors cited above, the Company also concluded it was appropriate to perform a goodwill impairment review as of June 30, 2009. The Company used the updated projections in their long-range plan to compute estimated fair values of its reporting units. These projections indicated that the estimated fair value of the Consumer Performance Products reporting unit was less than its carrying value. Based on the Company s preliminary analysis, an estimated goodwill impairment charge of $37 million was recorded for this reporting unit in the second quarter of 2009 (representing the remaining goodwill in this reporting unit). Due to the complexity of the analysis which involves completion of fair value analyses and the resolution of certain significant assumptions, the Company will finalize this goodwill impairment charge in the third quarter of 2009. Refer to Note 11 Goodwill and Intangible Assets for further information.

The impact of these two impairments totaled $97 million in the second quarter of 2009. In the second quarter of 2008, the Company incurred a $320 million goodwill impairment charge relating to Consumer Performance Products.

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10) PROPERTY, PLANT AND EQUIPMENT

(In millions)	June 30, 2009	December 31, 2008
Land and improvements	$ 82	$ 83
Buildings and improvements	252	248
Machinery and equipment	1,264	1,233
Information systems equipment	215	190
Furniture, fixtures and other	30	30
Construction in progress	53	80
	1,896	1,864
Less accumulated depreciation	1,122	1,002
	$ 774	$ 862

Depreciation expense amounted to $34 million and $46 million for the quarters ended June 30, 2009 and 2008, respectively, and $69 million and $105 million for the six months ended June 30, 2009 and 2008, respectively. Depreciation expense includes accelerated depreciation of certain fixed assets associated with the Company s restructuring programs, divestment activities and the consolidation of its legacy ERP systems of $9 million for the quarter ended June 30, 2008 and $2 million and $31 million for the six months ended June 30, 2009 and 2008, respectively.

11) GOODWILL AND INTANGIBLE ASSETS

Goodwill by reportable segment is as follows:

(In millions)	Consumer Performance Products	Industrial Performance Products	Crop Protection Engineered Products	Total
December 31, 2008	$ 37	$ 171	$ 57	$ 265
Impairment Charge	(37)			(37)
Foreign currency translation		6		6
June 30, 2009	$	$ 177	$ 57	$ 234

The Company has elected to perform its annual goodwill impairment procedures for all of its reporting units in accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets (FAS 142) as of July 31, or sooner, if events occur or circumstances change that could reduce the fair value of a reporting unit below its carrying value. The Company estimates the fair value of its reporting units utilizing income and market approaches through the application of discounted cash flow and market comparable methods. The assessment is required to be performed in two steps: step one to test for a potential impairment of goodwill and, if potential losses are identified, step two to measure the impairment loss through a full fair valuing of the assets and liabilities of the reporting unit utilizing the acquisition method of accounting.

During the quarter ended March 31, 2009, there was continued weakness in the global financial markets, resulting in additional decreases in the valuation of public companies and restricted availability of capital. Additionally, the Company s stock price continued to decrease due to constrained liquidity, deteriorating financial performance and the Debtors filing of a petition for relief under Chapter 11 of the Bankruptcy Code. These events were of sufficient magnitude to the Company to conclude it was appropriate to perform a goodwill impairment review as of March 31, 2009. The Company used its own estimates of the effects of the macroeconomic changes on the markets it serves to develop an updated view of its projections. Those updated projections have been used to compute updated estimated fair values of its reporting units. Based on these estimated fair values used to test goodwill for impairment in accordance with FAS 142, the Company concluded that no impairment existed in any of its reporting units at March 31, 2009.

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The financial performance of certain reporting units was negatively impacted versus expectations due to the cold and wet weather conditions during the first half of 2009. This fact along with the macro economic factors cited above, resulted in the Company concluding it was appropriate to perform a goodwill impairment review as of June 30, 2009. The Company used the updated projections in their long-range plan to compute estimated fair values of its reporting units. These projections indicated that the estimated fair value of the Consumer Performance Products reporting unit was less than its carrying value. Based on the Company s preliminary analysis, an estimated goodwill impairment charge of $37 million was recorded for this reporting unit in the second quarter of 2009 (representing the remaining goodwill in this reporting unit). Due to the complexity of the analysis which involves completion of fair value analyses and the resolution of certain significant assumptions, the Company will finalize this goodwill impairment charge in the third quarter of 2009.

