Celanese Corp
Form 10-Q
July 26, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2016

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 (State or Other Jurisdiction of Incorporation or Organization)	98-0420726 (I.R.S. Employer Identification No.)
222 W. Las Colinas Blvd., Suite 900N Irving, TX (Address of Principal Executive Offices)	75039-5421 (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.

Large accelerated filer þ
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 20, 2016 was 144,736,671.

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CELANESE CORPORATION AND SUBSIDIARIES
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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,	
	2016	2015	2016	2015
	(In $ millions, except share and per share data)			
Net sales	1,351	1,477	2,755	2,927
Cost of sales	(1,013)	(1,102)	(2,027)	(2,171)
Gross profit	338	375	728	756
Selling, general and administrative expenses	(71)	(106)	(151)	(204)
Amortization of intangible assets	(2)	(3)	(4)	(6)
Research and development expenses	(19)	(59)	(38)	(79)
Other (charges) gains, net	(4)	(10)	(9)	(15)
Foreign exchange gain (loss), net	(1)	(3)	2	—
Gain (loss) on disposition of businesses and assets, net	2	(6)	2	(7)
Operating profit (loss)	243	188	530	445
Equity in net earnings (loss) of affiliates	35	40	73	88
Interest expense	(30)	(30)	(63)	(57)
Refinancing expense	—	—	(2)	—
Interest income	—	1	1	1
Dividend income - cost investments	29	26	56	54
Other income (expense), net	(2)	2	(2)	2
Earnings (loss) from continuing operations before tax	275	227	593	533
Income tax (provision) benefit	(52)	(24)	(112)	(96)
Earnings (loss) from continuing operations	223	203	481	437
Earnings (loss) from operation of discontinued operations	—	(3)	1	(3)
Income tax (provision) benefit from discontinued operations	—	1	—	1
Earnings (loss) from discontinued operations	—	(2)	1	(2)
Net earnings (loss)	223	201	482	435
Net (earnings) loss attributable to noncontrolling interests	(2)	4	(4)	6
Net earnings (loss) attributable to Celanese Corporation	221	205	478	441
Amounts attributable to Celanese Corporation				
Earnings (loss) from continuing operations	221	207	477	443
Earnings (loss) from discontinued operations	—	(2)	1	(2)
Net earnings (loss)	221	205	478	441
Earnings (loss) per common share - basic				
Continuing operations	1.51	1.35	3.25	2.89
Discontinued operations	—	(0.01)	—	(0.01)
Net earnings (loss) - basic	1.51	1.34	3.25	2.88
Earnings (loss) per common share - diluted				
Continuing operations	1.50	1.34	3.24	2.87
Discontinued operations	—	(0.01)	—	(0.01)
Net earnings (loss) - diluted	1.50	1.33	3.24	2.86
Weighted average shares - basic	146,482,612	153,480,175	146,947,923	153,349,071
Weighted average shares - diluted	147,065,688	153,990,933	147,592,531	153,945,466

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,	
	2016	2015	2016	2015
	(In $ millions)			
Net earnings (loss)	223	201	482	435
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on marketable securities	—	(1)	1	(1)
Foreign currency translation	(18)	37	46	(119)
Gain (loss) on cash flow hedges	1	1	1	3
Pension and postretirement benefits	(1)	4	(1)	1
Total other comprehensive income (loss), net of tax	(18)	41	47	(116)
Total comprehensive income (loss), net of tax	205	242	529	319
Comprehensive (income) loss attributable to noncontrolling interests	(2)	4	(4)	6
Comprehensive income (loss) attributable to Celanese Corporation	203	246	525	325

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

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2016	As of December 31, 2015
	(In $ millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents (variable interest entity restricted - 2016: $23; 2015: $7)	735	967
Trade receivables - third party and affiliates (net of allowance for doubtful accounts - 2016: $5; 2015: $6; variable interest entity restricted - 2016: $5; 2015: $6)	792	706
Non-trade receivables, net	217	285
Inventories	636	682
Deferred income taxes	—	68
Marketable securities, at fair value	35	30
Other assets	41	49
Total current assets	2,456	2,787
Investments in affiliates	842	838
Property, plant and equipment (net of accumulated depreciation - 2016: $2,164; 2015: $2,039; variable interest entity restricted - 2016: $754; 2015: $772)	3,588	3,609
Deferred income taxes	237	222
Other assets (variable interest entity restricted - 2016: $10; 2015: $13)	293	300
Goodwill	711	705
Intangible assets (net of accumulated amortization - 2016: $538; 2015: $528; variable interest entity restricted - 2016: $26; 2015: $27)	121	125
Total assets	8,248	8,586
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term borrowings and current installments of long-term debt - third party and affiliates	119	513
Trade payables - third party and affiliates	551	587
Other liabilities	301	330
Deferred income taxes	—	30
Income taxes payable	116	90
Total current liabilities	1,087	1,550
Long-term debt, net of unamortized deferred financing costs	2,464	2,468
Deferred income taxes	116	136
Uncertain tax positions	154	167
Benefit obligations	1,147	1,189
Other liabilities	229	247
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized (2016 and 2015: 0 issued and outstanding)	—	—
Series A common stock, $0.0001 par value, 400,000,000 shares authorized (2016: 167,474,301 issued and 144,736,671 outstanding; 2015: 166,698,787 issued and 146,782,297 outstanding)	—	—
Series B common stock, $0.0001 par value, 100,000,000 shares authorized (2016 and 2015: 0 issued and outstanding)	—	—

