Chemtura CORP
Form 10-Q
May 01, 2012
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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 March 31, 2012

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 (State or other jurisdiction of incorporation or organization)	**52-2183153** (I.R.S. Employer Identification Number)
1818 Market Street, Suite 3700, Philadelphia, Pennsylvania **199 Benson Road, Middlebury, Connecticut** (Address of principal executive offices)	**19103** **06749** (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. x Yes o 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). x 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 March 31, 2012
Common Stock - $.01 par value	98,665,045

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CHEMTURA CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CHEMTURA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

Quarters ended March 31, 2012 and 2011

(*In millions, except per share data*)

	Quarters ended March 31, 2012		2011	
Net sales	$	708	$	699
Cost of goods sold		537		538
Selling, general and administrative		82		79
Depreciation and amortization		33		37
Research and development		13		11
Impairment charges		1		2
Changes in estimates related to expected allowable claims		2		
Equity income		(1)		
Operating income		41		32
Interest expense		(14)		(16)
Other (expense) income, net		(4)		1
Reorganization items, net		(2)		(7)
Earnings before income taxes		21		10
Income tax benefit (expense)		1		(3)
Net earnings attributable to Chemtura	$	22	$	7
Basic and diluted per share information - attributable to Chemtura				
Net earnings attributable to Chemtura	$	0.22	$	0.07
Weighted average shares outstanding - Basic		98.3		100.1
Weighted average shares outstanding - Diluted		99.1		100.1

See accompanying notes to Consolidated Financial Statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

Quarters ended March 31, 2012 and 2011

(*In millions*)

	Quarters ended March 31, 2012	Quarters ended March 31, 2011
Net earnings	$ 22	$ 7
Other comprehensive income, net of tax		
Foreign currency translation adjustments	22	31
Unrecognized pension and other post-retirement benefit costs	2	2
Comprehensive income attributable to Chemtura	$ 46	$ 40

See accompanying notes to Consolidated Financial Statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2012 (Unaudited) and December 31, 2011

(In millions, except par value data)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 122	$ 180
Restricted cash		5
Accounts receivable, net	559	458
Inventories, net	603	542
Other current assets	138	136
Total current assets	1,422	1,321
NON-CURRENT ASSETS		
Property, plant and equipment, net	760	752
Goodwill	177	174
Intangible assets, net	394	392
Other assets	215	216
Total assets	$ 2,968	$ 2,855
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 63	$ 5
Accounts payable	210	173
Accrued expenses	181	194
Income taxes payable	8	18
Total current liabilities	462	390
NON-CURRENT LIABILITIES		
Long-term debt	748	748
Pension and post-retirement health care liabilities	443	460
Other liabilities	221	211
Total liabilities	1,874	1,809
STOCKHOLDERS EQUITY		
Common stock - $0.01 par value Authorized - 500.0 shares Issued - 100.2 shares at March 31, 2012 and 98.3 shares at December 31, 2011	1	1
Additional paid-in capital	4,348	4,353
Accumulated deficit	(2,927)	(2,949)
Accumulated other comprehensive loss	(322)	(346)
Treasury stock at cost - 1.5 shares at March 31, 2012 and 2.0 shares at December 31, 2011	(14)	(22)
Total Chemtura stockholders equity	1,086	1,037

Non-controlling interest		8		9
Total stockholders equity		1,094		1,046
Total liabilities and stockholders equity	$	2,968	$	2,855

See accompanying notes to Consolidated Financial Statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Quarters ended March 31, 2012 and 2011

(*In millions*)

Increase (decrease) in cash	**Quarters ended March 31, 2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 22	$ 7
Adjustments to reconcile net earnings to net cash used in operating activities:		
Impairment charges	1	2
Depreciation and amortization	33	37
Stock-based compensation expense	7	8
Reorganization items, net	1	1
Changes in estimates related to expected allowable claims	2	
Equity income	(1)	
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(94)	(83)
Inventories	(53)	(65)
Accounts payable	34	23
Pension and post-retirement health care liabilities	(19)	(15)
Other	(22)	(27)
Net cash used in operating activities	(89)	(112)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisitions		(30)
Capital expenditures	(29)	(23)
Net cash used in investing activities	(29)	(53)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from ABL Facility, net	59	73
(Payments on) proceeds from other short term borrowings, net	(1)	1
Net cash provided by financing activities	58	74
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	2	3
Change in cash and cash equivalents	(58)	(88)
Cash and cash equivalents at beginning of period	180	201
Cash and cash equivalents at end of period	$ 122	$ 113

