

Huntsman CORP  
 Form 10-Q  
 May 12, 2008

Use these links to rapidly review the document

[HUNTSMAN CORPORATION AND SUBSIDIARIES HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008 TABLE OF CONTE](#)

**UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

**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	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No.
001-32427	Huntsman Corporation 500 Huntsman Way, Salt Lake City, Utah 84108 (801) 584-5700	Delaware	42-1648585
333-85141	Huntsman International LLC 500 Huntsman Way, Salt Lake City, Utah 84108 (801) 584-5700	Delaware	87-0630358

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.

Huntsman Corporation                      YES                       NO   
 Huntsman International LLC              YES                       NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Huntsman Corporation      Large accelerated filer       Accelerated filer       Non-accelerated filer

Edgar Filing: Huntsman CORP - Form 10-Q

Huntsman International LLC	Large accelerated filer <input type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input checked="" type="radio"/>	Smaller reporting company <input type="radio"/> Smaller reporting company <input type="radio"/>
-------------------------------	---	---	--	--

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Huntsman Corporation	YES <input type="radio"/>	NO <input checked="" type="radio"/>
Huntsman International LLC	YES <input type="radio"/>	NO <input checked="" type="radio"/>

---

On May 2, 2008, 234,462,747 shares of common stock of Huntsman Corporation were outstanding and 2,728 units of membership interests of Huntsman International LLC were outstanding. There is no established trading market for Huntsman International LLC's units of membership interests. All of Huntsman International LLC's units of membership interests are held by Huntsman Corporation.

---

This Quarterly Report on Form 10-Q presents information for two registrants: Huntsman Corporation and Huntsman International LLC. Huntsman International LLC is a wholly owned subsidiary of Huntsman Corporation and is the principal operating company of Huntsman Corporation. The information reflected in this Quarterly Report on Form 10-Q is equally applicable to both Huntsman Corporation and Huntsman International LLC, except where otherwise indicated. Huntsman International LLC meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and, to the extent applicable, is therefore filing this form with a reduced disclosure format.

---

---

---

HUNTSMAN CORPORATION AND SUBSIDIARIES

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD  
ENDED MARCH 31, 2008

TABLE OF CONTENTS

PART I	<u>FINANCIAL INFORMATION</u>	3
ITEM 1.	<u>Financial Statements:</u>	
	Huntsman Corporation and Subsidiaries:	
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)</u>	4
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	5
	Huntsman International LLC and Subsidiaries:	
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	7
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)</u>	8
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	9
	Huntsman Corporation and Subsidiaries and Huntsman International LLC and Subsidiaries:	
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	10
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	56
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	72
ITEM 4.	<u>Controls and Procedures</u>	72
PART II	<u>OTHER INFORMATION</u>	74
ITEM 1.	<u>Legal Proceedings</u>	74
ITEM 1A.	<u>Risk Factors</u>	74
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	75
ITEM 6.	<u>Exhibits</u>	75

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In Millions, Except Share and Per Share Amounts)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 166.4	\$ 154.0
Accounts and notes receivables (net of allowance for doubtful accounts of \$42.5 and \$43.3, respectively)	1,268.8	1,253.3
Accounts receivable from affiliates	15.7	9.4
Inventories, net	1,647.7	1,451.9
Prepaid expenses	32.9	37.4
Deferred income taxes	73.4	72.6
Other current assets	129.0	116.6
<b>Total current assets</b>	<b>3,333.9</b>	<b>3,095.2</b>
Property, plant and equipment, net	3,938.0	3,762.6
Investment in unconsolidated affiliates	232.9	227.8
Intangible assets, net	170.8	173.2
Goodwill	94.6	92.5
Deferred income taxes	380.5	349.5
Notes receivable from affiliates	8.3	8.4
Other noncurrent assets	521.2	456.4
<b>Total assets</b>	<b>\$ 8,680.2</b>	<b>\$ 8,165.6</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,115.4	\$ 1,005.4
Accounts payable to affiliates	11.7	13.0
Accrued liabilities	900.4	885.2
Deferred income taxes	3.4	3.2
Current portion of long-term debt	234.0	68.5
<b>Total current liabilities</b>	<b>2,264.9</b>	<b>1,975.3</b>
Long-term debt	3,582.6	3,500.3
Deferred income taxes	164.9	154.4
Notes payable to affiliates	4.7	4.7
Other noncurrent liabilities	692.1	677.8
<b>Total liabilities</b>	<b>6,709.2</b>	<b>6,312.5</b>
Minority interests in common stock of consolidated subsidiaries	32.1	26.5
<b>Commitments and contingencies (Notes 16 and 17)</b>		
<b>Stockholders' equity:</b>		
Common stock \$0.01 par value, 1,200,000,000 shares authorized, 234,462,747 and 222,012,474 issued and 233,537,067 and 221,036,190 outstanding in 2008 and 2007, respectively	2.4	2.2
Mandatory convertible preferred stock \$0.01 par value, 100,000,000 shares authorized, 5,750,000 issued and outstanding at December 31, 2007		287.5
Additional paid-in capital	3,135.6	2,831.9
Unearned stock-based compensation	(20.6)	(11.3)
Accumulated deficit	(1,562.8)	(1,540.1)

Edgar Filing: Huntsman CORP - Form 10-Q

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Accumulated other comprehensive income	384.3	256.4
<b>Total stockholders' equity</b>	<b>1,938.9</b>	<b>1,826.6</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,680.2</b>	<b>\$ 8,165.6</b>

See accompanying notes to condensed consolidated financial statements (unaudited).

## HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (UNAUDITED)

(In Millions, Except Per Share Amounts)

	Three Months Ended March 31,	
	2008	2007
<b>Revenues:</b>		
Trade sales, services and fees	\$ 2,515.1	\$ 2,203.3
Related party sales	25.3	48.6
<b>Total revenues</b>	<b>2,540.4</b>	<b>2,251.9</b>
<b>Cost of goods sold</b>	<b>2,173.5</b>	<b>1,860.9</b>
<b>Gross profit</b>	<b>366.9</b>	<b>391.0</b>
<b>Operating expenses:</b>		
Selling, general and administrative	227.4	207.3
Research and development	39.0	33.3
Other operating expense	10.4	2.3
Restructuring, impairment and plant closing costs	4.0	11.2
<b>Total expenses</b>	<b>280.8</b>	<b>254.1</b>
<b>Operating income</b>	<b>86.1</b>	<b>136.9</b>
Interest expense, net	(64.8)	(73.8)
Loss on accounts receivable securitization program	(4.6)	(4.2)
Equity in income of investment in unconsolidated affiliates	3.1	2.2
Expenses associated with the Merger	(5.2)	
Other income (expense)	0.2	(0.9)
<b>Income from continuing operations before income taxes and minority interest</b>	<b>14.8</b>	<b>60.2</b>
Income tax expense	(3.4)	(12.4)
Minority interest in subsidiaries' income	(3.4)	(0.4)
<b>Income from continuing operations</b>	<b>8.0</b>	<b>47.4</b>
Loss from discontinued operations, net of tax	(1.1)	(3.2)
<b>Income before extraordinary gain</b>	<b>6.9</b>	<b>44.2</b>
Extraordinary gain on the acquisition of a business, net of tax of nil	0.4	2.4
<b>Net income</b>	<b>\$ 7.3</b>	<b>\$ 46.6</b>
<b>Net income</b>	<b>\$ 7.3</b>	<b>\$ 46.6</b>
Other comprehensive income	127.9	20.2
<b>Comprehensive income</b>	<b>\$ 135.2</b>	<b>\$ 66.8</b>
<b>Basic income (loss) per share:</b>		
Income from continuing operations	\$ 0.04	\$ 0.21
Loss from discontinued operations, net of tax	(0.01)	(0.01)
Extraordinary gain on the acquisition of a business, net of tax		0.01
<b>Net income</b>	<b>\$ 0.03</b>	<b>\$ 0.21</b>

Edgar Filing: Huntsman CORP - Form 10-Q

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Weighted average shares	227.1	220.8
<b>Diluted income (loss) per share:</b>		
Income from continuing operations	\$ 0.03	\$ 0.20
Loss from discontinued operations, net of tax		(0.01)
Extraordinary gain on the acquisition of a business, net of tax		\$ 0.01
Net income	\$ 0.03	\$ 0.20
Weighted average shares	233.8	233.4
<b>Dividends per share</b>	\$ 0.10	\$ 0.10

See accompanying notes to condensed consolidated financial statements (unaudited).

