Celanese CORP
Form 10-Q
July 22, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

Or

o 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<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | 98-0420726<br>(I.R.S. Employer<br>Identification No.) |
| 1601 West LBJ Freeway<br>Dallas, TX<br>(Address of Principal Executive Offices) | 75234-6034<br>(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 þ No o

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 þ No o

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):

Large accelerated filer R
Accelerated filer o
Non-accelerated filer o (Do not check if a 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). Yes o No þ

The number of outstanding shares of the registrant's Series A common stock, $0.0001 par value, as of July 18, 2011 was 156,343,947.

CELANESE CORPORATION AND SUBSIDIARIES

Form 10-Q
For the Quarterly Period Ended June 30, 2011

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Item 1. Financial Statements
CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (In $ millions, except share and per share data) | | | |
| Net sales | 1,753 | 1,517 | 3,342 | 2,905 |
| Cost of sales | (1,343) | (1,214) | (2,581) | (2,384) |
| Gross profit | 410 | 303 | 761 | 521 |
| Selling, general and administrative expenses | (140) | (124) | (268) | (248) |
| Amortization of intangible assets | (17) | (15) | (33) | (30) |
| Research and development expenses | (25) | (17) | (48) | (35) |
| Other (charges) gains, net | (18) | (6) | (15) | (83) |
| Foreign exchange gain (loss), net | (1) | — | — | 2 |
| Gain (loss) on disposition of businesses and assets, net | — | 15 | — | 15 |
| Operating profit (loss) | 209 | 156 | 397 | 142 |
| Equity in net earnings (loss) of affiliates | 46 | 45 | 89 | 94 |
| Interest expense | (57) | (49) | (112) | (98) |
| Refinancing expense | (3) | — | (3) | — |
| Interest income | — | 1 | 1 | 2 |
| Dividend income - cost investments | 79 | 72 | 79 | 72 |
| Other income (expense), net | 6 | (1) | 9 | 5 |
| Earnings (loss) from continuing operations before tax | 280 | 224 | 460 | 217 |
| Income tax (provision) benefit | (75) | (61) | (117) | (41) |
| Earnings (loss) from continuing operations | 205 | 163 | 343 | 176 |
| Earnings (loss) from operation of discontinued operations | (3) | (5) | 3 | (5) |
| Gain (loss) on disposition of discontinued operations | — | — | — | 2 |
| Income tax (provision) benefit from discontinued operations | 1 | 2 | (1) | 1 |
| Earnings (loss) from discontinued operations | (2) | (3) | 2 | (2) |
| Net earnings (loss) | 203 | 160 | 345 | 174 |
| Net (earnings) loss attributable to noncontrolling interests | — | — | — | — |
| Net earnings (loss) attributable to Celanese Corporation | 203 | 160 | 345 | 174 |
| Cumulative preferred stock dividends | — | — | — | (3) |
| Net earnings (loss) available to common shareholders | 203 | 160 | 345 | 171 |
| Amounts attributable to Celanese Corporation | | | | |
| Earnings (loss) from continuing operations | 205 | 163 | 343 | 176 |
| Earnings (loss) from discontinued operations | (2) | (3) | 2 | (2) |
| Net earnings (loss) | 203 | 160 | 345 | 174 |
| Earnings (loss) per common share - basic | | | | |
| Continuing operations | 1.31 | 1.04 | 2.20 | 1.13 |
| Discontinued operations | (0.01) | (0.02) | 0.01 | (0.01) |
| Net earnings (loss) - basic | 1.30 | 1.02 | 2.21 | 1.12 |
| Earnings (loss) per common share - diluted | | | | |
| Continuing operations | 1.29 | 1.03 | 2.16 | 1.11 |

| | | | | |
|---|---|---|---|---|
| Discontinued operations | (0.01 ) | (0.02 ) | 0.01 | (0.01 ) |
| Net earnings (loss) - diluted | 1.28 | 1.01 | 2.17 | 1.10 |
| Weighted average shares - basic | 156,280,721 | 156,326,226 | 156,124,358 | 153,315,950 |
| Weighted average shares - diluted | 159,186,077 | 158,405,119 | 158,927,250 | 158,674,073 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (In $ millions) | | | |
| Net earnings (loss) | 203 | 160 | 345 | 174 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized gain (loss) on marketable securities | — | (2) | — | 1 |
| Foreign currency translation | 29 | (28) | 87 | (59) |
| Unrealized gain (loss) on interest rate swaps | — | 6 | 9 | 3 |
| Pension and postretirement benefits | 5 | 2 | 8 | 6 |
| Total other comprehensive income (loss), net of tax | 34 | (22) | 104 | (49) |
| Total comprehensive income (loss), net of tax | 237 | 138 | 449 | 125 |
| Comprehensive (income) loss attributable to noncontrolling interests | — | — | — | — |
| Comprehensive income (loss) attributable to Celanese Corporation | 237 | 138 | 449 | 125 |