The Company continually monitors and evaluates business and competitive conditions that affect its operations and reflects the impact of these factors in its financial projections. If permanent or sustained changes in business or competitive conditions occur, they can lead to revised projections that could potentially give rise to impairment charges.

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

	June 30, 2009			December 31, 2008		
(In millions)	**Gross Cost**	**Accumulated Amortization**	**Net Intangibles**	**Gross Cost**	**Accumulated Amortization**	**Net Intangibles**
Patents	$ 136	$ (54)	$ 82	$ 137	$ (50)	$ 87
Trademarks	287	(68)	219	285	(51)	234
Customer relationships	158	(40)	118	155	(35)	120
Production rights	45	(17)	28	45	(15)	30
Other	75	(31)	44	73	(27)	46
Total	$ 701	$ (210)	$ 491	$ 695	$ (178)	$ 517

The increase in gross intangible assets since December 31, 2008 is primarily due to foreign currency translation.

Amortization expense related to intangible assets amounted to $9 million and $11 million for the quarters ended June 30, 2009 and 2008, respectively, and $18 million and $21 million for the six months ended June 30, 2009 and 2008, respectively. Additionally, the Company recorded a pre-tax impairment charge against accumulated amortization of $12 million to write down the value of intangible assets as of June 30, 2009. Refer to Note 9 Asset Impairments for further information.

12) DEBT

The Company s debt is comprised of the following:

(In millions)	**June 30, 2009**	**December 31, 2008**

6.875% Notes due 2016 (a)	$	500	$	498
7% Notes due July 2009 (a)		370		374
6.875% Debentures due 2026 (a)		150		126
Senior credit facility (a)		115		180
Debtor-in-possession credit facility		250		
Other borrowings (b)		17		26
Total Debt		1,402		1,204
Less: Short-term borrowings		(253)		(3)
Current portion of long-term debt				(1,178)
Liabilities subject to compromise		(1,147)		
Total Long-Term Debt	$	2	$	23

(a) Outstanding balance is classified as liabilities subject to compromise on the Consolidated Balance Sheet at June 30, 2009.

(b) $12 million of the other borrowings is classified as liabilities subject to compromise on the Consolidated Balance Sheet at June 30, 2009.

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Debtor-in-Possession Credit Facility

On March 18, 2009, the Debtors entered into a $400 million senior secured DIP Credit Facility arranged by Citigroup Global Markets Inc. with Citibank, N.A. as Administrative Agent, subject to approval by the Court. On March 20, 2009, the Court entered an interim order providing approval for the Debtors to access $190 million of the DIP Credit Facility in the form of a $165 million term loan and a $25 million revolving credit facility. The DIP Credit Facility closed on March 23, 2009 with the drawing of the $165 million term loan. The initial use of proceeds was used to fund the termination of the 2009 U.S. Facility and pay fees and expenses associated with the transaction.

On April 29, 2009, the Company, certain of its subsidiaries that are guarantors under the DIP Credit Facility, the banks, financial institutions and other institutional lenders party to the DIP Credit Facility (the Lenders), and Citibank, N.A., as Administrative Agent for the Lenders, entered into Amendment No. 1 to the DIP Credit Facility. The DIP Credit Facility was amended to (i) increase the outstanding amount of intercompany loans the Debtors could make to the non-debtor foreign subsidiaries of the Company from $8 million to $40 million; (ii) a reduction in the required level of borrowing availability under the minimum availability covenant; and (iii) the elimination of the requirement to pay additional interest expense if a specified level of accounts receivable financing was not available to the Company s European subsidiaries. On that same date, the Court granted final approval of the DIP Credit Facility, as amended pursuant to Amendment No. 1 thereto.