See accompanying notes to Consolidated Financial Statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Chemtura Corporation, together with our consolidated subsidiaries is dedicated to delivering innovative, application-focused specialty chemical and consumer product offerings. Our corporate headquarters is located at 1818 Market Street, Suite 3700, Philadelphia, PA 19103. Our principal executive offices are located at 1818 Market Street, Suite 3700, Philadelphia, PA 19103 and at 199 Benson Road, Middlebury, CT 06749. We operate in a wide variety of end-use industries including agriculture, automotive, construction, electronics, lubricants, packaging, plastics for durable and non-durable goods, pool and spa chemicals, and transportation.

When we use the terms Corporation, Company, Chemtura, Registrant, We, Us and Our, unless otherwise indicated or the context othe requires, we are referring to Chemtura Corporation and our consolidated subsidiaries.

We are the successor to Crompton & Knowles Corporation (Crompton & Knowles), which was incorporated in Massachusetts in 1900 and engaged in the manufacture and sale of specialty chemicals beginning in 1954. Crompton & Knowles traces its roots to Crompton Loom Works incorporated in the 1840s. We expanded the 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).

The information in the foregoing Consolidated Financial Statements for the quarters ended March 31, 2012 and 2011 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 our Consolidated Financial Statements.

Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of Chemtura and our wholly-owned and majority-owned subsidiaries that we control. Other affiliates in which we have 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 we have less than 20% ownership are recorded at cost. All significant intercompany balances and transactions have been eliminated in consolidation.

Our Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Certain prior year amounts have been reclassified to conform to the current year s presentation. These changes did not have a material impact on previously reported results of operations, cash flows or financial position.

We operated as a debtor-in-possession (DIP) under the protection of the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) from March 18, 2009 (the Petition Date) through November 10, 2010 (the Effective Date). From the Petition Date through the Effective Date, our Consolidated Financial Statements were prepared in accordance with Accounting Standards Codification (ASC) Section 852-10-45, *Reorganizations Other Presentation Matters* (ASC 852-10-45) which requires that financial statements, for periods during the pendency of our voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the Chapter 11) filings, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain income, expenses, realized gains and losses and expenses for losses that were realized or incurred in the Chapter 11 cases were recorded in changes in estimates related to expected allowable claims and reorganization items, net in our Consolidated Statements of Operations.

The interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes included in our Annual Report on Form 10-K for the period ended December 31, 2011. The consolidated results of operations for the quarter ended March 31, 2012 are not necessarily indicative of the results expected for the full year.

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Accounting Policies and 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 our Consolidated Balance Sheets at both March 31, 2012 and December 31, 2011 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 our restricted cash balance at December 31, 2011 is $5 million of cash on deposit for the settlement of disputed bankruptcy claims that existed at the Effective Date.

Included in accounts receivable are allowances for doubtful accounts of $20 million as of March 31, 2012 and December 31, 2011.

During the quarters ended March 31, 2012 and 2011, we made interest payments of approximately $23 million. During the quarters ended March 31, 2012 and 2011, we made payments for income taxes (net of refunds) of $12 million and $4 million, respectively.

Accounting Developments

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amends U.S. GAAP to conform it with fair value measurement and disclosure requirements in International Financial Reporting Standards (IFRS). The amendments in ASU 2011-04 changed the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The provisions of ASU 2011-04 are effective for the first reporting period (including interim periods) beginning after December 15, 2011. The adoption of this standard did not have a material impact on our results of operations, financial condition or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 requires the presentation 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. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). ASU 2011-12 defers the effective date of the requirement in ASU 2011-05 to disclose on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. All other requirements of ASU 2011-05 are not affected by ASU 2011-12. The provisions of ASU 2011-05 are effective for the first reporting period (including interim periods) beginning after December 15, 2011. The adoption of this standard did not have a material financial statement impact as it only addressed the presentation of our financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles Goodwill and Other* (Topic 350): Testing Goodwill for Impairment. The guidance in ASU 2011-08 is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendment also improved previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The provisions of this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance will not have a material impact on our results of operations or financial condition.