Treasury stock, at cost (2016: 22,737,630 shares; 2015: 19,916,490 shares)	(1,231)	(1,031)
Additional paid-in capital	133	136
Retained earnings	4,001	3,621
Accumulated other comprehensive income (loss), net	(301)	(348)
Total Celanese Corporation stockholders' equity	2,602	2,378
Noncontrolling interests	449	451
Total equity	3,051	2,829
Total liabilities and equity	8,248	8,586

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

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CELANESE CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF EQUITY

	Six Months Ended June 30, 2016	
	Shares	Amount
	(In $ millions, except share data)	
Series A Common Stock		
Balance as of the beginning of the period	146,782,297	—
Stock option exercises	93,520	—
Purchases of treasury stock	(2,821,140)	—
Stock awards	681,994	—
Balance as of the end of the period	144,736,671	—
Treasury Stock		
Balance as of the beginning of the period	19,916,490	(1,031)
Purchases of treasury stock, including related fees	2,821,140	(200)
Balance as of the end of the period	22,737,630	(1,231)
Additional Paid-In Capital		
Balance as of the beginning of the period		136
Stock-based compensation, net of tax		(6)
Stock option exercises, net of tax		3
Balance as of the end of the period		133
Retained Earnings		
Balance as of the beginning of the period		3,621
Net earnings (loss) attributable to Celanese Corporation		478
Series A common stock dividends		(98)
Balance as of the end of the period		4,001
Accumulated Other Comprehensive Income (Loss), Net		
Balance as of the beginning of the period		(348)
Other comprehensive income (loss), net of tax		47
Balance as of the end of the period		(301)
Total Celanese Corporation stockholders' equity		2,602
Noncontrolling Interests		
Balance as of the beginning of the period		451
Net earnings (loss) attributable to noncontrolling interests		4
(Distributions to) contributions from noncontrolling interests		(6)
Balance as of the end of the period		449
Total equity		3,051

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,	
	2016	2015
	(In $ millions)	
Operating Activities		
Net earnings (loss)	482	435
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities		
Asset impairments	1	—
Depreciation, amortization and accretion	149	175
Pension and postretirement net periodic benefit cost	(26)	(24)
Pension and postretirement contributions	(26)	(41)
Deferred income taxes, net	(1)	10
(Gain) loss on disposition of businesses and assets, net	(1)	6
Stock-based compensation	16	25
Undistributed earnings in unconsolidated affiliates	37	29
Other, net	9	6
Operating cash provided by (used in) discontinued operations	(4)	4
Changes in operating assets and liabilities		
Trade receivables - third party and affiliates, net	(84)	(92)
Inventories	51	(1)
Other assets	38	36
Trade payables - third party and affiliates	(23)	21
Other liabilities	18	(36)
Net cash provided by (used in) operating activities	636	553
Investing Activities		
Capital expenditures on property, plant and equipment	(128)	(117)
Acquisitions, net of cash acquired	—	(3)
Proceeds from sale of businesses and assets, net	2	—
Capital expenditures related to Fairway Methanol LLC	—	(210)
Other, net	(12)	(24)
Net cash provided by (used in) investing activities	(138)	(354)
Financing Activities		
Net change in short-term borrowings with maturities of 3 months or less	(353)	(2)
Proceeds from short-term borrowings	22	26
Repayments of short-term borrowings	(63)	(39)
Proceeds from long-term debt	170	—
Repayments of long-term debt	(183)	(12)
Purchases of treasury stock, including related fees	(200)	—
Stock option exercises	3	2
Series A common stock dividends	(98)	(84)
(Distributions to) contributions from noncontrolling interests	(6)	155
Other, net	(24)	(11)
Net cash provided by (used in) financing activities	(732)	35
Exchange rate effects on cash and cash equivalents	2	(26)
Net increase (decrease) in cash and cash equivalents	(232)	208

Cash and cash equivalents as of beginning of period	967	780
Cash and cash equivalents as of end of period	735	988