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Millions)

	Three Months Ended March 31,	
	2008	2007
<b>Operating Activities:</b>		
Net income	\$ 7.3	\$ 46.6
Adjustments to reconcile net income to net cash used in operating activities:		
Extraordinary gain on the acquisition of a business, net of tax	(0.4)	(2.4)
Equity in income of unconsolidated affiliates	(3.1)	(2.2)
Depreciation and amortization	93.8	109.2
Provision for losses on accounts receivable	0.9	2.7
Loss (gain) on disposal of assets	1.3	(3.2)
Loss on early extinguishment of debt		1.4
Noncash interest expense	2.2	1.0
Noncash restructuring, impairment and plant closing costs	1.1	5.8
Deferred income taxes	(5.1)	4.2
Net unrealized loss (gain) on foreign currency transactions	14.7	(4.8)
Stock-based compensation	6.1	5.3
Minority interest in subsidiaries' income	3.4	0.4
Other, net	(6.7)	3.2
Changes in operating assets and liabilities:		
Accounts and notes receivable	28.4	(103.1)
Inventories, net	(123.9)	(59.9)
Prepaid expenses	5.9	10.3
Other current assets	(7.8)	5.0
Other noncurrent assets	(50.6)	(21.7)
Accounts payable	41.9	46.1
Accrued liabilities	(5.1)	(68.0)
Other noncurrent liabilities	(13.9)	(6.7)
<b>Net cash used in operating activities</b>	<b>(9.6)</b>	<b>(30.8)</b>
<b>Investing Activities:</b>		
Capital expenditures	(109.4)	(105.2)
Proceeds from sale of assets, net of adjustments	(22.0)	15.8
Investment in unconsolidated affiliates, net	1.6	(13.0)
Proceeds from government securities, restricted as to use	3.6	3.6
Other, net	(4.1)	(0.4)
<b>Net cash used in investing activities</b>	<b>(130.3)</b>	<b>(99.2)</b>

(Continued)



## HUNTSMAN CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

(Dollars in Millions)

<b>Financing Activities:</b>		
Net borrowings under revolving loan facilities	\$ 177.5	\$ 93.7
Net (repayments of) borrowings from overdraft facilities and other short-term debt	(3.7)	12.3
Repayments of long-term debt	(1.0)	(225.9)
Proceeds from long-term debt	17.1	169.0
Repayments of notes payable	(13.1)	(18.4)
Proceeds from notes payable		4.7
Dividends paid to common stockholders	(23.4)	(22.1)
Dividends paid to preferred stockholders	(3.6)	(3.6)
Call premiums related to early extinguishment of debt		(1.2)
Debt issuance costs paid		(1.7)
Other, net	(0.3)	(0.1)
	<u>149.5</u>	<u>6.7</u>
<b>Net cash provided by financing activities</b>		
Effect of exchange rate changes on cash	2.8	3.6
	<u>12.4</u>	<u>(119.7)</u>
Increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of period	154.0	263.2
	<u>166.4</u>	<u>143.5</u>
Cash and cash equivalents at end of period		
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 51.9	\$ 69.8
Cash paid for income taxes	2.2	11.8

During the three months ended March 31, 2008 and 2007, the amount of capital expenditures in accounts payable increased by \$18.8 million and \$25.9 million, respectively.

See accompanying notes to condensed consolidated financial statements (unaudited).

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(Dollars in Millions)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 166.3	\$ 153.9
Accounts and notes receivables (net of allowance for doubtful accounts of \$42.5 and \$43.3, respectively)	1,268.8	1,253.3
Accounts receivable from affiliates	226.7	193.1
Inventories, net	1,647.7	1,451.9
Prepaid expenses	30.5	37.1
Deferred income taxes	75.2	74.4
Other current assets	128.6	112.7
<b>Total current assets</b>	<b>3,543.8</b>	<b>3,276.4</b>
Property, plant and equipment, net	3,737.6	3,556.3
Investment in unconsolidated affiliates	232.9	227.8
Intangible assets, net	174.8	177.4
Goodwill	94.6	92.5
Deferred income taxes	331.2	300.0
Notes receivable from affiliates	8.3	8.4
Other noncurrent assets	521.2	456.3
<b>Total assets</b>	<b>\$ 8,644.4</b>	<b>\$ 8,095.1</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,115.4	\$ 1,005.4
Accounts payable to affiliates	8.1	15.0
Accrued liabilities	799.5	781.0
Deferred income taxes	3.5	3.2
Current portion of long-term debt	234.0	68.5
<b>Total current liabilities</b>	<b>2,160.5</b>	<b>1,873.1</b>
Long-term debt	3,582.6	3,500.3
Deferred income taxes	138.3	124.3
Notes payable to affiliates	4.7	4.7
Other noncurrent liabilities	692.0	676.8
<b>Total liabilities</b>	<b>6,578.1</b>	<b>6,179.2</b>
<b>Minority interests</b>	<b>32.1</b>	<b>26.5</b>
<b>Commitments and contingencies (Notes 16 and 17)</b>		
<b>Members' equity:</b>		
Members' equity, 2,728 units issued and outstanding	2,851.5	2,845.4
Accumulated deficit	(1,133.6)	(1,142.9)
Accumulated other comprehensive income	316.3	186.9
<b>Total members' equity</b>	<b>2,034.2</b>	<b>1,889.4</b>

Edgar Filing: Huntsman CORP - Form 10-Q

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
<b>Total liabilities and members' equity</b>	\$ 8,644.4	\$ 8,095.1

See accompanying notes to condensed consolidated financial statements (unaudited).

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE INCOME (UNAUDITED)**

(Dollars in Millions)

	Three Months Ended March 31,	
	2008	2007
<b>Revenues:</b>		
Trade sales, services and fees	\$ 2,515.1	\$ 2,203.3
Related party sales	25.3	48.6
<b>Total revenues</b>	<b>2,540.4</b>	<b>2,251.9</b>
<b>Cost of goods sold</b>	<b>2,169.4</b>	<b>1,859.4</b>
<b>Gross profit</b>	<b>371.0</b>	<b>392.5</b>
<b>Operating expenses:</b>		
Selling, general and administrative	228.4	207.3
Research and development	39.0	33.3
Other operating expense	10.4	2.3
Restructuring, impairment and plant closing costs	4.0	11.2
<b>Total expenses</b>	<b>281.8</b>	<b>254.1</b>
<b>Operating income</b>	<b>89.2</b>	<b>138.4</b>
Interest expense, net	(64.9)	(74.2)
Loss on accounts receivable securitization program	(4.6)	(4.2)
Equity in income of investment in unconsolidated affiliates	3.1	2.2
Other income (expense)	0.2	(1.3)
<b>Income from continuing operations before income taxes and minority interest</b>	<b>23.0</b>	<b>60.9</b>
Income tax expense	(6.4)	(23.6)
Minority interest in subsidiaries' income	(3.4)	(0.4)
<b>Income from continuing operations</b>	<b>13.2</b>	<b>36.9</b>
Loss from discontinued operations, net of tax	(1.1)	(3.2)
<b>Income before extraordinary gain</b>	<b>12.1</b>	<b>33.7</b>
Extraordinary gain on the acquisition of a business, net of tax of nil	0.4	2.4
<b>Net income</b>	<b>\$ 12.5</b>	<b>\$ 36.1</b>
<b>Net income</b>	<b>\$ 12.5</b>	<b>\$ 36.1</b>
Other comprehensive income	129.4	23.0
<b>Comprehensive income</b>	<b>\$ 141.9</b>	<b>\$ 59.1</b>

See accompanying notes to condensed consolidated financial statements (unaudited).

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Millions)

	Three Months Ended March 31,	
	2008	2007
<b>Operating Activities:</b>		
Net income	\$ 12.5	\$ 36.1
Adjustments to reconcile net income to net cash used in operating activities:		
Extraordinary gain on the acquisition of a business, net of tax	(0.4)	(2.4)
Equity in income of unconsolidated affiliates	(3.1)	(2.2)
Depreciation and amortization	88.2	103.5
Provision for losses on accounts receivable	0.9	2.7
Loss (gain) on disposal of assets	1.3	(3.2)
Loss on early extinguishment of debt		1.8
Noncash interest expense	2.2	1.1
Noncash restructuring, impairment and plant closing costs	1.1	5.8
Deferred income taxes	(2.1)	15.4
Net unrealized loss (gain) on foreign currency transactions	14.7	(4.8)
Noncash compensation	6.1	5.3
Minority interest in subsidiaries' income	3.4	0.4
Other, net	(6.7)	(1.5)
Changes in operating assets and liabilities:		
Accounts and notes receivable	28.4	(103.1)
Inventories, net	(123.9)	(59.9)
Prepaid expenses	8.1	12.9
Other current assets	(11.4)	5.0
Other noncurrent assets	(50.6)	(25.2)
Accounts payable	41.9	46.1
Accrued liabilities	(1.6)	(68.0)
Other noncurrent liabilities	(12.7)	0.9
<b>Net cash used in operating activities</b>	<b>(3.7)</b>	<b>(33.3)</b>
<b>Investing Activities:</b>		
Capital expenditures	(109.4)	(105.2)
Proceeds from sale of assets, net of adjustments	(22.0)	15.8
Receivable from affiliate	(29.3)	
Investment in unconsolidated affiliates, net	1.6	(13.0)
Other, net	(4.1)	(0.4)
<b>Net cash used in investing activities</b>	<b>(163.2)</b>	<b>(102.8)</b>
<b>Financing Activities:</b>		
Net borrowings under revolving loan facilities	177.5	93.7
Net (repayments of) borrowings from overdraft facilities and other short-term debt	(3.7)	12.3
Repayments of long-term debt	(1.0)	(225.9)
Proceeds from long-term debt	17.1	169.0
Repayments of notes payable	(13.1)	(18.4)
Proceeds from notes payable		2.3
Call premiums related to early extinguishment of debt		(1.2)
Debt issuance costs paid		(1.7)
Other, net	(0.3)	(0.1)
<b>Net cash provided by financing activities</b>	<b>176.5</b>	<b>30.0</b>
Effect of exchange rate changes on cash	2.8	3.6

Edgar Filing: Huntsman CORP - Form 10-Q

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Increase (decrease) in cash and cash equivalents	12.4	(102.5)
Cash and cash equivalents at beginning of period	153.9	246.0
Cash and cash equivalents at end of period	\$ 166.3	\$ 143.5
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 52.1	\$ 70.1
Cash paid for income taxes	2.2	11.8

During the three months ended March 31, 2008 and 2007, the amount of capital expenditures in accounts payable increased by \$18.8 million and \$25.9 million, respectively. During the three months ended March 31, 2008 and 2007, Huntsman Corporation contributed \$6.1 million and \$5.3 million, respectively to Huntsman International related to stock-based compensation.