In September 2011, the FASB issued ASU No. 2011-09, *Compensation Retirement Benefits Multiemployer Plans* (Subtopic 715-80). The guidance in ASU 2011-09 assists users of financial statements to assess the potential future cash flow implications relating to an employer s participation in multiemployer pension plans. The disclosures will indicate the financial health of all of the significant plans in which the employer participates and assist a financial statement user to access additional information that is available outside the financial statements. The provisions of the ASU 2011-09 are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The adoption of this guidance did not have a material impact on our results of operations or financial condition.

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2) RESTRUCTURING ACTIVITIES

Corporate Restructuring Programs

On April 30, 2012, our Board of Directors (the Board) approved a restructuring plan providing for, among other things, the closure of our Industrial Performance Product segment s antioxidants manufacturing facility in Pedrengo, Italy. The Board also approved actions to improve the operating effectiveness of certain global corporate functions. This plan is expected to achieve significant gains in efficiency and costs. The plant closure is expected to be completed by the first quarter of 2013. The restructuring plan is anticipated to generate cash savings of approximately $15 million in 2013. We anticipate recording a pre-tax charge of approximately $30 million in the second quarter of 2012 for accelerated depreciation of property, plant and equipment, asset retirement obligations, severance and related costs with the balance of the costs being expensed as incurred through 2013. The total cost of the restructuring plan is estimated to be approximately $40 million of which approximately $6 million will consist of non-cash charges, for a net cash cost of approximately $34 million.

In November 2011, our Board approved a restructuring plan intended to make Chemtura AgroSolutions more cost efficient by centralizing certain functions regionally and consolidating laboratory activities in North America. Costs related to this plan were immaterial for the quarter ended March 31, 2012.

Reorganization Initiatives

On January 25, 2010, our Board approved an initiative involving the consolidation and idling of certain assets within the Great Lakes Solutions business operations in El Dorado, Arkansas, which was approved by the Bankruptcy Court on February 23, 2010. During 2010 and 2011, the demand for brominated products used in electronic applications grew significantly and it became evident that we would need to produce larger quantities of bromine than were projected when we formulated our consolidation plan. In addition, in the first quarter of 2011, our joint venture partner informed us that they would exercise their right to purchase our interest in our Tetrabrom joint venture in the Middle East that supplies a brominated flame retardant to us. While under the terms of the joint venture agreement, the purchaser is obligated to continue to supply the current volumes of the brominated flame retardant to us for two years following the acquisition, we needed to plan for the ultimate production of this product once supply from the joint venture terminated. Our analysis indicated that the most cost effective source of the additional bromine we require is to continue to operate many of the bromine assets we had planned to idle and to invest to improve their operating efficiency. In light of this analysis, on April 20, 2011, our Board confirmed that we should defer a portion of the El Dorado restructuring plan and continue to operate certain of the bromine and brine assets that were planned to be idled. The sale of our 50% interest in Tetrabrom Technologies Ltd. was completed in November 2011.

As a result of our reorganization initiatives, we recorded pre-tax charges of $1 million for the quarter ended March 31, 2011, primarily for accelerated depreciation.

The amounts accrued for all of our reorganization initiatives and corporate restructuring programs is less than $1 million at March 31, 2012 and $1 million at December 31, 2011 and were included in accrued expenses.

3) INVENTORIES

Components of inventories are as follows:

(In millions)	March 31, 2012	December 31, 2011
Finished goods	$ 401	$ 348
Work in process	46	43
Raw materials and supplies	156	151
	$ 603	$ 542

Included in the above net inventory balances are inventory obsolescence reserves of approximately $18 million at March 31, 2012 and December 31, 2011.