The DIP Credit Facility is comprised of the following: (i) a $250 million non-amortizing term loan; (ii) a $64 million revolving credit facility; and (iii) an $86 million revolving credit facility representing the roll-up of certain outstanding secured amounts owed to lenders under the existing 2007 Credit Facility who have commitments under the DIP Credit Facility. In addition, a sub-facility for letters of credit (Letters of Credit) in an aggregate amount of $50 million is available under the unused commitments of the revolving credit facilities. As of June 30, 2009, the only drawing under the DIP Credit Facility was the $250 million term loan.

The Court entered a final order providing full access to the $400 million DIP Credit Facility on April 29, 2009. On May 4, 2009, the Company drew the $85 million balance of the $250 million term loan and used the proceeds together with cash on hand to fund the $86 million roll up of certain outstanding secured amounts owed to certain lenders under the 2007 Credit Facility as approved by the final order.

On July 13, 2009, the Company and the parties to the DIP Credit Facility entered into Amendment No. 2 to the DIP Credit Facility subject to approvals by the Court and the Company s Board of Directors which approvals were obtained on July 14 and July 15, 2009, respectively. The DIP Credit Facility was amended to provide for, among other things, an option by the Company to extend the maturity of the DIP Credit Facility for two consecutive three month periods subject to the satisfaction of certain conditions. Prior to Amendment No. 2, the DIP Credit Facility matured on the earlier of 364 days, the effective date of a plan of reorganization or the date of termination in whole of the Commitments (as defined in the DIP Credit Facility).

The option to extend the maturity date for the first additional three month period is subject to the satisfaction of certain conditions including, among other things, delivery of a business plan projecting EBITDA for the extension period, the filing of a plan of reorganization with the Bankruptcy Court, Availability (as defined in the DIP Credit Facility) as of the initial maturity date of not less than $30 million, and the payment of an extension fee of 1% of the outstanding principal balance. The option to extend the maturity date for a second additional three month period is subject to the satisfaction of certain conditions including, among other things, approval of the extension by the Required Lenders (as defined in the DIP Credit Facility), approval by the Bankruptcy Court of a disclosure statement and procedures to solicit votes with respect to a plan of reorganization, Availability (as defined in the DIP Credit Facility) as of June 22, 2010 of not less than $30 million, and the payment of an additional extension fee of 1% of the outstanding principal balance. If the Company extends the maturity of the DIP Credit Facility (as allowed under Amendment No. 2), the applicable per annum interest rate for borrowings under the DIP Credit Facility increases 1% during the three month extension and an additional 1% commencing June 22, 2010 if extended for six months.

Amendment No. 2 also provided for an increase in the amount of permitted capital expenditures for the periods of each maturity date extension of the DIP Credit Facility, the exclusion from the calculation of EBITDA any non-cash foreign currency exchange gains and losses resulting from balance sheet re-measurement, permitting the $40 million basket for inter-company loans to non-debtor foreign subsidiaries to be utilized for up to $10 million of equity contributions to such subsidiaries and for the issuance of letters of credit under the DIP Credit Facility to support credit facilities of certain foreign subsidiaries.

The DIP Credit Facility is secured by a super-priority lien on substantially all of the Company s U.S. assets, including (i) accounts receivable; (ii) inventory; (iii) machinery, plant and equipment; (iv) intellectual property; (v) pledges of the equity of first tier subsidiaries; and (vi) pledges of debt and other instruments.

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Availability of credit under the DIP Credit Facility is equal to (i) the lesser of (a) the Borrowing Base (as defined below) and (b) the effective commitments under the DIP Credit Facility minus (ii) the aggregate amount of the DIP Loans and any undrawn or unreimbursed Letters of Credit. Borrowing Base is the sum of (i) 80% of the Debtors eligible accounts receivable, plus (ii) the lesser of (a) 85% of the net orderly liquidation value percentage (as defined in the DIP Credit Facility) of the Debtors eligible inventory and (b) 75% of the cost of the Debtors eligible inventory, plus (iii) $125 million, less certain reserves determined in the discretion of the Administrative Agent to preserve and protect the value of the collateral.