See accompanying notes to condensed consolidated financial statements (unaudited).

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. GENERAL**

**CERTAIN DEFINITIONS**

For convenience in this report, the terms "Company," "our," "us," or "we" may be used to refer to Huntsman Corporation and, unless the context otherwise requires, its subsidiaries and predecessors. Any references to our "Company," "we," "us" or "our" as of a date prior to October 19, 2004 (the date of our formation) are to Huntsman Holdings, LLC and its subsidiaries (including their respective predecessors). In this report, "Huntsman International Holdings" refers to Huntsman International Holdings LLC (our 100% owned subsidiary that merged into Huntsman International LLC on August 16, 2005) and, unless the context otherwise requires, its subsidiaries; "Huntsman International" refers to Huntsman International LLC (our 100% owned subsidiary) and, unless the context otherwise requires, its subsidiaries; "Huntsman Advanced Materials" refers to Huntsman Advanced Materials Holdings LLC (our 100% owned indirect subsidiary, the membership interests of which we contributed to Huntsman International on December 20, 2005) and, unless the context otherwise requires, its subsidiaries; "Huntsman LLC" refers to Huntsman LLC (our 100% owned subsidiary that merged into Huntsman International on August 16, 2005); "HPS" refers to Huntsman Polyurethanes Shanghai Ltd. (our consolidated splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd); "SLIC" refers to Shanghai Liengheng Isocyanate Investment BV (our unconsolidated manufacturing joint venture with BASF AG and three Chinese chemical companies); and "Hexion" refers to Hexion Specialty Chemicals, Inc., an entity owned by an affiliate of Apollo Management, L.P.

In this report, we may use, without definition, the common names of competitors or other industry participants. We may also use the common names or abbreviations for certain chemicals or products.

**DESCRIPTION OF BUSINESS**

We are a global manufacturer of differentiated chemical products; we also manufacture inorganic chemical products. Our products comprise a broad range of chemicals and formulations, which we market globally to a diversified group of consumer and industrial customers.

**COMPANY**

Our Company, a Delaware corporation, was formed in 2004 to hold the Huntsman businesses. Jon M. Huntsman founded the predecessor to our Company in the early 1970s as a small packaging company. Since then, we have grown through a series of significant acquisitions and now own a global portfolio of businesses. In February 2005, we completed an initial public offering of common stock and mandatory convertible preferred stock.

We operate all of our businesses through Huntsman International, our 100% owned subsidiary. Huntsman International is a Delaware limited liability company and was formed in 1999. Substantially all of our debt obligations are obligations of Huntsman International and/or its subsidiaries.

Recently, we have completed a series of transactions pursuant to which we have disposed of our former commodity chemicals businesses:

On November 5, 2007, we completed the sale of our U.S. base chemicals business to Flint Hills Resources, a wholly owned subsidiary of Koch (the "U.S. Base Chemicals Disposition"), and, on August 1, 2007, we closed on the sale of our North American polymers business assets to Flint

Edgar Filing: Huntsman CORP - Form 10-Q

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**1. GENERAL (Continued)**

Hills Resources (the "North American Polymers Disposition" and together with the U.S. Base Chemicals Disposition, the "U.S. Petrochemicals Disposition"). For more information, see "Note 3. Discontinued Operations" below.

On December 29, 2006, we sold all of the outstanding equity interests of Huntsman Petrochemicals (UK) Limited to SABIC (the "U.K. Petrochemicals Disposition"). For more information, see "Note 3. Discontinued Operations European Base Chemicals and Polymers Business" below.

**PENDING SALE OF OUR COMPANY**

On July 12, 2007, we entered into a Merger Agreement with Hexion (the "Merger Agreement") pursuant to which Hexion agreed to acquire all of our outstanding common stock for \$28.00 per share in cash (the "Merger"). Under the terms of the Merger Agreement, the \$28.00 per share cash price to be paid by Hexion increases at the rate of 8% per annum (inclusive of any dividends paid) beginning April 6, 2008 and continuing through the closing date of the Merger.

On October 16, 2007, our stockholders holding a majority of the shares entitled to vote thereon approved a proposal to adopt the Merger Agreement. Notwithstanding stockholder approval, the Merger cannot be completed until each of the other closing conditions specified in the Merger Agreement has been satisfied or waived. The closing conditions include, among others, the expiration of waiting periods or grants of approvals under competition laws in the United States, European Union and certain other jurisdictions. Both parties intend to cooperate fully, and continue to work closely, with regulatory agencies in these jurisdictions, including the Federal Trade Commission (the "FTC") and the European Commission.

The Merger Agreement provides that the Merger may be terminated by either party if it is not consummated by April 5, 2008, subject to certain extensions for approximately six months or more under certain circumstances. On April 5, 2008, Hexion exercised its right under Section 7.1(b)(ii) of the Merger Agreement to extend the termination date of the Merger by 90 days from April 5, 2008 to July 4, 2008. Under certain circumstances, the termination date may be extended by an additional 90 days (or more in the event that Hexion's financing marketing period begins but does not end by the end of the additional 90 day extension). The entire time period allowable under the Merger Agreement may be required to satisfy all closing conditions and to complete the Merger.

For more information regarding the Merger, please see our Proxy Statement filed with the Securities and Exchange Commission on September 12, 2007. For information regarding certain risks associated with the Merger, please also see "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007.

**HUNTSMAN CORPORATION AND HUNTSMAN INTERNATIONAL FINANCIAL STATEMENTS**

Except where otherwise indicated, these notes relate to the condensed consolidated financial statements (unaudited) for each of our Company and Huntsman International. The differences between



**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**1. GENERAL (Continued)**

our financial statements and Huntsman International's financial statements relate primarily to the following:

expenses and deferred liabilities associated with the Merger;

purchase accounting recorded at our Company for the step-acquisition of Huntsman International in May 2003; and

the different capital structures.

**PRINCIPLES OF CONSOLIDATION**

Our condensed consolidated financial statements (unaudited) and Huntsman International's condensed consolidated financial statements (unaudited) include the accounts of our wholly-owned and majority-owned subsidiaries and any variable interest entities for which we are the primary beneficiary. All intercompany accounts and transactions have been eliminated, except for intercompany sales between discontinued and continuing operations.

**INTERIM FINANCIAL STATEMENTS**

Our interim condensed consolidated financial statements (unaudited) and Huntsman International's interim condensed consolidated financial statements (unaudited) were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") and in management's opinion, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of results of operations, financial position and cash flows for the periods presented. Results for interim periods are not necessarily indicative of those to be expected for the full year. These condensed consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2007 for our Company and Huntsman International.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 those estimates.

**RECLASSIFICATIONS**

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform with the current presentation. The most significant of these reclassifications was to reclassify the results of operations of our former North American polymers business and U.S. base chemicals business to discontinued operations. See "Note 3. Discontinued Operations." In addition, beginning in the second quarter of 2007, our Australian styrenics business was transferred from our Polymers segment to Corporate and other. Effective in the fourth quarter of 2007, the results of our former U.S.

HUNTSMAN CORPORATION AND SUBSIDIARIES

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

1. GENERAL (Continued)

butadiene and MTBE business were transferred from our Base Chemicals segment to Corporate and other. All segment information for prior periods has been reclassified to reflect these transfers.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

We adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Positions ("FSP") No. FAS 157-1: *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removes certain leasing transactions from the scope of SFAS No. 157, and No. FAS 157-2: *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. See "Note 11. Fair Value Measurements."

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Beginning with our fiscal year ended December 31, 2008, SFAS No. 158 requires that the assumptions used to measure our benefit obligations and annual expense be determined as of the balance sheet date and all plan assets be reported as of that date. Accordingly, our Company and Huntsman International recorded a charge to retained earnings, net of tax, of \$2.9 million and \$3.2 million, respectively, as of January 1, 2008. For more information, see "Note 12. Employee Benefit Plans."

We adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*, on January 1, 2008. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value, with changes in fair value reflected in earnings. We have not elected the fair value option for any existing or any new instruments that were not previously accounted for at fair value.

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations*, which replaced SFAS No. 141, *Business Combinations*. In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. These statements significantly change the accounting for business combinations and noncontrolling interests. Among other things, these statements will require more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date, liabilities related to contingent consideration to be remeasured to fair value each subsequent reporting period, an acquirer in preacquisition periods to expense all acquisition-related costs, and noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. These statements are to be applied prospectively for fiscal years beginning after December 15, 2008, except for the presentation and disclosure requirements of SFAS No. 160 which are retrospective for all periods. We are evaluating

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

SFAS No. 141 (R) and SFAS No. 160 to determine the impact of these statements on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*. SFAS No. 161 requires enhanced disclosures regarding the effect of an entity's derivative instruments and related hedging activities on its financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. We are evaluating SFAS No. 161 to determine the impact of this statement on our consolidated financial statements.

## 3. DISCONTINUED OPERATIONS

## NORTH AMERICAN POLYMERS BUSINESS

On August 1, 2007 we completed the sale of our North American polymers business assets ("the North American Polymers Disposition"). The disposition included our polymers manufacturing assets located at four U.S. sites: Odessa and Longview, Texas; Peru, Illinois; and Marysville, Michigan. In accordance with the amended and restated asset purchase agreement with Flint Hills Resources, we also shut down our Mansonville, Quebec expandable polystyrene manufacturing facility in June 2007.