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4) PROPERTY, PLANT AND EQUIPMENT

(In millions)		March 31, 2012		December 31, 2011
Land and improvements	$	81	$	85
Buildings and improvements		243		240
Machinery and equipment		1,266		1,238
Information systems equipment		188		175
Furniture, fixtures and other		32		31
Construction in progress		123		121
		1,933		1,890
Less: accumulated depreciation		(1,173)		(1,138)
	$	760	$	752

Depreciation expense amounted to $24 million and $26 million for the quarters ended March 31, 2012 and 2011, respectively. Depreciation expense included accelerated depreciation of certain fixed assets associated with our restructuring programs of $1 million for the quarter ended March 31, 2011.

5) GOODWILL AND INTANGIBLE ASSETS

Our goodwill balance was $177 million at March 31, 2012 and $174 million at December 31, 2011. The goodwill is allocated entirely to the Industrial Performance Products segment. The goodwill balance at March 31, 2012 and December 31, 2011 reflected accumulated impairments of $90 million.

We have elected to perform our annual goodwill impairment procedures for all of our reporting units in accordance with ASC Subtopic 350-20, *Intangibles Goodwill and Other - Goodwill* (ASC 350-20) as of July 31, or sooner, if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We estimate the fair value of our reporting units utilizing income and market approaches through the application of discounted cash flow and market comparable methods (Level 3 inputs as described in Note 13 Financial Instruments and Fair Value Measurements). The assessment is required to be performed in two steps: step one to test for a potential impairment of goodwill and, if potential impairments 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. We concluded that no goodwill impairment existed in any of our reporting units based on the annual review as of July 31, 2011.

We continually monitor and evaluate business and competitive conditions that affect our operations and reflects the impact of these factors in our 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.

Our intangible assets (excluding goodwill) are comprised of the following:

	March 31, 2012			December 31, 2011		
(In millions)	Gross Cost	Accumulated Amortization	Net Intangibles	Gross Cost	Accumulated Amortization	Net Intangibles
Patents	$ 131	$ (73)	$ 58	$ 128	$ (70)	$ 58
Trademarks	264	(74)	190	262	(71)	191
Customer relationships	147	(52)	95	146	(50)	96
Production rights	46	(29)	17	46	(28)	18
Other	77	(43)	34	70	(41)	29
Total	$ 665	$ (271)	$ 394	$ 652	$ (260)	$ 392

The increase in gross intangible assets since December 31, 2011 is primarily due to additions of $8 million and foreign currency translation of $5 million.

Amortization expense related to intangible assets amounted to $9 million and $11 million for the quarters ended March 31, 2012 and 2011, respectively.

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6) DEBT

Our debt is comprised of the following:

(In millions)		March 31, 2012		December 31, 2011
7.875% Senior Notes due 2018	$	452	$	452
Term Loan due 2016		293		293
ABL Facility		59		
Other borrowings		7		8
Total debt		811		753
Less: ABL Facility		(59)		
Less: Other short-term borrowings		(4)		(5)
Long-term debt	$	748	$	748

Financing Facilities

On August 27, 2010, we completed a private placement offering under Rule 144A of $455 million aggregate principal amount of 7.875% senior notes due 2018 (the Senior Notes) at an issue price of 99.269% in reliance on an exemption pursuant to Section 4(2) of the Securities Act of 1933. We also entered into a senior secured term facility credit agreement due 2016 (the Term Loan) with Bank of America, N.A., as administrative agent, and other lenders party thereto for an aggregate principal amount of $295 million with an original issue discount of 1%. The Term Loan permits us to increase the size of the facility by up to $125 million. On November 10, 2010, we entered into a five-year senior secured revolving credit facility available through 2015 (the ABL Facility) for an amount up to $275 million, subject to availability under a borrowing base (with a $125 million letter of credit sub-facility). The ABL Facility permits us to increase the size of the facility by up to $125 million subject to obtaining lender commitments to provide such increase. At March 31, 2012, we had $59 million of borrowings under the ABL Facility and $15 million of outstanding letters of credit (primarily related to insurance obligations, environmental obligations and banking credit facilities), which utilizes available capacity under the facility. At December 31, 2011, we had no borrowings under the ABL Facility, but we had $15 million of outstanding letters of credit. At March 31, 2012 and December 31, 2011, we had approximately $201 million of undrawn availability under the ABL Facility.