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

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CELANESE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
1. Description of the Company and Basis of Presentation
Description of the Company
Celanese Corporation and its subsidiaries (collectively, the "Company") is a global technology and specialty materials company. The Company's business involves processing chemical raw materials, such as methanol, carbon monoxide and ethylene, and natural products, including wood pulp, into value-added chemicals, thermoplastic polymers and other chemical-based products.
Definitions
In this Quarterly Report on Form 10-Q ("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.
Basis of Presentation
The unaudited interim consolidated financial statements for the three and six months ended June 30, 2016 and 2015 contained in this Quarterly Report were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for all periods presented and include the accounts of the Company, its majority owned subsidiaries over which the Company exercises control and, when applicable, variable interest entities in which the Company is the primary beneficiary. 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 the opinion of management, the accompanying unaudited consolidated balance sheets and related unaudited interim consolidated statements of operations, comprehensive income (loss), cash flows and 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 may 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, 2015, filed on February 5, 2016 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, 2016 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.
For those consolidated ventures in which the Company owns or is exposed to less than 100% of the economics, the outside stockholders' interests are shown as noncontrolling interests.
The Company has reclassified certain prior period amounts to conform to the current period's presentation.
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 net sales, expenses and allocated charges during the reporting period. Significant estimates pertain to impairments of goodwill, intangible assets and other long-lived assets, purchase price allocations, restructuring costs and other (charges) gains, net, income taxes, pension and other postretirement benefits, asset retirement obligations, environmental liabilities and loss contingencies, among others. Actual results could differ from those estimates.

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Change in estimate regarding pension and other postretirement benefits

Beginning in 2016, the Company elected to change the method used to estimate the service and interest cost components of net periodic benefit cost for its significant defined benefit pension plans and other postretirement benefit plans. Previously, the Company estimated the service and interest cost components utilizing a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company has elected to use a full yield curve approach in the estimation of these components of net periodic benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change improves the correlation between projected benefit cash flows and the corresponding yield curve spot rates and provides a more precise measurement of service and interest costs. This change does not affect the measurement of the Company's total benefit obligations as the change in service and interest cost will be completely offset in the annual actuarial (gain) loss reported. The Company has accounted for this change as a change in estimate and, accordingly, has accounted for it prospectively beginning in 2016. The Company's adoption of the full yield curve approach will reduce 2016 service and interest cost by approximately $29 million as compared to the previous method.

The discount rates used to measure service and interest cost during 2016 and the discount rates that would have been used for service and interest cost under the Company's previous estimation methodology are as follows:

	Pension Benefits		Postretirement Benefits	
	US	International	US	International
	(In percentages)			
Single weighted average discount rate approach				
Service and interest cost	4.2	2.6	4.0	3.6
Full yield curve approach[(1)]				
Service cost	4.5	3.1	4.2	3.8
Interest cost	3.4	2.2	3.1	3.1

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(1) Represents the weighted average effective interest rate.

2. Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB Accounting Standards Codification ("ASC") Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for both finance and operating leases. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the potential impact of adopting ASU 2016-02 on its financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Company elected to early adopt ASU 2015-17 prospectively during the three months ended March 31, 2016 in accordance with the FASB's disclosure simplification initiatives. The adoption of this ASU resulted in a reclassification from current to noncurrent deferred tax assets and deferred tax liabilities of $68 million and $30 million, respectively. Prior periods were not adjusted.

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In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 applies to inventory that is measured using the first-in, first-out ("FIFO") or average cost method and requires measurement of that inventory at the lower of cost and net realizable value, instead of lower of cost or market. ASU 2015-11 further clarifies the definition of net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Company early adopted ASU 2015-11 prospectively during the three months ended March 31, 2016 in accordance with the FASB's disclosure simplification initiatives. The adoption of this ASU did not have a material impact on the Company's financial statements or related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This ASU provides alternative methods of adoption. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date ("ASU 2015-14"). ASU 2015-14 defers the effective date of ASU 2014-09 by one year to December 15, 2017 for fiscal years, and interim periods within those years, beginning after that date and permits early adoption of the standard, but not before the original effective date for fiscal years beginning after December 15, 2016. In March, April and May 2016, the FASB issued additional ASUs clarifying certain aspects of ASU 2014-09. The core principle of ASU 2014-09 was not changed by the additional guidance. The Company is currently assessing the potential impact of adopting ASU 2014-09 on its financial statements and related disclosures.

3. Ventures and Variable Interest Entities

Consolidated Variable Interest Entities

In February 2014, the Company formed a joint venture, Fairway Methanol LLC ("Fairway"), with Mitsui & Co., Ltd., of Tokyo, Japan ("Mitsui"), in which the Company owns 50% of Fairway, for the production of methanol at the Company's integrated chemical plant in Clear Lake, Texas. The methanol unit utilizes natural gas in the US Gulf Coast region as a feedstock and benefits from the existing infrastructure at the Company's Clear Lake facility. Both Mitsui and the Company supply their own natural gas to Fairway in exchange for methanol tolling under a cost-plus off-take arrangement.

The Company determined that Fairway is a variable interest entity ("VIE") in which the Company is the primary beneficiary. Under the terms of the joint venture agreements, the Company provides site services and day-to-day operations for the methanol facility. In addition, the joint venture agreements provide that the Company indemnifies Mitsui for environmental obligations that exceed a specified threshold, as well as an equity option between the partners. Accordingly, the Company consolidates the venture and records a noncontrolling interest for the share of the venture owned by Mitsui. Fairway is included in the Company's Acetyl Intermediates segment.

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The carrying amount of the assets and liabilities associated with Fairway included in the unaudited consolidated balance sheets are as follows:

	As of June 30, 2016	As of December 31, 2015
	(In $ millions)	
Cash and cash equivalents	23	7
Trade receivables, net - third party & affiliate	10	