The following results of our former North American polymers business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three Months Ended March 31,	
	2008	2007
Revenues	\$	\$ 360.4
Costs and expenses		(358.8)
Adjustment to loss on disposal	1.2	
Operating income	1.2	1.6
Income tax expense	(0.4)	(0.6)
Income from discontinued operations, net of tax	\$ 0.8	\$ 1.0

During the three months ended March 31, 2008, we recorded an adjustment to the loss on disposal in connection with the North American Polymers Disposition of \$1.2 million primarily related to an insurance recovery.

In connection with the U.S. Petrochemicals Disposition, we agreed to indemnify Flint Hills Resources with respect to any losses resulting from (i) the breach of representations and warranties contained in the amended and restated asset purchase agreement, (ii) any pre-sale liabilities related to certain assets not assumed by Flint Hills Resources, and (iii) any unknown environmental liability related to the pre-sale operations of the assets sold. We are not required to pay under these indemnification obligations until claims against us, on a cumulative basis, exceed \$10 million. Upon exceeding this \$10 million threshold, we generally are obligated to provide indemnification for any

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 3. DISCONTINUED OPERATIONS (Continued)

losses up to a limit of \$150 million. We believe that there is a remote likelihood that we will be required to pay any significant amounts under the indemnity provision.

The EBITDA of the North American polymers business is reported in our Polymers segment.

## U.S. BASE CHEMICALS BUSINESS

On November 5, 2007, we completed the sale of our U.S. base chemicals business ("the U.S. Base Chemicals Disposition"). This disposition included our former olefins manufacturing assets located at Port Arthur, Texas. The captive ethylene unit at our retained Port Neches, Texas site of our Performance Products segment operations was not included in the sale. This asset, along with a long-term post-closing arrangement for the supply of ethylene and propylene from Flint Hills Resources to us, will continue to provide feedstock for our downstream derivative units.

The following results of our former U.S base chemicals business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues	\$	\$ 35.0
Costs and expenses		(37.8)
Adjustment to loss on disposal	(1.3)	
Operating loss	(1.3)	(2.8)
Income tax benefit	0.2	
Loss from discontinued operations, net of tax	\$ (1.1)	\$ (2.8)

In connection with the U.S. Base Chemicals Disposition, we recognized an adjustment to the loss on disposal of \$1.3 million during the three months ended March 31, 2008 related to post-closing adjustments. The final sales price is subject to post-closing adjustment, including our obligation to complete certain expenditures related to the rebuild of our former Port Arthur, Texas facility. As of March 31, 2008, we estimate that our remaining payment related to certain expenditures for the rebuild of our former Port Arthur, Texas facility (which have been substantially completed but not yet invoiced) was \$17.5 million, for which we have accrued a liability. We expect to settle this obligation during the second quarter of 2008. Finalization of this estimate will likely result in an adjustment to the loss on disposal during 2008.

The EBITDA of the U.S. base chemicals business is reported in our Base Chemicals segment.

## EUROPEAN BASE CHEMICALS AND POLYMERS BUSINESS

On December 29, 2006, we completed the U.K. Petrochemicals Disposition. This transaction involved the sale of the outstanding equity interests of Huntsman Petrochemicals (UK) Limited. The

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 3. DISCONTINUED OPERATIONS (Continued)

final sales price was subject to adjustments relating to working capital, investment in the LDPE plant in Wilton, U.K. and unfunded pension liabilities.

The following results of our European base chemicals and polymers business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three Months Ended March 31,	
	2008	2007
Revenues	\$	\$
Costs and expenses		
Adjustment to loss on disposal	(0.8)	(1.6)
Operating loss	(0.8)	(1.6)
Income tax benefit		0.6
Loss from discontinued operations, net of tax	\$ (0.8)	\$ (1.0)

During the three months ended March 31, 2008, we recorded an adjustment to the loss on disposal of \$0.8 million related primarily to a pension levy. During the three months ended March 31, 2007, we recorded an adjustment to the loss on disposal of \$1.6 million related primarily to post-closing working capital adjustments.

In connection with the sale, we agreed to indemnify the buyer with respect to any losses resulting from any environmental liability related to the pre-sale operations of the assets sold. These indemnities have various payment thresholds and time limits depending on the site and type of claim. Generally, we are not required to pay under these indemnification obligations until claims against us exceed £0.1 million (approximately \$0.2 million) individually or £1.0 million (approximately \$2.0 million) in the aggregate. We also agreed to indemnify the buyer with respect to certain tax liabilities. Our maximum exposure generally shall not exceed \$600 million in the aggregate. We believe that there is a remote likelihood that we will be required to pay any significant amounts under the indemnity provision.

The EBITDA of our former European base chemicals business was reported in our Base Chemicals segment.

**TDI BUSINESS**

On July 6, 2005, we sold our TDI business. The sale involved the transfer of our TDI customer list and sales contracts. We discontinued the use of our remaining TDI assets. Our former TDI business has been accounted for as a discontinued operation and was reported in our Polyurethanes segment.

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 3. DISCONTINUED OPERATIONS (Continued)

Accordingly, the following results of TDI have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three Months Ended March 31,	
	2008	2007
Revenues	\$	\$
Costs and expenses		(0.4)
Operating loss		(0.4)
Income tax benefit		
Loss from discontinued operations, net of tax	\$	\$ (0.4)

## 4. BUSINESS COMBINATIONS

## TEXTILE EFFECTS ACQUISITION

On June 30, 2006, we acquired Ciba's textile effects business (the "Textile Effects Acquisition"). The operating results of the textile effects business have been consolidated with our operating results beginning on July 1, 2006 and are reported with our advanced materials operations as part of our Materials and Effects segment.

We accounted for the Textile Effects Acquisition using the purchase method in accordance with SFAS No. 141, *Business Combinations*. As such, we analyzed the fair value of tangible and intangible assets acquired and liabilities assumed, and we determined the excess of fair value of net assets acquired over cost. Because the fair value of the acquired assets and liabilities assumed exceeded the acquisition price, the valuation of the long-lived assets acquired was reduced to zero in accordance with SFAS No. 141. Accordingly, no basis was assigned to property, plant and equipment or any other non-current non-financial assets and the remaining excess was recorded as an extraordinary gain, net of taxes (which were not applicable because the gain was recorded in purchase accounting). During the three months ended March 31, 2008, we recorded an additional extraordinary gain on the acquisition of \$0.4 million related to a reimbursement by Ciba of certain restructuring costs associated with the Textile Effects Acquisition. During the three months ended March 31, 2007, we adjusted the preliminary purchase price allocation and finalized post-closing working capital adjustments, resulting in our recording an additional extraordinary gain on the acquisition of \$2.4 million.

## PENDING METROCHEM ACQUISITION

On June 29, 2007, we signed an agreement to acquire the Baroda division of Metrochem Industries Ltd ("Baroda") in India. Under the terms of the contract, either party to the agreement can terminate the agreement if the transaction has not been consummated by April 30, 2008. If neither party were to exercise its right to terminate the agreement, the remaining conditions to closing were to be satisfied and the transaction were to close under its current terms, we estimate the purchase price, including certain working capital and capital expenditures incurred pre-closing, would be approximately

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 4. BUSINESS COMBINATIONS (Continued)

\$55 million U.S. dollar equivalents, of which approximately \$10 million U.S. dollar equivalents (€6.24 million) would represent deferred purchase price that would be paid 18 months following the acquisition date upon the completion by the seller of certain conditions. This purchase price would exclude from working capital the receivables existing on the closing date due to Baroda from our affiliates, which would be settled at or prior to closing. Baroda is a manufacturer of textile dyes and intermediates. There can be no assurance that the transaction will be consummated or, if consummated, that it will be consummated on the terms set forth in the agreement.

## 5. INVENTORIES

Inventories consisted of the following (dollars in millions):

	March 31, 2008	December 31, 2007
Raw materials and supplies	\$ 283.0	\$ 260.8
Work in progress	90.8	94.1
Finished goods	1,339.9	1,165.2
<b>Total</b>	1,713.7	1,520.1
LIFO reserves	(66.0)	(68.2)
<b>Net</b>	\$ 1,647.7	\$ 1,451.9

As of March 31, 2008 and December 31, 2007, approximately 7% and 9%, respectively, of inventories were recorded using the last-in, first-out cost method.

In the normal course of operations, we at times exchange raw materials with other companies for the purpose of reducing transportation costs. The net open exchange positions are valued at our cost. The amount included in inventory under open exchange agreements payable by us at March 31, 2008 was \$22.7 million (34.7 million pounds of feedstock and products). The amount included in inventory under open exchange agreements payable by us at December 31, 2007 was \$26.6 million (53.5 million pounds of feedstock and products).

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS

As of March 31, 2008 and December 31, 2007, accrued restructuring costs by type of cost and initiative consisted of the following (dollars in millions):

	<u>Workforce reductions(1)</u>	<u>Demolition and decommissioning</u>	<u>Non-cancelable lease costs</u>	<u>Other restructuring costs</u>	<u>Total(2)</u>
Accrued liabilities as of January 1, 2008	\$ 64.8	\$ 12.2	\$ 5.1	\$ 13.7	\$ 95.8
2008 charges for 2004 initiatives	0.3		1.1		1.4
2008 charges for 2008 initiatives	0.7	0.1		0.7	1.5
2008 payments for 2003 initiatives	(0.7)		(0.2)		(0.9)
2008 payments for 2004 initiatives	(0.3)		(0.3)		(0.6)
2008 payments for 2006 initiatives	(5.7)	(1.2)		(0.2)	(7.1)
2008 payments for 2007 initiatives	(0.1)				(0.1)
2008 payments for 2008 initiatives	(0.6)	(0.1)		(0.7)	(1.4)
Net activity of discontinued operations	(0.1)				(0.1)
Foreign currency effect on reserve balance	8.1	1.7	0.2	0.3	10.3
Accrued liabilities as of March 31, 2008	\$ 66.4	\$ 12.7	\$ 5.9	\$ 13.8	\$ 98.8

(1)

With the exception of liabilities recorded in connection with business combinations, accrued liabilities classified as workforce reductions consist primarily of restructuring programs involving ongoing termination benefit arrangements and restructuring programs involving special termination benefits. Accordingly, the related liabilities were accrued as a one-time charge to earnings in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, respectively. The remaining accrued liabilities related to these charges of \$1.3 million represent workforce reductions to be paid by the end of 2011. Liabilities for workforce reductions recorded in connection with business combinations were accrued in accordance with EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, and are expected to be paid through 2009. The total workforce reduction reserves of \$66.4 million relate to 426 positions that have not been terminated as of March 31, 2008.



## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)

(2)

Accrued liabilities by initiatives were as follows (dollars in millions):

	March 31, 2008	December 31, 2007
2001 initiatives	\$ 1.4	\$ 1.4
2003 initiatives	10.3	11.2
2004 initiatives	10.3	9.5
2006 initiatives	63.3	70.4
2007 initiatives	0.6	0.8
2008 initiatives	0.1	
Foreign currency effect on reserve balance	12.8	2.5
Total	\$ 98.8	\$ 95.8

Details with respect to our restructuring reserves are provided below by segment and initiative (dollars in millions):

	Polyurethanes	Materials and Effects	Performance Products	Pigments	Discontinued Operations	Corporate & Other	Total
Accrued liabilities as of January 1, 2008	\$ 4.5	\$ 81.3	\$ 2.0	\$ 7.6	\$ 0.4		\$ 95.8
2008 charges for 2004 initiatives			0.1	1.3			1.4
2008 charges for 2008 initiatives		1.4				0.1	1.5
2008 payments for 2003 initiatives	(0.4)		(0.3)	(0.2)			(0.9)
2008 payments for 2004 initiatives	(0.1)		(0.1)	(0.4)			(0.6)
2008 payments for 2006 initiatives		(7.1)					(7.1)
2008 payments for 2007 initiatives		(0.1)					(0.1)
2008 payments for 2008 initiatives		(1.4)					(1.4)
Net activity of discontinued operations					(0.1)		(0.1)
Foreign currency effect on reserve balance	0.1	9.7		0.5			10.3
Accrued liabilities as of March 31, 2008	\$ 4.1	\$ 83.8	\$ 1.7	\$ 8.8	\$ 0.3	\$ 0.1	\$ 98.8
Current portion of restructuring reserve	\$ 1.8	\$ 67.2	\$ 1.4	\$ 6.7	\$ 0.3	\$ 0.1	\$ 77.5
Long-term portion of restructuring reserve	2.3	16.6	0.3	2.1			21.3

Details with respect to cash and non-cash restructuring charges by initiative are provided below (dollars in millions):

Cash charges:	
2008 charges for 2004 initiatives	\$ 1.4
2008 charges for 2008 initiatives	1.5
Non-cash charges	1.1

Edgar Filing: Huntsman CORP - Form 10-Q

Total 2008 Restructuring, Impairment and Plant Closing Costs	<u>\$ 4.0</u>
--	---------------

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

**6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS (Continued)**

During the three months ended March 31, 2008, our Materials and Effects segment recorded charges of \$1.4 million related to decommissioning and other costs associated with the plant closures in France and Switzerland and supply chain integration costs.

During the three months ended March 31, 2008, our Pigments segment recorded charges of \$1.3 million for 2004 initiatives primarily related to lease termination costs associated with our London, England office.

During the three months ended March 31, 2008, we recorded a non-cash impairment charge of \$1.1 million in Corporate and Other related to capital expenditures and turnaround costs associated with our Australian styrenics business that was previously impaired. The long-lived assets of our Australian styrenics business were determined to be impaired in accordance with SFAS No. 144 and an impairment charge was recorded in 2005. Capital expenditures and turnaround costs in this business, which are necessary to maintain operations, are also considered to be impaired immediately after they are incurred.

**7. INVESTMENT IN UNCONSOLIDATED AFFILIATES**

Summarized applicable financial information of our unconsolidated affiliate Sasol-Huntsman GmbH and Co. KG. as of March 31, 2008 and 2007 is presented below (dollars in millions):

	Three Months Ended March 31,	
	2008	2007
Revenues	\$ 30.6	\$ 23.2
Gross profit	7.1	8.8
Net income	3.5	4.3

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 8. DEBT

Outstanding debt consisted of the following (dollars in millions):

	March 31, 2008	December 31, 2007
	<u>          </u>	<u>          </u>
Senior Credit Facilities:		
Revolving Facility	\$ 179.6	\$
Term Loans	1,540.0	1,540.0
Secured Notes	294.5	294.4
Senior Notes	198.0	198.0
Subordinated Notes	1,373.1	1,310.5
Australian Credit Facilities	49.6	50.0
HPS (China) debt	127.7	106.8
Other	54.1	69.1
	<u>          </u>	<u>          </u>
Total debt	\$ 3,816.6	\$ 3,568.8
	<u>          </u>	<u>          </u>
Current portion	\$ 234.0	\$ 68.5
Long-term portion	3,582.6	3,500.3
	<u>          </u>	<u>          </u>
Total debt	\$ 3,816.6	\$ 3,568.8
	<u>          </u>	<u>          </u>

## TRANSACTIONS AFFECTING OUR SENIOR CREDIT FACILITIES

As of March 31, 2008, our senior secured credit facilities ("Senior Credit Facilities") consisted of (i) a \$650.0 million revolving facility (the "Revolving Facility") and (ii) a \$1,540.0 million term loan B facility (the "Dollar Term Loan"). As of March 31, 2008, there were \$179.6 million borrowings outstanding under our Revolving Facility, and we had approximately \$41 million in U.S. dollar equivalents of letters of credit and bank guarantees issued and outstanding under our Revolving Facility.

As of March 31, 2008, borrowings under the Revolving Facility and Dollar Term Loan bore interest at LIBOR plus 1.75%. The applicable interest rate of the Dollar Term Loan is currently set at LIBOR plus 1.75%, subject to a reduction to LIBOR plus 1.50% upon achieving certain secured leverage ratio thresholds defined in our credit agreements. The credit agreements governing our Senior Credit Facilities contain one financial covenant, which is applicable only to the Revolving Facility, and this covenant is only in effect when loans or letters of credit are outstanding under the Revolving Facility. Our Senior Credit Facilities agreements provide for, among other things, customary restrictions and limitations on our ability to incur liens, incur additional debt, merge or sell assets, make certain restricted payments, prepay other indebtedness, make investments or engage in transactions with affiliates, and also contain other customary default provisions.

## OTHER TRANSACTIONS AFFECTING OUR DEBT

HPS, our splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd, maintains a working capital line as part of its overall secured credit facilities. During the three months ended March 31, 2008, HPS borrowed an additional RMB 122.8 million (\$17.5 million) to fund its working

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**8. DEBT (Continued)**

capital and operating requirements. As of March 31, 2008, HPS had \$27.1 million and RMB 705.1 million (\$100.6 million) outstanding under its credit facilities.

Our Merger Agreement with Hexion provides certain restrictions and limitations concerning the amendment of debt agreements, the extension, repayment and refinancing of certain debt, in addition to the incurrence of new debt.

**COMPLIANCE WITH COVENANTS**

Our management believes that we are in compliance with the covenants contained in the agreements governing the Senior Credit Facilities, the credit facilities maintained by the our Australian subsidiaries (the "Australian Credit Facilities"), the A/R Securitization Program (as defined in "Note 10. Securitization of Accounts Receivable") and the indentures governing our notes.

**9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

We may enter into foreign currency derivative instruments to minimize the short-term impact of movements in foreign currency rates. On January 15, 2008, we entered into a series of forward foreign currency contracts in our Pigments segment to partially hedge the impact, for up to one year, of movements in foreign currency rates associated with the purchases of raw materials and sales of pigment in non-functional currencies. As of March 31, 2008 these contracts had a notional amount of approximately \$111 million and are designated as cash flow hedges. As of March 31, 2008 these contracts had a fair value of \$2.0 million and were recorded in other current assets. For the three months ended March 31, 2008, the effective portion of the changes in the fair value of \$1.5 million were recorded in other comprehensive income, with ineffectiveness of a credit of \$0.4 million recorded in sales and a credit of \$0.1 million recorded in cost of sales. As of December 31, 2007, and for the three months ended March 31, 2008, the fair value and realized gains (losses) of other outstanding foreign currency rate hedging contracts were not significant.

We have a cross currency interest rate swap pursuant to which we have agreed to swap \$152.6 million of LIBOR floating rate debt payments for €115.9 million of EURIBOR floating rate debt payments. On maturity, August 15, 2012, we are required to pay principal of €115.9 million and will receive principal of \$152.6 million. During the life of this swap, we will receive floating rate interest (LIBOR) in dollars and we will pay floating rate interest (EURIBOR) in euros. This swap is currently not designated as a hedge for financial reporting purposes. As of March 31, 2008, the fair value of this swap was \$31.7 million and was recorded in other noncurrent liabilities in our balance sheet. We recorded an unrealized foreign currency loss on this swap of \$13.6 million in the statement of operations for the three months ended March 31, 2008.