These facilities contain covenants that limit, among other things, our ability to enter into certain transactions, such as creating liens, incurring additional indebtedness or repaying certain indebtedness, making investments, paying dividends, and entering into acquisitions, dispositions and joint ventures. The Term Loan requires that we meet certain quarterly financial maintenance covenants including a maximum Secured Leverage Ratio (as defined in the agreement) of 2.5:1.0 and a minimum Consolidated Interest Coverage Ratio (as defined in the agreement) of 3.0:1.0. The ABL Facility contains a springing financial covenant requiring a minimum trailing 12-month fixed charge coverage ratio (as defined in the agreement) of 1.1 to 1.0 at all times during any period from the date when the amount available for borrowings under the ABL Facility falls below the greater of (i) $34 million and (ii) 12.5% of the aggregate commitments until such date such available amount has been equal to or greater than the greater of (i) $34 million and (ii) 12.5% of the aggregate commitments for 45 consecutive days. As of March 31, 2012, we were in compliance with the covenant requirements of these financing facilities.

Accounts Receivable Financing Facility

On October 26, 2011, certain of our European subsidiaries (the Sellers) entered into a trade receivables financing facility (the A/R Financing Facility) with GE FactoFrance SAS as purchaser (the Purchaser). Pursuant to the A/R Financing Facility, and subject to certain conditions stated therein, the Purchaser has agreed to purchase from the Sellers, on a revolving basis, certain trade receivables up to a maximum amount outstanding at any time of 68 million (approximately $90 million). The A/R Financing Facility is uncommitted and has an indefinite term. Since availability under the A/R Financing Facility is expected to vary depending on the value of the Seller s eligible trade receivables, the Sellers availability under the A/R Financing Facility may increase or decrease from time to time. The monthly financing fee on the drawn portion of the A/R Financing Facility is the applicable Base Rate plus 1.50%. In addition, the A/R Financing Facility is subject to a minimum commission on the annual volume of transferred receivables. We had no outstanding borrowings under the A/R Financing Facility, for the period ending March 31, 2012 and December 31, 2011.

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7) INCOME TAXES

We reported an income tax benefit of $1 million and expense of $3 million for the quarters ended March 31, 2012 and 2011, respectively. We have offset our current year-to-date U.S. income with net operating loss carryforwards and reduced the associated valuation allowance. We will continue to adjust our tax provision through the establishment or reduction of non-cash valuation allowances until we determine that it is more-likely than not that the net deferred tax assets associated with our U.S. operations will be utilized.

We have net liabilities related to unrecognized tax benefits of $49 million and $46 million at March 31, 2012 and December 31, 2011, respectively. The increase is primarily due to currency fluctuation.

We recognize interest and penalties related to unrecognized tax benefits as income tax expense. Accrued interest and penalties are primarily included within other liabilities in our Consolidated Balance Sheet.

We believe it is reasonably possible that our unrecognized tax benefits may decrease by approximately $22 million within the next year. This reduction may occur due to the expiration of the statute of limitations or conclusion of examinations by tax authorities. We further expect that the amount of unrecognized tax benefits will continue to change as a result of ongoing operations, the outcomes of audits and the expiration of the statue of limitations. This change is not expected to have a significant impact on our financial condition.

8) ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss (AOCL   ), net of tax at March 31, 2012 and December 31, 2011, are as follows:

(In millions)		**March 31, 2012**		**December 31, 2011**
Foreign currency translation adjustments	$	75	$	53
Unrecognized pension and other post-retirement benefit costs		(397)		(399)
Accumulated other comprehensive loss	$	(322)	$	(346)

9) EARNINGS PER COMMON SHARE

The computation of basic earnings per common share is based on the weighted average number of common shares outstanding. The computation of diluted earnings per common share is based on the weighted average number of common and common share equivalents outstanding.

The following is a reconciliation of the shares used in the computation of earnings per share:

	Quarters ended March 31,	
(In millions)	**2012**	**2011**
Weighted average shares outstanding - Basic	98.3	100.1
Dilutive effect of common share equivalents	0.8	