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

CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

| | As of June 30, 2011 | As of December 31, 2010 |
|---|---|---|
| | (In $ millions, except share data) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 741 | 740 |
| Trade receivables - third party and affiliates (net of allowance for doubtful accounts - 2011: $9; 2010: $12) | 1,027 | 827 |
| Non-trade receivables, net | 239 | 253 |
| Inventories | 779 | 610 |
| Deferred income taxes | 95 | 92 |
| Marketable securities, at fair value | 70 | 78 |
| Assets held for sale | — | 9 |
| Other assets | 63 | 59 |
| Total current assets | 3,014 | 2,668 |
| Investments in affiliates | 838 | 838 |
| Property, plant and equipment (net of accumulated depreciation - 2011: $1,261; 2010: $1,131) | 3,273 | 3,017 |
| Deferred income taxes | 434 | 443 |
| Other assets | 309 | 289 |
| Goodwill | 813 | 774 |
| Intangible assets, net | 238 | 252 |
| Total assets | 8,919 | 8,281 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Short-term borrowings and current installments of long-term debt - third party and affiliates | 155 | 228 |
| Trade payables - third party and affiliates | 786 | 673 |
| Other liabilities | 575 | 596 |
| Deferred income taxes | 30 | 28 |
| Income taxes payable | 95 | 17 |
| Total current liabilities | 1,641 | 1,542 |
| Long-term debt | 2,893 | 2,990 |
| Deferred income taxes | 124 | 116 |
| Uncertain tax positions | 290 | 273 |
| Benefit obligations | 1,321 | 1,359 |
| Other liabilities | 1,277 | 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: 178,886,161 issued and 156,343,130 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: 22,543,031 shares; 2010: 22,269,278 shares) | (842) | (829) |
| Additional paid-in capital | 601 | 574 |
| Retained earnings | 2,180 | 1,851 |
| Accumulated other comprehensive income (loss), net | (566) | (670) |
| Total Celanese Corporation shareholders’ equity | 1,373 | 926 |
| Noncontrolling interests | — | — |
| Total shareholders’ equity | 1,373 | 926 |
| Total liabilities and shareholders’ equity | 8,919 | 8,281 |

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

CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY

| | Six Months Ended June 30, 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 | 706,330 | — |
| Purchases of treasury stock | (273,753) | — |
| Stock awards | 151,260 | — |
| Balance as of the end of the period | 156,343,130 | — |
| Treasury stock | | |
| Balance as of the beginning of the period | 22,269,278 | (829) |
| Purchases of treasury stock, including related fees | 273,753 | (13) |
| Balance as of the end of the period | 22,543,031 | (842) |
| Additional paid-in capital | | |
| Balance as of the beginning of the period | | 574 |
| Stock-based compensation, net of tax | | 10 |
| Stock option exercises, net of tax | | 17 |
| Balance as of the end of the period | | 601 |
| Retained earnings | | |
| Balance as of the beginning of the period | | 1,851 |
| Net earnings (loss) attributable to Celanese Corporation | | 345 |
| Series A common stock dividends | | (16) |
| Balance as of the end of the period | | 2,180 |
| Accumulated other comprehensive income (loss), net | | |
| Balance as of the beginning of the period | | (670) |
| Other comprehensive income (loss) | | 104 |
| Balance as of the end of the period | | (566) |
| Total Celanese Corporation shareholders' equity | | 1,373 |
| 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 | | 1,373 |