Borrowings under the term loans and the $64 million revolving facility bear interest at a rate per annum equal to, at the Company s election, (i) 6.5% plus the Base Rate (defined as the higher of (a) 4%; (b) Citibank N.A. s published rate; or (c) the Federal Funds rate plus 0.5%) or (ii) 7.5% plus the Eurodollar Rate (defined as the higher of (a) 3% or (b) the current LIBOR rate adjusted for reserve requirements). Borrowings under the $86 million revolving facility bear interest at a rate per annum equal to, at the Company s election, (i) 2.5% plus the Base Rate or (ii) 3.5% plus the Eurodollar Rate. Additionally, the Company will pay an unused commitment fee of 1.5% per annum on the average daily unused portion of the revolving facilities and a letter of credit fee on the average daily balance of the maximum daily amount available to be drawn under Letters of Credit equal to the applicable margin above the Eurodollar Rate applicable for borrowings under the applicable revolving facility. Certain fees are payable to the lenders upon the reduction or termination of the commitment and upon the substantial consummation of a plan of reorganization as described more fully in the agreement including an exit fee payable to the Lenders of 2% of roll-up commitments and 3% of all other commitments.

The obligations of the Company as borrower under the DIP Credit Facility are guaranteed by the Company s U.S. subsidiaries who are Debtors in the Chapter 11 cases, which, together with the Company own substantially all of the Company s U.S. assets. The obligations must also be guaranteed by each of the Company s subsidiaries that become party to the Chapter 11 cases, subject to specified exceptions.

All amounts owing by the Company and the guarantors under the DIP Credit Facility and certain hedging arrangements and cash management services are secured, subject to a carve-out as set forth in the DIP Credit Facility (the Carve-Out), for professional fees and expenses (as well as other fees and expenses customarily subject to such Carve-Out), by (i) a first priority perfected pledge of (a) all notes owned by the Company and the guarantors and (b) all capital stock owned by the Company and the guarantors (subject to certain exceptions relating to their respective foreign subsidiaries) and (ii) a first priority perfected security interest in all other assets owned by the Company and the guarantors, in each case, junior only to liens as set forth in the DIP Credit Facility and the Carve-Out.

The DIP Credit Facility requires the Company to meet certain financial covenants including the following: (a) minimum cumulative monthly earnings before interest, taxes, and depreciation (EBITDA), after certain adjustments, on a consolidated basis; (b) a maximum variance of the weekly cumulative cash flows of the Debtors, compared to an agreed upon forecast; (c) minimum borrowing availability of $25 million until June 30, 2009, and $30 million thereafter; and (d) maximum quarterly capital expenditures. In addition, the DIP Credit Facility contains covenants which, among other things, limit the incurrence of additional debt, operating leases, issuance of capital stock, issuance of guarantees, liens, investments, disposition of assets, dividends, certain payments, mergers, change of business, transactions with affiliates, prepayments of debt, repurchases of stock and redemptions of certain other indebtedness and other matters customarily restricted in such agreements. As of June 30, 2009, the Company was in compliance with the covenant requirements of the DIP Credit Facility.

The DIP Credit Facility contains events of default, including, among others, payment defaults, breaches of representations and warranties, and covenant defaults.

Credit Facility Guarantees

The Chapter 11 filing constituted an event of default under, or otherwise triggered repayment obligations with respect to, a number of debt instruments and agreements relating to direct and indirect financial obligations of the Debtors (collectively Pre-petition Debt). All obligations under the Pre-petition Debt have become automatically and immediately due and payable. The Debtors believe that any efforts to enforce the payment obligations under the Pre-petition Debt have been stayed as a result of the Company s filing for relief under Chapter 11 of the U.S. Bankruptcy Code. As a result, interest accruals and payments for the unsecured Pre-petition Debt have ceased as of the petition date. The amount of contractual interest expense not recorded in the quarter and six months ended June 30, 2009 was approximately $20 million and $23 million, respectively. The Pre-petition Debt is constituted by $500 million of 6.875% Notes due 2016 (2016 Notes), $370 million of 7% Notes due July 15, 2009 (2009 Notes), $150 million 6.875% Debentures due 2026 (2026 Debentures), $115 million due 2010 under the 2007 Credit Facility and $12 million of other borrowings.

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The 2007 Credit Facility is guaranteed by certain U.S. subsidiaries of the Company (the Domestic Subsidiary Guarantors). Pursuant to a 2007 Credit Facility covenant, the Company and the Domestic Subsidiary Guarantors were, in June of 2007, required to provide a security interest in the equity of their first tier subsidiaries (limited to 66% of the voting stock of first-tier foreign subsidiaries). Under the terms of the indentures for the 2009 Notes, 2016 Notes and the 2026 Debentures (collectively, the Notes), the Company is required to provide security for the Notes on an equal and ratable basis if (and for so long as) the principal amount of secured debt exceeds certain thresholds related to the Company s assets. The thresholds vary under each of the indentures. In order to avoid having the Notes become equally and ratably secured with the 2007 Credit Facility obligations, the lenders agreed to limit the amount secured by the pledged equity to the maximum amount that would not require the notes to become equally and ratably secured (the Maximum Amount). In connection with the amendment and waiver agreement dated December 30, 2008, the Company and the Domestic Subsidiary Guarantors entered into a Second Amended and Restated Pledge and Security Agreement. In addition to the prior pledge of equity granted to secure the 2007 Credit Facility obligations, the Company and the Domestic Subsidiary Guarantors granted a security interest in their inventory. The value of this security interest continues to be limited to the Maximum Amount.

Borrowings under the 2007 Credit Facility at June 30, 2009 were $115 million. During the quarter borrowings under the 2007 Credit Facility were reduced by $86 million following the entry of the final order of the DIP Credit Facility approving the roll-up of these advances. Further, following the drawing of certain letters of credit issued under the 2007 Credit Facility, borrowings increased by $13 million.

The Company has standby letters of credit and guarantees with various financial institutions the majority of which were issued under the 2007 Credit Facility and are pre-petition liabilities. At June 30, 2009, the Company had $94 million of outstanding letters of credit and guarantees primarily related to liabilities for environmental remediation, insurance obligations and European value added tax obligations of which $75 million were issued under the 2007 Credit Facility and are pre-petition liabilities and $7 million were issued under the DIP Credit Facility letter of credit sub-facility. The Company also had $18 million of third party guarantees at June 30, 2009 for which it has reserved $2 million at June 30, 2009, which represents the probability weighted fair value of these guarantees.

13) INCOME TAXES

The Company reported an immaterial amount of income tax expense for the quarter ended June 30, 2009 and income tax expense of $11 million for the quarter ended June 30, 2008, and $6 million and $20 million for the six months ended June 30, 2009 and 2008, 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 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 periods the Company can expect that the deferred tax assets can be utilized on a more-likely-than-not basis.

The Company has net liabilities related to unrecognized tax benefits of $83 million at June 30, 2009 and $85 million at December 31, 2008. At June 30, 2009, $35 million of the net tax liability has been classified as liabilities subject to compromise.

In accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), the Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. Accrued interest and penalties are included within the related liability lines in the consolidated balance sheet. The Debtors are not subject to interest beginning on March 18, 2009, the date on which the Debtor s filed for relief under Chapter 11 of the Bankruptcy Code.

The Company believes it is reasonably possible that its unrecognized tax benefits may decrease approximately $10 million within the next year. This reduction may occur due to the conclusion of examinations by tax authorities. The Company further expects that the amount of unrecognized tax benefits will continue to change as the result of ongoing operations, the outcomes of tax audits, and the passing of statutes of limitations. This change is not expected to have a significant impact on the results of operations or the financial position of the Company.

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14) EARNINGS (LOSS) PER COMMON SHARE

The computation of basic earnings (loss) per common share is based on the weighted average number of common shares outstanding. The computation of diluted earnings (loss) per common share is based on the weighted average number of common and common share equivalents outstanding. The Company had no outstanding common share equivalents for the quarters and six months ended June 30, 2009 and 2008 for purposes of computing diluted earnings (loss) per share.

The weighted average common shares outstanding for the quarters ended June 30, 2009 and 2008 were 242.9 million and 242.2 million, respectively, and for the six months ended June 30, 2009 and 2008 were 242.9 million and 242.2 million, respectively.

The shares of common stock underlying the Company s outstanding stock options of 9.8 million and 11.6 million shares at June 30, 2009 and 2008, respectively, were excluded from the calculation of diluted earnings (loss) per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares as of such dates. 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 stock units (RSUs) of 0.6 million and 2.1 million at June 30, 2009 and 2008, respectively, were also excluded from the calculation of diluted earnings (loss) per share because the specified performance criteria for the vesting of these RSUs had not yet been met. These RSUs could be dilutive in the future if the specified performance criteria are met.

15) STOCK-BASED COMPENSATION

Stock-based compensation expense, including amounts for RSUs and stock options, was $1 million and $2 million for the quarters ended June 30, 2009 and 2008, respectively and $2 million and $5 million for the six months ended June 30, 2009 and 2008, respectively. In 2009 and 2008, stock-based compensation expense was primarily reported in SG&A.

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 quarter ended June 30, 2008 was $2.75 and for the six months ended June 30, 2008 was $3.38. Total remaining unrecognized compensation costs associated with unvested stock options and RSUs at June 30, 2009 were $3 million and $2 million, respectively, which will be recognized over the weighted average period of approximately one year.

The Company did not grant any stock options or restricted stock units during the six months ended June 30, 2009.

On July 27, 2009, the Organization, Compensation and Governance Committee of the Board of Directors adopted the Emergence Incentive Plan, subject to the approval of the Court, which approval was received on July 28, 2009. The Emergence Incentive Plan provides the opportunity for participants to earn an award that will be granted upon the Company s emergence from Chapter 11 in the form of time-based restricted stock units and/or stock options, if feasible, or in another form of consideration. The number of employees included in the Emergence Incentive Plan and the size of the award pool is based upon specific Consolidated EBITDA levels achieved during the twelve month period immediately preceding the Company s emergence from Chapter 11. The Emergence Incentive Plan also provides for an award pool valued at $750,000 that the Committee can utilize, at its discretion, for new hires and promotions during the pendency of the Chapter 11 proceedings.

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16) PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Components of the Company s defined benefit plans net periodic benefit (credit) cost for the quarters and six months ended June 30, 2009 and 2008 are as follows:

(In millions)	**Qualified U.S. Plans Quarter ended June 30, 2009**	**2008**	**Defined Benefit Plans International and Non-Qualified Plans Quarter ended June 30, 2009**	**2008**	**Post-Retirement Health Care Plans Quarter ended June 30, 2009**	**2008**
Service cost	$	$ 1	$ 1	$ 2	$	$ 1
Interest cost	12	11	5	6	2	3
Expected return on plan assets	(14)	(16)	(4)	(6)		
Amortization of prior service cost					(1)	
Amortization of actuarial losses	2	2			1	(1)
Curtailment				(7)(a)		
Net periodic benefit (credit) cost	$	$ (2)	$ 2	$ (5)	$ 2	$ 3

(In millions)	**Qualified U.S. Plans Six months ended June 30, 2009**	**2008**	**Defined Benefit Plans International and Non-Qualified Plans Six months ended June 30, 2009**	**2008**	**Post-Retirement Health Care Plans Six months ended June 30, 2009**	**2008**
Service cost	$	$ 1	$ 2	$ 3	$	$ 1
Interest cost	24	23	10	13	4	5
Expected return on plan assets	(28)	(32)	(8)	(11)		
Amortization of prior service cost					(2)	
Amortization of actuarial losses	5	3		1	1	(1)
Curtailment				(7)(a)		
Net periodic benefit (credit) cost	$ 1	$ (5)				