We also have a cross currency interest rate swap pursuant to which we have agreed to swap \$95.8 million of LIBOR floating rate debt payments for €70.7 million of EURIBOR floating rate debt payments. On maturity, April 19, 2010, we are required to pay principal of €70.7 million and will receive principal of \$95.8 million. During the life of this swap, we will receive floating rate interest (LIBOR) in dollars and we will pay floating rate interest (EURIBOR) in euros. This swap was designated as a hedge of a net investment for financial reporting purposes. As of March 31, 2008, the

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

fair value of this swap was \$16.5 million and was recorded in other noncurrent liabilities in our balance sheet. For the three months ended March 31, 2008, the effective portion of the changes in the fair value of \$8.0 million were recorded in other comprehensive income, with ineffectiveness of a credit of \$0.1 million recorded in interest expense.

From time to time, we review our non-U.S. dollar-denominated debt and swaps to determine the appropriate amounts designated as hedges. As of March 31, 2008, we have designated €450.6 million of debt and swaps as net investment hedges. As of March 31, 2008, we had approximately €1,084 million in net euro-denominated assets.

**10. SECURITIZATION OF ACCOUNTS RECEIVABLE**

Under our accounts receivable securitization program ("A/R Securitization Program"), we grant an undivided interest in certain of our trade receivables to a qualified off-balance sheet entity (the "Receivables Trust") at a discount. This undivided interest serves as security for the issuance by the Receivables Trust of commercial paper. The A/R Securitization Program currently provides for financing through a commercial paper conduit program (in both U.S. dollars and euros). The A/R Securitization Program consists of a commercial paper conduit program with a committed amount of approximately \$500 million U.S. dollar equivalents. The A/R Securitization Program matures on April 1, 2009.

As of March 31, 2008, the Receivables Trust had \$457.9 million in U.S. dollar equivalents (comprised of \$167.0 million and €184.0 million (approximately \$291 million)) in commercial paper outstanding.

**11. FAIR VALUE MEASUREMENTS**

We adopted SFAS No. 157 on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued FSPs No. FAS 157-1 and No. FAS 157-2. Our derivative instruments, available-for-sale securities and retained interest in securitized receivables are the only assets and

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 11. FAIR VALUE MEASUREMENTS (Continued)

liabilities that we record at fair value and are currently subject to SFAS No. 157. We remeasure the fair value of these instruments on a recurring basis as follows (dollars in millions):

Description	Fair Value Amounts Using			
	March 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Derivatives(1)	\$ 2.5	\$	\$ 2.5	\$
Available-for-sale securities(2)	13.6	13.6		
Retained interest in securitized receivables(3)	136.9			136.9
<b>Total assets</b>	<b>\$ 153.0</b>	<b>\$ 13.6</b>	<b>\$ 2.5</b>	<b>\$ 136.9</b>
<b>Liabilities:</b>				
Derivatives(1)	\$ 49.0	\$	\$ 49.0	\$

- (1) We use the income approach to calculate the fair value of these instruments. Fair value represents the present value of estimated future cash flows calculated using relevant interest rates, exchange rates and yield curves at stated intervals.
- (2) Using the market approach, the fair value of these securities represents the quoted market price times the quantities held.
- (3) The income approach is used to value these assets. Fair value is based on the present value of expected cash flows, calculated using management's best estimates of key assumptions including credit losses and discount rates commensurate with the risks involved.

## Fair Value Measurements Using Level 3

Balance at December 31, 2007	\$ 136.4
Total gains (realized/unrealized) included in earnings, net	1.6
Purchases, issuances, and settlements, net	(1.1)
Balance at March 31, 2008	\$ 136.9

Edgar Filing: Huntsman CORP - Form 10-Q

Fair Value Measurements Using Level 3

---

Total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2008	\$	7.5
---	----	-----

---



## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 11. FAIR VALUE MEASUREMENTS (Continued)

Gains and losses (realized and unrealized) included in earnings for the three months ended March 31, 2008 are reported in loss on accounts receivable program and other income (expense) as follows (dollars in millions):

	<b>Loss on accounts receivable securitization program</b>	<b>Other income (expense)</b>
	<u>                    </u>	<u>                    </u>
Total (losses) gains included in earnings	\$ (7.4)	\$ 9.0
Changes in unrealized (losses) gains relating to assets still held at March 31, 2008	\$ (1.5)	\$ 9.0

## 12. EMPLOYEE BENEFIT PLANS

We adopted certain provisions of SFAS No. 158 on January 1, 2008. Beginning with our fiscal year ended December 31, 2008, SFAS No. 158 requires that the assumptions used to measure our benefit obligations and annual expenses be determined as of the balance sheet date and all plan assets be reported as of that date. We used the second approach as described in paragraph 19 of SFAS No. 158 to transition our measurement date from November 30 to December 31. Under this approach, our Company and Huntsman International recorded a charge to retained earnings, net of tax, of \$2.9 million and \$3.2 million, respectively, as of January 1, 2008.

Components of the net periodic benefit costs for the three months ended March 31, 2008 and 2007 were as follows (dollars in millions):

## Huntsman Corporation

	<b>Defined Benefit Plans Three Months Ended March 31,</b>		<b>Other Postretirement Benefit Plans Three Months Ended March 31,</b>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Service cost	\$ 18.8	\$ 20.8	\$ 0.9	\$ 1.1
Interest cost	38.8	34.1	2.2	2.4
Expected return on assets	(48.3)	(43.6)		
Amortization of transition obligation	0.4	0.5		
Amortization of prior service cost	(1.4)	(1.7)	(0.6)	(0.7)
Amortization of actuarial loss	1.0	3.2	0.4	0.9
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net periodic benefit cost	9.3	13.3	2.9	3.7
Less discontinued operations		(1.3)		(1.0)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net periodic benefit cost from continuing operations	\$ 9.3	\$ 12.0	\$ 2.9	\$ 2.7
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 12. EMPLOYEE BENEFIT PLANS (Continued)

## Huntsman International

	Defined Benefit Plans Three Months Ended March 31,		Other Postretirement Benefit Plans Three Months Ended March 31,	
	2008	2007	2008	2007
Service cost	\$ 18.8	\$ 20.8	\$ 0.9	\$ 1.1
Interest cost	38.8	34.1	2.2	2.4
Expected return on assets	(48.3)	(43.6)		
Amortization of transition obligation	0.4	0.5		
Amortization of prior service cost	(1.4)	(1.7)	(0.6)	(0.7)
Amortization of actuarial loss	2.6	4.9	0.4	0.9
Net periodic benefit cost	10.9	15.0	2.9	3.7
Less discontinued operations		(1.3)		(1.0)
Net periodic benefit cost from continuing operations	\$ 10.9	\$ 13.7	\$ 2.9	\$ 2.7

During the three months ended March 31, 2008 and 2007, we made contributions to our pension plans of \$32.5 million and \$60.3 million, respectively.

## 13. STOCKHOLDERS' EQUITY

## 5% MANDATORY CONVERTIBLE PREFERRED STOCK

In connection with the initial public offering of our 5% mandatory convertible preferred stock on February 16, 2005, we declared all dividends that will be payable on such preferred stock from the issuance through the mandatory conversion date, which was February 16, 2008. Accordingly, we recorded dividends payable of \$43.1 million and a corresponding charge to net loss available to common stockholders during the year ended December 31, 2005. We paid the final dividend in cash on February 16, 2008. Also on February 16, 2008, the mandatory convertible preferred stock converted, pursuant to its terms, into 12,082,475 shares of our common stock.

## COMMON STOCK DIVIDENDS

On March 31, 2008 and March 30, 2007, we paid cash dividends of \$23.4 million and \$22.1 million, respectively, or \$0.10 per share each, to common stockholders of record as of March 14, 2008 and March 15, 2007, respectively.

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 14. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) were as follows (dollars in millions):

## Huntsman Corporation

	Accumulated other comprehensive income (loss)		Other comprehensive income (loss)	
	Three Months Ended			
	March 31, 2008	December 31, 2007	March 31, 2008	March 31, 2007
Foreign currency translation adjustments, net of tax of \$(17.5) and \$4.9 as of March 31, 2008 and December 31, 2007, respectively	\$ 512.0	\$ 382.7	\$ 129.3	\$ 16.5
Employee benefit related adjustments, net of tax of \$18.3 and \$18.5 as of March 31, 2008 and December 31, 2007, respectively	(144.0)	(143.6)	(0.4)	3.2
Other comprehensive income of unconsolidated affiliates	9.3	9.3		
Other	7.0	8.0	(1.0)	0.5
<b>Total</b>	<b>\$ 384.3</b>	<b>\$ 256.4</b>	<b>\$ 127.9</b>	<b>\$ 20.2</b>

## Huntsman International

	Accumulated other comprehensive income (loss)		Other comprehensive income (loss)	
	Three Months Ended			
	March 31, 2008	December 31, 2007	March 31, 2008	March 31, 2007
Foreign currency translation adjustments, net of tax of \$(30.8) and \$(8.4) as of March 31, 2008 and December 31, 2007, respectively	\$ 510.9	\$ 381.6	\$ 129.3	\$ 18.8
Employee benefit related adjustments, net of tax of \$53.7 and \$54.5 as of March 31, 2008 and December 31, 2007, respectively	(205.4)	(206.5)	1.1	3.7
Other comprehensive income of unconsolidated affiliates	9.3	9.3		
Other	1.5	2.5	(1.0)	0.5
<b>Total</b>	<b>\$ 316.3</b>	<b>\$ 186.9</b>	<b>\$ 129.4</b>	<b>\$ 23.0</b>

Items of other comprehensive income (loss) of our Company and our unconsolidated affiliates have been recorded net of tax, with the exception of the foreign currency translation adjustments related to subsidiaries with earnings permanently reinvested. The tax effect is determined based upon the jurisdiction where the income or loss was recognized and is net of valuation allowances that have been recorded.

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**15. EXPENSES ASSOCIATED WITH THE MERGER**

Expenses associated with the Merger incurred during the three months ended March 31, 2008 were \$5.2 million related primarily to professional fees and bonuses of \$1.3 million paid to certain members of our board of directors for services related to the Merger. For more information regarding the Merger, see "Note 1. General-Pending Sale of Our Company."

Prior to entering into the Merger Agreement, we terminated an Agreement and Plan of Merger (the "Basell Agreement") dated June 26, 2007 with Basell AF ("Basell") and paid Basell a \$200 million termination fee required under the terms of the Basell Agreement (the "Basell Termination Fee") during the third quarter of 2007. One-half of the Basell Termination Fee, or \$100 million, was reimbursed by Hexion. We could be required to pay Hexion \$325 million under certain circumstances in connection with our termination of the Merger Agreement. The \$100 million funded by Hexion has been deferred and is recorded in Accrued liabilities in the accompanying condensed consolidated balance sheet (unaudited) as of March 31, 2008.

Other costs associated with the Merger Agreement are payable upon consummation of the Merger. We will recognize these costs when the business combination is consummated. The following is a discussion of these costs.

**TRANSACTION AND RETENTION BONUSES**

Upon consummation of the Merger (the "Closing Date"), certain employees will receive transaction bonuses. A retention bonus has also been offered to certain employees payable upon the earlier of (i) the date that is 12 months following the Closing Date, or (ii) with respect to an employee that is involuntarily terminated prior to the payment of the retention bonus, the date of such employee's termination of employment. With both bonuses, the employee must work until the date the bonus is payable. If paid, these bonuses will total \$19.5 million. If the eligible employee terminates employment with our Company voluntarily prior to that date, the bonuses will be forfeited. Furthermore, if the Merger is not consummated, we are not obligated to pay such bonuses.

**INVESTMENT BANKING FEES**

In connection with the Merger, we have agreed to pay Merrill Lynch a fee of \$25 million for its investment banking services, all of which is contingent upon and would be payable upon consummation of the Merger. If, at any time during Merrill Lynch's engagement or the two years thereafter, we receive a break-up fee upon termination of an agreement for the sale of our Company, we will pay Merrill Lynch 5% of any such fee, including any reverse break-up fee payable in connection with the termination of the Merger Agreement.

**VOTING AGREEMENT FEES**

MatlinPatterson was one of our significant shareholders and an affiliate of two of our former directors as of the date of the Merger Agreement. Pursuant to a voting agreement in connection with the Merger, we agreed to reimburse MatlinPatterson for up to \$13.0 million in additional investment banking fees payable to UBS if the Merger is consummated. If the Merger is not consummated, no such fees will be paid.

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**15. EXPENSES ASSOCIATED WITH THE MERGER (Continued)**

**STOCK-BASED AWARDS**

For more information regarding the effect of the Merger on stock-based incentive awards, see "Note 18. Stock-Based Compensation Plans" below.

**16. COMMITMENTS AND CONTINGENCIES**

**LEGAL MATTERS**

**Discoloration Claims**

Certain claims have been filed against us relating to discoloration of unplasticized polyvinyl chloride products allegedly caused by our titanium dioxide ("Discoloration Claims"). Substantially all of the titanium dioxide that is the subject of these claims was manufactured prior to our acquisition of the titanium dioxide business from ICI in 1999. Net of amounts we have received from insurers and pursuant to contracts of indemnity, we have paid an aggregate of approximately \$16 million in costs and settlement amounts for Discoloration Claims through March 31, 2008.

During each of the three months ended March 31, 2008 and March 31, 2007, we did not settle any Discoloration Claims. The two Discoloration Claims unresolved as of March 31, 2008 asserted aggregate damages of €61.4 million (approximately \$97 million). An appropriate liability has been accrued for these claims. Based on our understanding of the merits of these claims and our rights under contracts of indemnity and insurance, we do not believe that the net impact on our financial condition, results of operations or liquidity will be material.

While additional Discoloration Claims may be made in the future, we cannot reasonably estimate the amount of loss related to such claims. Although we may incur additional costs as a result of future claims (including settlement costs), based on our history with Discoloration Claims to date, the fact that substantially all of the titanium dioxide that has been the subject of these Discoloration Claims was manufactured and sold more than eight years ago, and the fact that we have rights under contract to indemnity, including from ICI, we do not believe that any unasserted Discoloration Claims will have a material impact on our financial condition, results of operations or liquidity. Based on this conclusion and our inability to reasonably estimate our expected costs with respect to these unasserted claims, we have made no accruals in our financial statements as of March 31, 2008 for costs associated with unasserted Discoloration Claims.

**Asbestos Litigation**

We have been named as a "premises defendant" in a number of asbestos exposure cases, typically claims by non-employees of exposure to asbestos while at a facility. In the past, these cases typically have involved multiple plaintiffs bringing actions against multiple defendants, and the complaints have not indicated which plaintiffs were making claims against which defendants, where or how the alleged injuries occurred or what injuries each plaintiff claimed. These facts, which would be central to any estimate of probable loss, generally have been learned only through discovery.

Where a claimant's alleged exposure occurred prior to our ownership of the relevant "premises," the prior owners generally have contractually agreed to retain liability for, and to indemnify us against,

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 16. COMMITMENTS AND CONTINGENCIES (Continued)

asbestos exposure claims. This indemnification is not subject to any time or dollar amount limitations. Upon service of a complaint in one of these cases, we tender it to the prior owner. None of the complaints in these cases state the amount of damages being sought. The prior owner accepts responsibility for the conduct of the defense of the cases and payment of any amounts due to the claimants. In our nearly fourteen-year experience with tendering these cases, we have not made any payment with respect to any tendered asbestos cases. We believe that the prior owners have the intention and ability to continue to honor their indemnity obligations, although we cannot assure you that they will continue to do so or that we will not be liable for these cases if they do not.

The following table presents for the periods indicated certain information about cases for which service has been received that we have tendered to the prior owner, all of which have been accepted.

	Three Months Ended March 31,	
	2008	2007
Unresolved at beginning of period	1,192	1,367
Tendered during period	5	13
Resolved during period(1)	24	71
Unresolved at end of period	1,173	1,309

(1)

Although the indemnifying party informs us when tendered cases have been resolved, it generally does not inform us of the settlement amounts relating to such cases, if any. The indemnifying party has informed us that it typically manages our defense together with the defense of other entities in such cases and resolves claims involving multiple defendants simultaneously, and that it considers the allocation of settlement amounts, if any, among defendants to be confidential and proprietary. Consequently, we are not able to provide the number of cases resolved with payment by the indemnifying party or the amount of such payments.

We have never made any payments with respect to these cases. As of March 31, 2008, we had an accrued liability of \$16.4 million relating to these cases and a corresponding receivable of \$16.4 million relating to our indemnity protection with respect to these cases. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity; however, we are not able to estimate the amount or range of loss in excess of our accruals. Additional asbestos exposure claims may be made against us in the future, and such claims could be material. However, because we are not able to estimate the amount or range of losses associated with such claims, we have made no accruals with respect to unasserted asbestos exposure claims as of March 31, 2008.

Certain cases in which we are a "premises defendant" are not subject to indemnification by prior owners or operators. The following table presents for the periods indicated certain information about these cases. Cases include all cases for which service has been received by us, other than a number of

## HUNTSMAN CORPORATION AND SUBSIDIARIES

## HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 16. COMMITMENTS AND CONTINGENCIES (Continued)

cases that were erroneously filed against us due to a clerical error. The cases filed in error have been dismissed.

	Three Months Ended March 31,	
	2008	2007
Unresolved at beginning of period	39	42
Filed during period	1	51
Resolved during period	1	2
Unresolved at end of period	39	91

We paid gross settlement costs for asbestos exposure cases that are not subject to indemnification of nil and \$0.1 million during the three months ended March 31, 2008 and 2007, respectively. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity; however, we are not able to estimate the amount or range of loss in excess of our accruals. Additional asbestos exposure claims may be made against us in the future, and such claims could be material. However, because we are not able to estimate the amount or range of losses associated with such claims, we have made no accruals with respect to unasserted asbestos exposure claims as of March 31, 2008.

**Antitrust Matters**

We have been named as a defendant in civil antitrust suits alleging a conspiracy to fix prices in the MDI, TDI, and polyether polyols industries that are now consolidated as the "Polyether Polyols" cases in multidistrict litigation known as In re Urethane Antitrust Litigation, MDL No. 1616, Civil No. 2:04-md-01616-JWL-DJW, United States District Court, District of Kansas, initial order transferring and consolidating cases filed August 23, 2004. Other defendants named in the Polyether Polyols cases are Bayer, BASF, Dow and Lyondell. These cases purport to be brought on behalf of a nationwide class of purchasers of MDI, TDI and polyether polyols. Bayer entered into a classwide settlement agreement with the plaintiffs that was approved by the court. Class certification briefing is underway in these consolidated cases.

We have also been named as a defendant in putative class action antitrust suits alleging a conspiracy to fix prices in the MDI, TDI and polyether polyols industries filed in the Superior Court of Justice, Ontario, Canada on May 5, 2006 and in Superior Court, Quebec, Canada on May 17, 2006. The other defendants named above in the Polyether Polyols cases are also defendants in these Canadian cases.

We also have been named as a defendant in a putative class action antitrust suit pending in California state court that alleges a conspiracy to fix prices of certain rubber and urethane products in California. The other defendants named in the Polyether Polyols cases are also defendants in this case. The California action has been stayed pending disposition of the Polyether Polyols cases.

The pleadings of the plaintiffs in these antitrust suits provide few specifics about any alleged illegal conduct of the defendants, and we are not aware of any evidence of illegal conduct by us or any of our

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**16. COMMITMENTS AND CONTINGENCIES (Continued)**

employees. For these reasons, we cannot estimate the possibility of loss or range of loss relating to these claims, and therefore we have not accrued a liability for these claims. Nevertheless, we could incur losses due to these claims in the future and those losses could be material.

In addition, on February 16, 2006, the Antitrust Division of the U.S. Department of Justice served us with a grand jury subpoena requesting production of documents relating to the businesses of TDI, MDI, polyether polyols and related systems. The other defendants in the Polyether Polyols cases have confirmed that they were also served with subpoenas in this matter. We cooperated fully with the investigation, and by letter dated December 16, 2007, the U.S. Department of Justice notified us that its investigation of possible antitrust violations by manufacturers of TDI, MDI and polyether polyols has been closed.

**MTBE Litigation**

In March 2007, we were named for the first time as a defendant in eight lawsuits alleging liability related to MTBE contamination in groundwater. We learned that we were named in a ninth such lawsuit in January 2008. Numerous other companies, including refiners, manufacturers and sellers of gasoline, as well as manufacturers of MTBE, have been named as defendants in these and many other cases currently pending in U.S. courts. The plaintiffs in the nine cases in which we have been named are municipal water districts and a regional water supply authority that claim that defendants' conduct has caused MTBE contamination of their groundwater. The plaintiffs seek injunctive relief, such as monitoring and abatement, compensatory damages, punitive damages and attorney fees. At this time, we have insufficient information to meaningfully assess our potential exposure in these cases and therefore we have not accrued a liability for these claims. We believe that our liability in these cases, if any, would likely be covered, at least in part, by insurance and/or by indemnity agreements with prior owners.

**Shareholder Litigation Relating to the Pending Sale of Our Company**

From July 5 to July 13, 2007, four shareholder class action complaints were filed against our Company and our directors alleging breaches of fiduciary duty in connection with our then-proposed sale to Basell and the receipt of a superior proposal from Hexion. Three actions were filed in Delaware: Cohen v. Archibald, et al., No. 3070, in the Court of Chancery for the State of Delaware (filed July 5, 2007); Augenstein v. Archibald, et al., No. 3076, in the Court of Chancery for the State of Delaware (filed July 9, 2007); and Murphy v. Huntsman, et al., No. 3094, in the Court of Chancery for the State of Delaware (filed July 13, 2007). Another action was filed in Texas: Schwoegler v. Huntsman Corporation, et al., Cause No. 07-07-06993-CV, in the 9th Judicial District Court of Montgomery County, Texas (filed July 6, 2007). As subsequently amended, these lawsuits together allege that we and our directors breached fiduciary duties to the stockholders by, among other things, engaging in an unfair sales process, approving an unfair price per share for the Merger with Hexion, and making inadequate disclosures to stockholders, and that Basell, Hexion and MatlinPatterson entities aided and abetted these breaches of fiduciary duty. The lawsuits sought to enjoin the stockholder vote on the Merger.



**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**16. COMMITMENTS AND CONTINGENCIES (Continued)**

On September 20, 2007, the parties entered into a Memorandum of Understanding with plaintiffs' counsel in the Delaware and Texas actions to settle these four lawsuits. As part of the proposed settlement, the defendants deny all allegations of wrongdoing, but we agreed to make certain additional disclosures in the final proxy statement that was mailed to our stockholders on or about September 14, 2007. In connection with the settlement, the parties also reached an agreement with respect to any application that the plaintiffs' counsel will make for an award of customary attorneys' fees and expenses to be paid following the completion of the Merger. The settlement is subject to customary conditions, including court approval of the terms of the settlement following notice to members of the proposed settlement class. If finally approved by the court, the settlement will resolve all claims that were brought on behalf of the proposed settlement class in connection with the Merger, the Merger Agreement, the adequacy of the merger consideration, the negotiations preceding the Merger Agreement, the adequacy and completeness of the disclosures made in connection with the Merger, and any actions of the individual defendants in the events listed above, including any alleged breach of fiduciary duties by any of the defendants, or the aiding and abetting thereof. The settlement will not affect stockholders' appraisal rights, if available, pursuant to Section 262 of the General Corporation Law of the State of Delaware.

The Memorandum of Understanding will be null and void and of no force and effect if the Merger is not consummated, the Delaware actions are not dismissed or the Texas court does not give final approval of the settlement and dismiss the Texas action with prejudice for any reason.

The settlement will not affect the timing of the Merger or the amount of the merger consideration to be paid in the Merger. Under the terms of the Memorandum of Understanding, the terms of the proposed settlement will not be presented to the court for approval until the Merger is consummated.

**Port Arthur Plant Fire Insurance Litigation**

On August 31, 2007, an action was brought against our Company and International Risk Insurance Company ("IRIC"), our captive insurer, in the United States District Court for the Southern District of Texas, by seventeen reinsurance companies (the "Reinsurers") that reinsure risks under the property insurance policy issued by IRIC to our Company (the "Policy") for the period covering the April 29, 2006 fire at our manufacturing facility in Port Arthur, Texas. The action seeks to compel our Company and IRIC to arbitrate with the Reinsurers to resolve disputes related to the claim for losses caused by the fire or, in the alternative, to declare judgment in favor of the Reinsurers. Motions to dismiss that action filed by our Company and IRIC were heard December 21, 2007, but have not been decided by the court. In a second and related action filed by our Company against IRIC in state court in Jefferson County, Texas, IRIC filed a third party petition against the Reinsurers, who then removed that action to the United States District Court for the Eastern District of Texas. Some of the Reinsurers have filed answers and motions to compel arbitration, to stay these proceedings, and to change venue to the United States District Court for the Southern District of Texas in order to consolidate the two actions. Our Company has filed a motion to remand that action to the state court and opposition to the Reinsurers' motions in that action. On April 23, 2008, the United States District Court for the Eastern District of Texas transferred the case to the United States District Court for the Southern District of Texas but did not rule on the motion to remand. Our Company has paid its deductible on the claim of

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**16. COMMITMENTS AND CONTINGENCIES (Continued)**

\$60 million and has been advanced \$325.0 million to date (of which \$20.0 million was advanced during the three months ended March 31, 2008) by the Reinsurers. Our Company has claimed approximately an additional \$216 million as presently due and owing and unpaid under the Policy for losses caused by the fire, and anticipates filing additional claims. For more information, see "Note 19. Casualty Losses and Insurance Recoveries - Port Arthur, Texas Plant Fire."

**Other Proceedings**

We are a party to various other proceedings instituted by private plaintiffs, governmental authorities and others arising under provisions of applicable laws, including various environmental, products liability and other laws. Except as otherwise disclosed in this report, we do not believe that the outcome of any of these matters will have a material adverse effect on our financial condition, results of operations or liquidity.

**GUARANTEES**

In January 2003, Huntsman International entered into two related joint venture agreements to build MDI production facilities near Shanghai, China. SLIC, our manufacturing joint venture with BASF AG and three Chinese chemical companies, operates three plants that manufacture MNB, aniline and crude MDI. We indirectly own 35% of SLIC and it is an unconsolidated affiliate.

On September 19, 2003, SLIC obtained secured financing for the construction of production facilities. SLIC obtained various committed loans in the aggregate amount of approximately \$230 million in U.S. dollar equivalents. As of March 31, 2008, there were \$81.1 million and RMB 1,003 million (\$143.0 million) in outstanding borrowings under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. The loans are secured by substantially all the assets of SLIC and will be paid in 16 semiannual installments, which began on June 30, 2007. We unconditionally guarantee 35% of any amounts due and unpaid by SLIC under the loans described above (except for a \$1.5 million VAT facility which is not guaranteed). Our guarantee remains in effect until SLIC has commenced production of at least 70% of capacity for at least 30 days and achieved a debt service coverage ratio of at least 1:1. SLIC commenced operations in the third quarter of 2006. We have estimated that the fair value of this guarantee is nil as of the closing of the transaction and, accordingly, no amounts have been recorded.

**HUNTSMAN CORPORATION AND SUBSIDIARIES**

**HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**17. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS**

**GENERAL**

We are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to safety, pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. In the ordinary course of business, we are subject to frequent environmental inspections and monitoring and occasional investigations by governmental enforcement authorities. In addition, our production facilities require operating permits that are subject to renewal, modification and, in certain circumstances, revocation. Actual or alleged violations of safety laws, environmental laws or permit requirements could result in restrictions or prohibitions on plant operations, substantial civil or criminal sanctions, as well as, under some environmental laws, the assessment of strict liability and/or joint and several liability. Moreover, changes in environmental regulations could inhibit or interrupt our operations, or require us to modify our facilities or operations. Accordingly, environmental or regulatory matters may cause us to incur significant unanticipated losses, costs or liabilities.

**ENVIRONMENTAL, HEALTH AND SAFETY SYSTEMS**

We are committed to achieving and maintaining compliance with all applicable environmental, health and safety ("EHS") legal requirements, and we have developed policies and management systems that are intended to identify the multitude of EHS legal requirements applicable to our operations, enhance compliance with applicable legal requirements, ensure the safety of our employees, contractors, community neighbors and customers and minimize the production and emission of wastes and other pollutants. Although EHS legal requirements are constantly changing and are frequently difficult to comply with, these EHS management systems are desig