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

CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended June 30, 2011 | 2010 |
|---|---|---|
| | (In $ millions) | |
| Operating activities | | |
| Net earnings (loss) | 345 | 174 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities | | |
| Other charges (gains), net of amounts used | (11) | 35 |
| Depreciation, amortization and accretion | 151 | 159 |
| Deferred income taxes, net | (2) | (10) |
| (Gain) loss on disposition of businesses and assets, net | — | (15) |
| Refinancing expense | 3 | — |
| Value-added tax on deferred proceeds from Ticona Kelsterbach plant relocation | 18 | — |
| Other, net | 42 | 30 |
| Operating cash provided by (used in) discontinued operations | 2 | 2 |
| Changes in operating assets and liabilities | | |
| Trade receivables - third party and affiliates, net | (195) | (150) |
| Inventories | (145) | (32) |
| Other assets | (11) | 24 |
| Trade payables - third party and affiliates | 102 | 28 |
| Other liabilities | 17 | (26) |
| Net cash provided by (used in) operating activities | 316 | 219 |
| Investing activities | | |
| Capital expenditures on property, plant and equipment | (151) | (78) |
| Acquisitions, net of cash acquired | (8) | (46) |
| Proceeds from sale of businesses and assets, net | 5 | 20 |
| Deferred proceeds from Ticona Kelsterbach plant relocation | 158 | — |
| Capital expenditures related to Ticona Kelsterbach plant relocation | (114) | (151) |
| Other, net | (23) | (20) |
| Net cash provided by (used in) investing activities | (133) | (275) |
| Financing activities | | |
| Short-term borrowings (repayments), net | (34) | (9) |
| Proceeds from long-term debt | 411 | — |
| Repayments of long-term debt | (553) | (38) |
| Refinancing costs | (8) | — |
| Purchases of treasury stock, including related fees | (13) | (20) |
| Stock option exercises | 17 | 4 |
| Series A common stock dividends | (16) | (12) |
| Preferred stock dividends | — | (3) |
| Other, net | (2) | — |
| Net cash provided by (used in) financing activities | (198) | (78) |
| Exchange rate effects on cash and cash equivalents | 16 | (39) |
| Net increase (decrease) in cash and cash equivalents | 1 | (173) |
| Cash and cash equivalents at beginning of period | 740 | 1,254 |
| Cash and cash equivalents at end of period | 741 | 1,081 |

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

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 and six months ended June 30, 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.

Operating results for the three and six months ended June 30, 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 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.

Reclassifications

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

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2. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, an amendment to Accounting Standards Codification ("ASC") Topic 220, Comprehensive Income. The update gives companies the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in the update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The ASU is effective for the Company for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect the impact of adopting this ASU to be material to the Company's financial position, results of operations or cash flows.

In May 2011, the FASB issued FASB ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, an amendment to FASB ASC Topic 820, Fair Value Measurement. The update revises the application of the valuation premise of highest and best use of an asset, the application of premiums and discounts for fair value determination, as well as the required disclosures for transfers between Level 1 and Level 2 fair value measures and the highest and best use of nonfinancial assets. The update provides additional disclosures regarding Level 3 fair value measurements and clarifies certain other existing disclosure requirements. The ASU is effective for the Company for interim and annual periods beginning after December 15, 2011. The Company does not expect the impact of adopting this ASU to be material to the Company's financial position, results of operations or cash flows.

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 FASB ASC Topic 820, Fair Value Measurement ("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 Thermx® 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. As of June 30, 2011, the Company purchased $12 million of inventories. The Company has no further commitment to purchase additional inventories pursuant to 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 per year 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% although the Company's indirect ownership interest will remain unchanged. SABIC's economic and ownership interest will remain unchanged. The Ibn Sina equity method investment is included in the Advanced Engineered Materials segment.

Plant Closures

• Spondon, Derby, United Kingdom

In March 2010, the Company assessed the possibility of consolidating its global acetate flake and tow manufacturing operations to strengthen the Company's competitive position, reduce fixed costs and align future production capacities with anticipated industry demand trends. The assessment was also driven by a global shift in product consumption and included considering the probability of closing the Company's acetate flake and tow manufacturing operations in Spondon, Derby, United Kingdom. Based on this assessment, the Company concluded that certain long-lived assets were partially impaired. Accordingly, in March 2010, the Company recorded long-lived asset impairment losses of $72 million (Note 13) to Other (charges) gains, net in the unaudited interim consolidated statements of operations. The Spondon, Derby, United Kingdom operations are included in the Consumer Specialties segment.

In April 2010, the Company announced the proposed cessation of operations at the acetate flake and tow manufacturing operations in Spondon, Derby, United Kingdom and began the consulting process with employees and their representatives. As a result, in August 2010, the Company announced it would consolidate its global acetate manufacturing capabilities by closing its acetate flake and tow manufacturing operations in Spondon, Derby, United Kingdom. The Company expects to serve its acetate customers under this proposal by optimizing its global production network, which includes facilities in Lanaken, Belgium; Narrows, Virginia; and Ocotlan, Mexico, as well as the Company's acetate affiliate facilities in China. The Company expects the closure of the acetate flake and tow manufacturing operations in Spondon, Derby, United Kingdom will occur during 2012.

The exit costs and plant shutdown costs recorded in the unaudited interim consolidated statements of operations related to the closure of the acetate flake and tow manufacturing operations in Spondon, Derby, United Kingdom (Note 13) are as follows: