

Celanese CORP
Form 8-K
January 28, 2005

UNITED STATES

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) **January 24, 2005**

Celanese Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

	001-32410	98-0420726
	(Commission File Number)	(IRS Employer Identification No.)

1601 West LBJ Freeway
Dallas, Texas **75234-6034**
(Address of Principal Executive Offices) (Zip Code)

(972) 901-4500
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

 - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

 - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry Into a Material Definitive Agreement

Shareholders Agreement

On January 26, 2005, upon completion of the offering (the Offering) described in the Registration Statement on Form S-1 (File No. 333-120187) (the Registration Statement) filed by Celanese Corporation (the Corporation) under the Securities Act of 1933, as amended (the Securities Act) and the related Registration Statement on Form S-1 (File No. 333-122180) filed by the Corporation pursuant to Rule 462(b) of the rules and regulations of the Securities and Exchange Commission under the Securities Act (together with the Registration Statement, the Registration Statements), the Second Amended and Restated Shareholders Agreement dated January 18, 2005, by and among the Corporation, Blackstone Capital Partners (Cayman) Ltd. 1, Blackstone Capital Partners (Cayman) Ltd. 2, Blackstone Capital Partners (Cayman) Ltd. 3 and BA Capital Investors Sidecar Fund, L.P. (the Shareholders Agreement), became effective. The Shareholders Agreement provides that Blackstone Capital Partners (Cayman) Ltd. 1, Blackstone Capital Partners (Cayman) Ltd. 2 and Blackstone Capital Partners (Cayman) Ltd. 3 (collectively, the Stockholders) are entitled to designate all nominees for election to the Board of Directors of the Corporation for so long as they hold at least 25% of the total voting power of the Corporation's capital stock. Thereafter, although the Stockholders will not have an explicit contractual right to do so, they may still nominate directors of the Corporation in their capacity as stockholders. The Shareholders Agreement also provides that BA Capital Investors Sidecar Fund, L.P. (BACI) has the right to designate one non-voting observer to the Board of Directors of the Corporation. Under the Shareholders Agreement, BACI has agreed not to sell, dispose of or hedge any of the shares of the Corporation's common stock held by BACI for a period of six months after the completion of the Offering, except for transfers (i) to BACI affiliates or to the Stockholders, (ii) in connection with the right of another selling Stockholder to require BACI to concurrently transfer its shares or in connection with BACI's co-sale rights under the Shareholders Agreement, or (iii) pursuant to the rights set forth in the Registration Rights Agreement described below. In addition, for a period of six months after the completion of the Offering, any transfers by BACI of the shares of the Corporation's common stock are subject to a right of first refusal of the other Stockholders, except for transfers (i) to BACI affiliates, (ii) in connection with the right of another selling Stockholder to require BACI to concurrently transfer its shares or in connection with BACI's co-sale rights under the agreement, or (iii) pursuant to the rights set forth in the Registration Rights Agreement. For a period of six months after the completion of the Offering, transfers by the Stockholders, other than BACI, of shares of the Corporation's common stock representing more than 5% of the outstanding shares, are subject to co-sale rights by BACI. In addition, transfers by the Stockholders of at least a majority of the Corporation's common stock give the selling Stockholder the right to require the other Stockholders to concurrently transfer their common stock of the Corporation. The Shareholders Agreement provides that the Corporation will indemnify the Stockholders and their respective affiliates, directors, officers and representatives for

losses relating to the Tender Offer (as such term is described in the Registration Statements) and other related transactions.

Registration Rights Agreement

On January 26, 2005, upon completion of the Offering described in the Registration Statements, the Corporation, the Stockholders and BACI entered into the Amended and Restated Registration Rights Agreement (the Registration Rights Agreement). Pursuant to the Registration Rights Agreement the Corporation may be required to register a sale of its shares held by the Stockholders. Under the Registration Rights Agreement, the Stockholders have a right to request the Corporation to register the sale of shares of the Corporation's common stock held by them, including by making available shelf registration statements permitting sales of shares of the Corporation's common stock held by the Stockholders into the market from time to time over an extended period. In addition, the Stockholders have a right to include their shares in registered offerings initiated by the Corporation. In both cases, the maximum number of shares of the Corporation's common stock for which the Stockholders might request registration is limited by the number of shares of the Corporation's common stock that, in the opinion of the managing underwriter, can be sold without having a negative effect on the offering. Under the Registration Rights Agreement the Corporation is obligated to indemnify the Stockholders, their respective affiliates, directors, officers and representatives, and each underwriter and their affiliates, for losses relating to any material misstatement or material omissions of facts in connection with the registration of the Stockholders' shares of the Corporation. Immediately after the completion of the Offering, the Stockholders owned 99,377,885 shares of the Corporation's Series B common stock entitled to the registration rights. In addition, if the underwriters' over allotment option to purchase up to 7,500,000 additional shares of Series A common stock in connection with the Offering is not exercised in full, the Stockholders will be entitled to receive a stock dividend, which the Corporation intends to declare and pay shortly following the expiration of the over-allotment option, of the number of shares of Series A common stock equal to (A) 7,500,000 minus (B) the actual number of shares of Series A common stock that the underwriters purchase from the Corporation. Such shares of Series A common stock will also be entitled to the registration rights.

Sponsor Services Agreement

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On April 6, 2004, the Corporation, Celanese Holdings LLC, an indirect wholly owned subsidiary of the Corporation (Holdco) and Blackstone Management Partners IV L.L.C., an affiliate of the Stockholders (the Advisor) entered into a monitoring fee agreement under which the Advisor agreed to provide certain structuring, advisory and management services to subsidiaries of the Corporation for a twelve-year period, unless earlier terminated as provided in the monitoring fee agreement. The annual monitoring fee under this monitoring fee agreement was equal to the greater of \$5 million or 2% of the Corporation's EBITDA for the preceding fiscal year. Upon the occurrence of certain events, including an initial public offering of the Corporation's stock, the Advisor was

entitled under the monitoring fee agreement to receive a lump sum payment equal to the then present value of all current and future monitoring fees payable under the monitoring fee agreement, assuming the agreement were to terminate upon the twelfth anniversary of the date of the Advisor's election to receive the lump sum payment. In connection with, and effective upon, the completion of the Offering, the Corporation amended and restated the monitoring fee agreement pursuant to which the Corporation, Holdco and the Advisor terminated the monitoring services provided by the Advisor and a subsidiary of the Corporation paid the Advisor a termination fee of \$35.0 million. The amended and restated agreement, which is referred to as the sponsor services agreement, provides the Advisor with a right of first refusal to provide the Corporation and its subsidiaries with financial advisory services in exchange for mutually agreeable compensation. This right of first refusal will terminate when the Advisor and its affiliates directly or indirectly hold less than 10% of the Corporation's outstanding common stock. The Corporation will indemnify the Advisor and its affiliates and their respective partners, members, directors, officers, employees, agents and representatives for any and all losses relating to the services contemplated by the monitoring fee/sponsor services agreements and the engagement of the Advisor pursuant to, and the performance by the Advisor of the services contemplated by, the monitoring fee/sponsor services agreements. The Corporation is also obligated to reimburse the Advisor and its affiliates for their expenses incurred in connection with the services provided under the monitoring fee/sponsor services agreements or in connection with their ownership or subsequent sale of the Corporation's stock.

A copy of the Shareholders' Agreement is attached to this report as Exhibit 10.1. A copy of the Registration Rights Agreement is attached to this report as Exhibit 10.2. A copy of the Sponsor Services Agreement is attached to this report as Exhibit 10.3. The Shareholders' Agreement, the Registration Rights Agreement and the Sponsor Services Agreement are incorporated herein by reference. The above descriptions of the Shareholders' Agreement, the Registration Rights Agreement and the Sponsor Services Agreement, as well as the transactions contemplated by those documents, are not complete and are qualified in their entirety by reference to those exhibits.

Agreements with Members of our Management

Reference is made to Item 3.02 for option grants and issuances of shares of our Series A common stock made by the Corporation.

Item 1.03 Termination of a Material Definitive Agreement

The information set forth in Item 1.02 Entry into Material Definitive Agreement under the sub-heading Sponsor Services Agreement is incorporated herein by reference.

Item 3.02 Unregistered Sales of Equity Securities

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On January 26, 2005, the Corporation completed sales of 1,613,317 shares of its Series A common stock, par value \$0.0001 per share (the Common Stock), to certain of its employees and members of its board of directors at a price of \$7.20 per share. In addition, effective as of January 20, 2005, the Corporation granted certain of its employees and members of its board of directors options to purchase 10,945,200 shares of Common Stock. Certain of the options granted to employees vest over time and the remainder vest upon the Corporation's achievement of certain performance targets. The options granted to members of our board of directors who are not employees vest over time. Approximately 15% of the total number of options were vested at the time they were granted. The options have an exercise price of \$16.00 per share. The sale of shares of Common Stock and the grant of options to purchase shares of Common Stock were made pursuant to the Corporation's 2004 Stock Incentive Plan in reliance on the exemption from registration provided by Section 701 of the Securities Act.

Of the total number of shares issued pursuant to the 2004 Stock Incentive Plan, 459,729 shares were issued to David Weidman, our chief executive officer, 179,722 shares were issued to Lyndon Cole, our executive vice president, 169,119 shares were issued to Corliss Nelson, our chief financial officer, and 148,007 shares were issued to Andreas Pohlmann, our chief accounting officer. Messrs. Weidman, Cole, Nelson and Pohlmann were also granted options to purchase 3,149,075 shares of Common Stock, 1,231,100 shares of Common Stock, 1,158,465 shares of Common Stock and 1,013,847 shares of Common Stock, respectively.

In connection with the sale of shares of Common Stock and the grant of options pursuant to the Corporation's 2004 Stock Incentive Plan, the Corporation and the Stockholders entered into an employee stockholders agreement with employees and directors who received shares of Common Stock and options. The employee stockholders agreement provides for certain transfer restrictions and registration rights with respect to the shares of Common Stock issued under the plan.

The forms of employee stockholders agreement and option agreements are filed herewith.

Item 3.03 **Material Modification to Rights of Security Holders**

The issuance by the Corporation of preferred stock designated 4.25% Convertible Perpetual Preferred Stock on January 26, 2005 effects certain rights of the holders of the Corporation's common stock. The holders of the 4.25% Convertible Perpetual Preferred Stock have preferential dividend and liquidation rights over the holders of the Corporation's common stock. A description of the 4.25% Convertible Perpetual Preferred Stock is below under Item 5.03. The Certificate of Designation is attached as Exhibit 3.2 to this document and is incorporated by reference in this document.

Item 5.03

Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year

(a)(1) As contemplated in the Registration Statements, the Corporation filed the Second Amended and Restated Certificate of Incorporation of the Corporation (the Certificate), with the Secretary of State of the State of Delaware on January 24, 2005. Among other things, the Certificate (i) effected a stock split of each share of Series B common stock of the Corporation outstanding immediately prior to the filing of the Certificate into 152.772947 shares of Series B common stock and (ii) amended the terms of the previously existing certificate of incorporation relating to the payment of certain mandatory dividends on the Series B common stock. The Certificate provides that the Corporation shall declare (subject only to the legal availability of funds for the payment thereof) at any time on or after January 24, 2005, the following mandatory dividends on the Series B common stock (the Mandatory Dividends), each payable on a pro rata basis with respect to the then-outstanding shares of Series B common stock:

1. On or as soon as practicable after April 7, 2005:

a. an aggregate cash dividend equal to \$803,594,144; and

b. an aggregate cash dividend equal to \$15.20 multiplied by the number of shares of Series A common stock of the Corporation purchased by the underwriters of the initial public offering of the Series A common stock contemplated by the prospectus for such offering, dated January 20, 2005, pursuant to the option granted to such underwriters, under the underwriting agreement related to such offering, to purchase up to 7,500,000 shares of Series A common stock (the Over-Allotment Option); and

2. as soon as possible following the expiration of the Over-Allotment Option (which will occur on February 19, 2005) a stock dividend, paid in shares of Series A common stock, of an aggregate number of shares of Series A common stock equal to (1) 7,500,000 minus (2) the number of shares of Series A common stock actually purchased pursuant to the Over-Allotment Option.

This description of the amendments effected by the Certificate is qualified in its entirety by reference to the Certificate, which is attached as Exhibit 3.1 to this document and is incorporated by reference in this document.

(a)(2) As contemplated in the Registration Statements, the Corporation filed the Certificate of Designation of 4.25% Convertible Perpetual Preferred Stock (the Certificate of Designation), with the Secretary of State of the State of Delaware on January 25, 2005. Pursuant thereto, the Corporation authorized 9,600,000 shares of its preferred stock to be designated 4.25% Convertible Perpetual Preferred Stock (the Convertible Perpetual Preferred Stock). The Convertible Perpetual Preferred Stock ranks junior to all of the Corporation's and the Corporation's subsidiaries existing and future obligations and except with respect to the Mandatory Dividends, senior in right of payment to all of the Corporation's common stock now outstanding or to be issued in the future. The Corporation is not entitled to issue any class or series of the Corporation's capital stock the terms of which provide that such class or series will rank senior to the Convertible Perpetual Preferred Stock without the consent of the holders of at least two-thirds of the outstanding shares of the Convertible Perpetual Preferred Stock.

Holders of the shares of Convertible Perpetual Preferred Stock are entitled to receive, when, as and if declared by the Corporation's board of directors, out of funds legally available for payment, cumulative cash dividends on each outstanding share of Convertible Perpetual Preferred Stock at the annual rate of 4.25% of the liquidation preference per share. The dividend rate is initially equivalent to \$1.0625 per share annually. Dividends are payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, beginning on May 1, 2005. Accumulated unpaid dividends cumulate at the annual rate of 4.25% and are payable in the manner provided above. For so long as the Convertible Perpetual Preferred Stock remains outstanding, (1) the Corporation will not declare, pay or set apart funds for the payment of any dividend or other distribution with respect to any junior stock or parity stock except for the Mandatory Dividends and (2) neither the Corporation, nor any of the Corporation's subsidiaries, will, subject to certain exceptions, redeem, purchase or otherwise acquire for consideration junior stock or parity stock through a sinking fund or otherwise, in each case unless the Corporation has paid or set apart funds for the payment of all accumulated and unpaid dividends with respect to the shares of Convertible Perpetual Preferred Stock and any parity stock for all preceding dividend periods.

(a)(1) As contemplated in the Registration Statements, the Corporation filed the Second Amended and Restated

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Holders of the Convertible Perpetual Preferred Stock may, at any time, convert shares of Convertible Perpetual Preferred Stock into shares of the Corporation's Series A common stock at a conversion rate of 1.25 shares of Series A common stock per \$25.00 liquidation preference of Convertible Perpetual Preferred Stock, subject to certain adjustments. This represents an initial conversion price of \$20.00 per share of the Corporation's Series A common stock. If a holder of shares of Convertible Perpetual Preferred Stock exercises conversion rights, upon delivery of the shares for conversion, those shares will cease to cumulate dividends as of the end of the day immediately preceding the date of conversion. Holders of shares of Convertible Perpetual Preferred Stock who convert

their shares into the Corporation's Series A common stock will not be entitled to, nor will the conversion rate be adjusted for, any accumulated and unpaid dividends. The Corporation will at all times reserve and keep available, free from preemptive rights, for issuance upon the conversion of shares of Convertible Perpetual Preferred Stock a number of the Corporation's authorized but unissued shares of Series A common stock that will from time to time be sufficient to permit the conversion of all outstanding shares of Convertible Perpetual Preferred Stock.

If the holder of the Convertible Perpetual Preferred Stock elects to convert its Convertible Perpetual Preferred Stock upon the occurrence of a fundamental change (a transaction or event that involves the exchange, conversion or acquisition in connection with which 90% or more of the Corporation's share of Series A common stock are exchanged for, converted into, acquired for or constitute solely the right to receive, consideration that is not at least 90% shares of common stock that is not traded on a national securities exchange or approved for quotation thereof in an interdealer quotation system of any registered United States national securities exchange) that occurs prior to February 1, 2015, in certain circumstances, the holder of the Convertible Perpetual Preferred Stock will be entitled to receive, in addition to a number of shares of the Corporation's Series A common stock equal to the applicable conversion rate, an additional number of shares of the Corporation's Series A common stock. In no event will the total number of shares of Series A common stock issuable upon conversion exceed 1.5625 per \$25.00 liquidation preference per share of Convertible Perpetual Preferred Stock, subject to adjustments in the same manner as the conversion rate.

The conversion rate is subject to adjustment from time to time if any of the following events occur: the issuance of the Corporation's common stock as a dividend, a distribution of the Corporation's common stock, certain subdivisions and combinations of the Corporation's common stock, the issuance to holders of the Corporation's common stock of certain rights or warrants to purchase the Corporation's common stock, certain dividends or distributions of capital stock, evidences of indebtedness, other assets or cash to holders of the Corporation's common stock, or under certain circumstances, a payment the Corporation makes in respect of a tender offer or exchange offer for the Corporation's common stock.

The Corporation may not redeem any shares of Convertible Perpetual Preferred Stock before February 1, 2010. On or after February 1, 2010, the Corporation has the option to redeem some or all the shares of Convertible Perpetual Preferred Stock at a redemption price of 100% of the liquidation preference, plus an amount equal to accumulated and unpaid dividends to the redemption date, but only if the closing sale price of the Corporation's Series A common stock for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date the Corporation gives the redemption notice exceeds 130% of the conversion price in effect on each such day. In addition, if on or after February 1, 2010, on any quarterly dividend payment date, the total number of shares of Convertible Perpetual Preferred Stock outstanding is less than 15% of the total number of shares of the Convertible Perpetual Preferred Stock

outstanding, the Corporation will have the option to redeem the shares of outstanding Convertible Perpetual Preferred Stock, in whole but not in part, at a redemption price of 100% of the liquidation preference, plus an amount equal to accumulated and unpaid dividends to the redemption date. If full cumulative dividends on the Convertible Perpetual Preferred Stock have not been paid, the Convertible Perpetual Preferred Stock may not be redeemed and the Corporation may not purchase or acquire any shares of Convertible Perpetual Preferred Stock otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of Convertible Perpetual Preferred Stock and any parity stock.

If a designated event occurs, each holder of shares of Convertible Perpetual Preferred Stock will have the right to require the Corporation, subject to legally available funds, to redeem any or all of its shares at a redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends to, but excluding, the date of redemption. The Corporation may choose to pay the redemption price in cash, shares of the Corporation's Series A common stock, or a combination thereof. If the Corporation elects to pay all or a portion of the redemption price in shares of its Series A common stock, the shares of Series A common stock will be valued at a discount of 2.5% below the average of the closing sale prices for the ten consecutive trading days ending on the fifth trading day prior to the redemption date. The Corporation's ability to redeem all or a portion of the Convertible Perpetual Preferred Stock for cash is subject to the Corporation's obligation to repay or repurchase any outstanding debt that may be required to be repaid or repurchased in connection with a designated event and to any contractual restrictions contained in the terms of any indebtedness that the Corporation has at that time. If, following a designated event, the Corporation is prohibited from paying the redemption price of the Convertible Perpetual Preferred Stock in cash under the terms of the Corporation's debt instruments, but are not prohibited under applicable law from paying such redemption price in the Corporation's shares of Series A common stock, the Corporation will pay the redemption price of the Convertible Perpetual Preferred Stock in the Corporation's shares of Series A common stock. However, in no event will the Corporation be required to deliver more than 240,000,000 shares of its Series A common stock in satisfaction of the redemption price (subject to adjustment).

Unless otherwise determined by the Corporation's board of directors, holders of shares of Convertible Perpetual Preferred Stock will not have any voting rights except as described below, as provided in the Corporation's Second Amended and Restated Certificate of Incorporation or as otherwise required from time to time by law. Whenever (1) dividends on any shares of the Convertible Perpetual Preferred Stock or any other class or series of stock ranking on a parity with the Convertible Perpetual Preferred Stock with respect to the payment of dividends shall be in arrears for dividend periods, whether or not consecutive, containing in the aggregate a number of days equivalent to six calendar quarters or (2) the Corporation fails to pay the redemption price on the date shares of Convertible Perpetual Preferred Stock are called for redemption (whether the redemption is pursuant to the optional redemption provisions or the redemption is in connection with a designated event) then, immediately prior to the next annual meeting of shareholders,

the total number of directors constituting the entire board of the Corporation will automatically be increased by two and in each case, the holders of shares of Convertible Perpetual Preferred Stock (voting separately as a class with all other series of other preferred stock of the Corporation on parity with the Convertible Perpetual Preferred Stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of such directors at the next annual meeting of stockholders and each subsequent meeting until the redemption price or all dividends accumulated on the Convertible Perpetual Preferred Stock have been fully paid or set aside for payment. Directors elected by the holders of the Convertible Perpetual Preferred Stock will not be divided into the classes of the board of directors and the term of office of all directors elected by the holders of Convertible Perpetual Preferred Stock will terminate immediately upon the termination of the right of the holders of Convertible Perpetual Preferred Stock to vote for directors and upon such termination the total number of directors constituting the entire board will automatically be reduced by two. Each holder of shares of the Convertible Perpetual Preferred Stock will have one vote for each share of Convertible Perpetual Preferred Stock held. So long as any shares of the Convertible Perpetual Preferred Stock remain outstanding, the Corporation will not, without the consent of the holders of at least two-thirds of the shares of Convertible Perpetual Preferred Stock outstanding at the time, voting separately as a class with all other series of Convertible Perpetual Preferred Stock upon which like voting rights have been conferred and are exercisable issue or increase the authorized amount of any class or series of stock ranking senior to the outstanding Convertible Perpetual Preferred Stock as to dividends or upon liquidation. In addition, the Corporation will not amend, alter or repeal provisions of the Corporation's Second Amended and Restated Certificate of Incorporation or of the resolutions contained in the Certificate of Designation, whether by merger, consolidation or otherwise, so as to amend, alter or adversely affect any power, preference or special right of the outstanding Convertible Perpetual Preferred Stock or the holders thereof without the affirmative vote of not less than two-thirds of the issued and outstanding Convertible Perpetual Preferred Stock; provided, however, that any increase in the amount of the authorized Series A common stock or authorized preferred stock or the creation and issuance of other series of Series A common stock or preferred stock ranking on a parity with or junior to the Convertible Perpetual Preferred Stock as to dividends and upon liquidation will not be deemed to adversely affect such powers, preference or special rights.

In the event of the Corporation's liquidation, dissolution or winding up, the holders of Convertible Perpetual Preferred Stock are entitled to receive out of the Corporation's assets available for distribution of an amount equal to the liquidation preference per share of Convertible Perpetual Preferred Stock held by that holder, plus an amount equal to all accumulated and unpaid dividends on those shares to the date of that liquidation, dissolution, or winding up, before any distribution is made on any junior stock, including the Corporation's Series A common stock, but after any distributions on any of the Corporation's indebtedness.

This description of the Certificate of Designation is qualified in its entirety by reference to the Certificate of Designation, which is attached as Exhibit 3.2 to this document and is incorporated by reference in this document.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits.

- 3.1 Second Amended and Restated Certificate of Incorporation
- 3.2 Certificate of Designation

- 10.1 Shareholders Agreement
- 10.2 Registration Rights Agreement
- 10.3 Sponsor Services Agreement
- 10.4 Form of Employee Stockholders Agreement
- 10.5 Form of Nonqualified Stock Option Agreement (for employees)
- 10.6 Form of Nonqualified Stock Option Agreement (for non-employee directors)
- 10.7 Celanese Corporation 2004 Stock Incentive Plan

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

CELANESE CORPORATION

Date: January 28, 2005

By: /s/ Corliss J. Nelson

Name: Corliss J. Nelson

Title: Executive Vice President and Chief

Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit</u>
3.1	Second Amended and Restated Certificate of Incorporation
3.2	Certificate of Designation
10.1	Shareholders Agreement
10.2	Registration Rights Agreement
10.3	Sponsor Services Agreement
10.4	Form of Employee Stockholders Agreement
10.5	Form of Nonqualified Stock Option Agreement (for employees)
10.6	Form of Nonqualified Stock Option Agreement (for non-employee directors)
10.7	Celanese Corporation 2004 Stock Incentive Plan

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Total comprehensive income	34.4	Cash dividends declared (\$0.880 per share)	(5.4)	(5.4)	Exercise of stock				
options	45,717	1.0	1.0	Employee stock purchase plan	32,564	0.9	0.9	Repurchase and retirement of common	
stock	(1,878,229)	(0.4)	(4.6)	(55.8)	(60.8)	Restricted stock units compensation expense	0.2	0.2	Stock grants compensation
expense	0.2	0.2	Stock grants issued	10,922	Stock option compensation expense	0.7	0.7	Deferred compens	
plan	0.8	(0.8)	Performance share units compensation expense	0.8	0.8	Cumulative effect of adopting FIN 48, net of			
tax	(1.0)	(1.0)							

Balance, September 1, 2007 61,130,399 \$12.2 \$ \$169.1 \$(50.7) \$(4.3) \$126.3

HERMAN MILLER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS
(Dollars in Millions)(Unaudited)

	Three Months Ended	
	September 1, 2007	September 2, 2006
Cash Flows from Operating Activities:		
Net earnings	\$ 33.5	\$ 28.5
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	11.0	10.2
Stock-based compensation	2.1	1.4
Pension benefits	1.5	(0.3)
Other, net	1.9	1.4
Increase in current assets	(9.3)	(23.7)
Decrease in current liabilities	(8.9)	(23.9)
	31.8	(6.4)
Net Cash Provided by (Used for) Operating Activities		
Cash Flows from Investing Activities:		
Changes in notes receivable, net		0.7
Short-term investment purchases	(2.2)	(0.2)
Short-term investment sales	2.1	0.4
Capital expenditures	(8.9)	(8.6)
Proceeds from sales of property and equipment		0.1
Other, net	0.1	
	(8.9)	(7.6)
Net Cash Used for Investing Activities		
Cash Flows from Financing Activities:		
Short-term borrowings, net	30.0	
Dividends paid	(5.5)	(5.3)
Common stock issued	1.8	1.0
Common stock repurchased and retired	(60.8)	(46.4)
	(34.5)	(50.7)
Net Cash Used for Financing Activities		
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.6	(0.2)
	(11.0)	(64.9)
Net Decrease in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Period	76.4	106.8
	\$ 65.4	\$ 41.9
Cash and Cash Equivalents, End of Period		

See accompanying notes to condensed consolidated financial statements.

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HERMAN MILLER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared by Herman Miller, Inc. ("the company"), without audit, in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Management believes the disclosures made in this document are adequate so as not to make the information presented misleading.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements, taken as a whole, contain all adjustments which are of a normal recurring nature necessary to present fairly the financial position of the company as of September 1, 2007, and the results of its operations and cash flows for the interim periods presented. Operating results for the three-month period ended September 1, 2007 are not necessarily indicative of the results that may be expected for the year ending May 31, 2008. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's Form 10-K filing for the year ended June 2, 2007.

2. FISCAL YEAR

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2008, the year ending May 31, 2008 contains 52 weeks. Fiscal 2007, the year ended June 2, 2007, contained 52 weeks. The first three months of fiscal 2008 and 2007 each contained 13 weeks.

3. FOREIGN CURRENCY TRANSLATION

The functional currency for foreign subsidiaries is the local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the United States dollar using period-end exchange rates and revenue and expense accounts using average exchange rates for the period is reflected as a component of "Accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets. The financial statement impact resulting from remeasuring all foreign currency transactions into the appropriate functional currency, which was included in "Other Expenses (Income)" in the Condensed Consolidated Statements of Operations, was a loss of \$0.3 million and a gain of \$0.1 million for the three months ended September 1, 2007, and September 2, 2006, respectively.

4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net earnings, foreign currency translation adjustments, pension and post-retirement liability adjustments and unrealized holding gains (losses) on "available-for-sale" securities. Comprehensive income was approximately \$34.4 million and \$29.3 million for the three months ended September 1, 2007 and September 2, 2006, respectively. The following presents the components of "Accumulated other comprehensive loss" for the period indicated.

(In Millions)	Foreign Currency Translation Adjustments	Pension and Post-Retirement Liability Adjustments (net of tax)	Unrealized Holding Period Gains (Losses) (net of tax)	Total Accumulated Other Comprehensive Income (Loss)
Balance, June 2, 2007	\$ 0.5	\$ (51.9)	\$ (0.2)	\$ (51.6)
Other comprehensive income (loss) for the three months ended September 1, 2007	1.0	(0.1)		0.9
Balance, September 1, 2007	\$ 1.5	\$ (52.0)	\$ (0.2)	\$ (50.7)

5. COMMON STOCK AND EARNINGS PER SHARE

The following table reconciles the numerators and denominators used in the calculations of basic and diluted earnings per share (EPS).

	<u>Three Months Ended</u>	
	<u>September 1, 2007</u>	<u>September 2, 2006</u>
Numerators:		
Numerator for both basic and diluted EPS, net earnings (In Millions)	\$ 33.5	\$ 28.5
Denominators:		
Denominator for basic EPS, weighted-average common shares outstanding	61,781,431	65,104,357
Potentially dilutive shares resulting from stock plans	579,356	515,525
Denominator for diluted EPS	<u>62,360,787</u>	<u>65,619,882</u>

Options to purchase 898,477 and 1,084,918 shares of common stock for the three months ended September 1, 2007 and September 2, 2006, respectively, have not been included in the denominator for the computation of diluted earnings per share because they were anti-dilutive.

6. STOCK-BASED COMPENSATION

The company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment" (SFAS 123(R)), at the beginning of fiscal 2007, using the modified prospective transition method. The company recognized compensation costs and related income tax benefits of \$2.1 million and \$0.7 million, respectively for its stock-based compensation plans in the Condensed Consolidated Statement of Operations for the three-month period ended September 1, 2007. For the three-month period ended September 2, 2006, compensation costs and related income tax benefits were \$1.4 million and \$0.5 million, respectively.

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three months ended September 1, 2007 and September 2, 2006 has been reduced for estimated forfeitures, as it is based on awards ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

Stock Option Plans

The company has stock option plans under which options to purchase the company's stock are granted to employees and non-employee directors and officers at a price not less than the market price of the company's common stock on the date of grant. All options become exercisable between one year and three years from date of grant and expire two to ten years from date of grant. The options are subject to graded vesting with the related compensation expense recognized on a straight-line basis over the requisite service period

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The company estimated the fair value of employee stock options on the date of grant using the Black-Scholes model. In determining these values, the following weighted-average assumptions were used for the year-to-date periods indicated.

	September 1, 2007	September 2, 2006
Risk-free interest rates ⁽¹⁾	4.82%	4.95%
Expected term of options ⁽²⁾	5.5 years	5.0 years
Expected volatility ⁽³⁾	28%	28%
Dividend yield ⁽⁴⁾	1.0%	1.0%
Weighted-average grant-date fair value of stock options:		
Granted with exercise prices equal to the fair market value of the stock on the date of grant	10.14	
Granted with exercise prices greater than the fair market value of the stock on the date of grant	\$	\$ 7.48

- ⁽¹⁾ Represents the U.S. Treasury yield over the same period as the expected option term.
- ⁽²⁾ Represents the period of time that options granted are expected to be outstanding. Based on analysis of historical option exercise activity, the company has determined that all employee groups exhibit similar exercise and post-vesting termination behavior.
- ⁽³⁾ Amount is determined based on analysis of historical price volatility of the company's common stock over a period equal to the expected term of the options. The company also utilizes a market-based or implied volatility measure, on exchange-traded options in the company's common stock, as a reference in determining this assumption.
- ⁽⁴⁾ Represents the company's estimated cash dividend yield over the expected term of options.

Restricted Stock Grants

The company grants restricted common stock to certain key employees. Shares are granted in the name of the employee, who has all rights of a shareholder, subject to certain restrictions on transferability and risk of forfeiture. The grants are subject to either cliff-based or graded vesting over a period not to exceed five years, subject to forfeiture if the employee ceases to be employed by the company for certain reasons. After the vesting period, the restrictions on transferability lapse. The company recognizes the related compensation expense on a straight-line basis over the requisite service period.

Restricted Stock Units

The company has previously granted restricted stock units to certain key employees. This program provided that the actual number of restricted stock units awarded was tied in part to the company's annual financial performance for the year on which the grant was based. The awards generally cliff-vest after a five year service period, with prorated vesting for certain circumstances and continued vesting into retirement. Each restricted stock unit represents one equivalent share of the company's common stock to be awarded, free of restrictions, after the vesting period. Compensation expense related to these awards is recognized over the requisite service period, which includes any applicable performance period. Dividend equivalent awards are granted quarterly.

Performance Share Units

The company grants performance share units to certain key employees. The number of units initially awarded is based on the value of a portion of the participant's long-term incentive compensation, divided by the fair value of the company's common stock on the date of grant. Each unit represents one equivalent share of the company's common stock. The number of common shares ultimately issued in connection with these performance share units is determined based on the company's financial performance over the related three-year service period. Compensation expense is determined based on the grant-date fair value and the number of common shares projected to be issued, and is recognized over the requisite service period.

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Employee Stock Purchase Program

Under the terms of the company's Employee Stock Purchase Plan, 4 million shares of authorized common stock were reserved for purchase by plan participants at 85.0 percent of the market price. The company recognizes pre-tax compensation expense related to the market value discount.

7. SUPPLEMENTAL CASH FLOW INFORMATION

The company holds cash equivalents as part of its cash management function. Cash equivalents include money market funds, time deposit investments and treasury bills with original maturities of less than three months. All cash equivalents are high-credit quality financial instruments and the amount of credit exposure to any one financial institution or instrument is limited.

Cash payments for income taxes and interest were as follows.

(In Millions)	Three Months Ended	
	September 1, 2007	September 2, 2006
Income taxes paid, net	\$ 1.7	\$ 4.3
Interest paid	\$ 0.1	\$

8. SHORT-TERM INVESTMENTS

The company maintains a portfolio of short-term investments comprised of investment grade fixed-income securities. These investments are held by the company's wholly-owned insurance captive and are considered "available-for-sale" as defined in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, they have been recorded at fair market value based on quoted market prices, with the resulting net unrealized holding gains or losses reflected, net of tax, as a component of "Accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets (see Note 4).

Net investment income recognized in the Condensed Consolidated Statements of Operations resulting from these investments totaled approximately \$0.1 million for each of the three-month periods ended September 1, 2007 and September 2, 2006.

(In Millions)	September 1, 2007			
	Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government & Agency Debt	\$ 3.0	\$	\$ (0.1)	\$ 2.9
Corporate Bonds	7.0		(0.1)	6.9
Mortgage-Backed	5.5		(0.1)	5.4
Other Debt	0.8			0.8
Total	\$ 16.3	\$	\$ (0.3)	\$ 16.0

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The following is a summary of the carrying and market values of the company's short-term investments as of the respective dates.

	June 2, 2007			
(In Millions)	Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government & Agency Debt	\$ 3.9	\$	\$ (0.1)	\$ 3.8
Corporate Bonds	6.0		(0.1)	5.9
Mortgage-Backed	5.5		(0.1)	5.4
Other Debt	0.8			0.8
Total	\$ 16.2	\$	\$ (0.3)	\$ 15.9

9. OPERATING SEGMENTS

The company is comprised of two primary operating segments as defined in SFAS 131, "Disclosures about Segments of an Enterprise and Related Information;" North American Furniture Solutions and Non-North American Furniture Solutions.

The North American Furniture Solutions segment includes the operations associated with the design, manufacture and sale of furniture products for work-related settings, including office and healthcare environments, throughout the United States, Canada and Mexico. The business associated with the company's owned contract furniture dealers is also included in the North American Furniture Solutions segment. The Non-North American Furniture Solutions segment includes the operations associated with the design, manufacture and sale of furniture products primarily for work-related settings outside of North America.

The company also reports an "Other" category consisting primarily of its North American Home and start-up businesses, and certain unallocated corporate expenses, if any. North American Home includes the operations associated with the design, manufacture and sale of furniture products for residential settings in the United States, Canada and Mexico. The start-up businesses are aimed at developing innovative products to serve current and new markets.

The performance of the operating segments is evaluated by the company's management using various financial measures. The following is a summary of certain key financial measures for the respective fiscal periods indicated.

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(In Millions)	Three Months Ended	
	September 1, 2007	September 2, 2006
Net Sales:		
North American Furniture Solutions	\$ 406.3	\$ 372.4
Non-North American Furniture Solutions	73.3	62.6
Other	12.1	14.7
Total	\$ 491.7	\$ 449.7
Depreciation and Amortization:		
North American Furniture Solutions	\$ 9.3	\$ 8.9
Non-North American Furniture Solutions	1.2	1.1
Other	0.5	0.2
Total	\$ 11.0	\$ 10.2
Operating Earnings:		
North American Furniture Solutions	\$ 42.0	\$ 38.4
Non-North American Furniture Solutions	9.9	6.1
Other	1.8	1.2
Total	\$ 53.7	\$ 45.7
Capital Expenditures:		
North American Furniture Solutions	\$ 7.6	\$ 7.4
Non-North American Furniture Solutions	1.0	0.5
Other	0.3	0.7
Total	\$ 8.9	\$ 8.6
(In Millions)	September 1, 2007	June 2, 2007
Total Assets:		
North American Furniture Solutions	\$ 503.2	\$ 507.0
Non-North American Furniture Solutions	134.9	133.1
Other	25.6	26.1
Total	\$ 663.7	\$ 666.2

The accounting policies of the reportable operating segments are the same as those of the company. Additionally, the company employs a methodology for allocating corporate costs and assets to the operating segments. The underlying objective of this methodology is to allocate corporate costs according to the relative usage of the underlying resources and to allocate corporate assets according to the relative expected benefit. The company has determined that allocation based on relative net sales is most appropriate. The majority of corporate costs are allocated to the operating segments, however, certain costs that are generally considered the result of isolated business decisions are not subject to allocation and are evaluated separately from the rest of the regular ongoing business operations.

10. NEW ACCOUNTING STANDARDS

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. Under FIN 48, the tax effects of a position should be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. FIN 48 also requires significant new annual disclosures in the notes to the financial statements. The effect of adjustments at adoption is required to be recorded directly to beginning retaining earnings in the period of adoption and reported as a change in accounting principle. Retroactive application is

(a)(1) As contemplated in the Registration Statements, the Corporation filed the Second Amended and Restated

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prohibited under FIN 48. The company adopted the provisions of FIN 48 at the beginning of fiscal 2008. Further information regarding the adoption of FIN 48 is provided in Note 14.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). This new standard establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair value market value. SFAS 157 also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. The company is required to adopt this new accounting guidance at the beginning of fiscal 2009. While the company is currently evaluating the provisions of SFAS 157, the adoption is not expected to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 expands the use of fair value measurement by permitting entities to choose to measure at fair value, many financial instruments and certain other items that are not currently required to be measured at fair value. The company is required to adopt SFAS 159 at the beginning of fiscal 2009 and is in the process of evaluating the applicability and potential impact to its financial statements.

11. OTHER INTANGIBLE ASSETS

Other intangible assets are comprised of patents, trademarks and intellectual property rights. As of September 1, 2007, the combined gross carrying value and accumulated amortization was \$15.2 million and \$6.0 million, respectively. As of June 2, 2007, these amounts totaled \$14.9 million and \$5.5 million, respectively. The company amortizes its intangible assets over periods ranging from 5 to 17 years.

Amortization expense related to intangible assets totaled \$0.5 million and \$0.3 million for the three-month periods ended September 1, 2007, and September 2, 2006.

Estimated amortization expense for intangible assets as of September 1, 2007, for each of the succeeding fiscal years is as follows.

(In Millions)	Remaining 2008	\$ 1.3
	2009	\$ 1.7
	2010	\$ 1.3
	2011	\$ 1.3
	2012	\$ 1.2

12. LONG-TERM DEBT AND NOTES PAYABLE

On March 6, 2001, the company sold publicly registered debt securities totaling \$175.0 million. These notes mature on March 15, 2011 and bear an annual interest rate of 7.125 percent, with interest payments due semi-annually.

The company previously issued \$100.0 million of senior notes in a private placement to seven insurance companies of which, \$3.0 million was outstanding at September 1, 2007 and June 2, 2007.

The company has available an unsecured revolving credit facility that provides for \$150.0 million of borrowings and expires in October 2009. The agreement has an accordion feature enabling the credit facility to be increased by an additional \$50.0 million, subject to certain conditions. Outstanding borrowings under the agreement bear interest at rates based on the prime, certificates of deposit, LIBOR, or negotiated rates as outlined in the agreement. Interest is payable periodically throughout the period a borrowing is outstanding. Outstanding borrowings against the revolving credit facility reflected under notes payable on the Condensed Consolidated Balance Sheets at September 1, 2007 and June 2, 2007, was \$30.0 million and zero, respectively. Additionally, usage against this facility related to outstanding standby letters of credit at September 1, 2007 and June 2, 2007 totaled approximately \$13.1 million at each date.

In November 2003, the company entered into two fixed-to-floating interest rate swap agreements. The first agreement, which expires March 15, 2011, effectively converts \$50.0 million of fixed-rate debt securities to a floating-rate basis. The fair value of this swap instrument, which is based upon expected LIBOR rates over the remaining term of the instrument, was approximately \$(0.8) million at September 1, 2007, and is reflected as a reduction to long-term debt and an offsetting addition to other long-term liabilities in the Condensed Consolidated Balance Sheets. As of June 2, 2007, the fair value of approximately \$(1.7) million is reflected as a reduction to long-term debt and an offsetting addition to other long-term liabilities. The floating interest rate for this agreement is based on the six-month LIBOR, set in-arrears at the end of each semi-annual period, which is estimated to be approximately 8.0 percent at both September 1, 2007 and June 2, 2007. The next scheduled interest rate reset date is in September 2007.

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The second agreement, which expires March 5, 2008, effectively converts \$3.0 million of fixed-rate private placement debt to a floating-rate basis. The fair value of this swap instrument, which is based upon expected LIBOR rates over the remaining term of the instrument, was approximately \$(0.1) million at September 1, 2007, and is reflected as a reduction to long-term debt and an offsetting addition to other long-term liabilities in the Condensed Consolidated Balance Sheet. As of June 2, 2007, the fair value of approximately \$(0.1) million is reflected in the Condensed Consolidated Balance Sheets as a reduction to long-term debt and an offsetting addition to other long-term liabilities. The floating interest rate for this agreement is based on the six-month LIBOR, set in-arrears at the end of each semi-annual period, which is estimated to be approximately 8.8 percent at September 1, 2007 and 8.7 percent at June 2, 2007. The next scheduled interest rate reset date is in September 2007.

As of September 1, 2007, a total of \$53.0 million of the company's outstanding debt was effectively converted to a variable-rate basis as a result of these interest rate swap arrangements. These swaps are fair-value hedges and qualify for hedge-accounting treatment using the "short-cut" method under the provisions of Statement of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under this accounting treatment, the change in the fair value of the interest rate swap is equal to the change in value of the related hedged debt and, as a result, there is no net effect on earnings. These agreements require the company to pay floating-rate interest payments in return for receiving fixed-rate interest payments that coincide with the semi-annual payments to the debt holders at the same date.

The counterparties to these swap instruments are large financial institutions which the company believes are of high-quality creditworthiness. While the company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, such losses are not anticipated. These swap arrangements effectively increased interest expense by \$0.1 million in each of the three-month periods ended September 1, 2007 and September 2, 2006.

13. GUARANTEES, INDEMNIFICATIONS, AND CONTINGENCIES

Product Warranties

The company provides warranty coverage to the end-user for parts and labor on products sold. The standard length of warranty is 12 years; however, this varies depending on the product classification. The company does not sell or otherwise issue warranties or warranty extensions as stand-alone products. Reserves have been established for the various costs associated with the company's warranty program. General warranty reserves are based on historical claims experience and other currently available information and are periodically adjusted for business levels and other factors. Specific reserves are established once an issue is identified with the amounts for such reserves based on the estimated cost of correction. Changes in the warranty reserves for the stated periods were as follows.

	Three Months Ended	
(In Millions)	September 1, 2007	September 2, 2006
Accrual Balance - beginning	\$ 14.6	\$ 14.9
Accrual for warranty matters	3.7	4.2
Settlements and adjustments	(3.6)	(3.5)
	\$ 14.7	\$ 15.6

Other Guarantees

The company is periodically required to provide performance bonds in order to do business with certain customers. These arrangements are common and generally have terms ranging between one and three years. The bonds are required to provide assurances to customers that the products and services they have purchased will be installed and/or provided properly and without damage to their facilities. The bonds are provided by various bonding agencies, however, the company is ultimately liable for claims that may occur against them. As of September 1, 2007, the company had a maximum financial exposure related to performance bonds totaling approximately \$8.4 million. The company has had no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the company's financial statements. Accordingly, no liability has been recorded as of September 1, 2007 and June 2, 2007.

The company previously entered into an agreement with a third-party leasing company to guarantee, in certain limited circumstances, the residual value of leased product. This lease expired in March 2007. As of September 1, 2007 the maximum financial exposure regarding the guarantee totaled approximately \$2.0 million. As of September 1, 2007 and June 2, 2007, the estimated fair value of this guarantee is zero, and accordingly, is not reflected on the company's Condensed Consolidated Balance Sheets at these dates.

The company has entered into standby letter of credit arrangements for the purpose of protecting various insurance companies against default on the payment of certain premiums and claims. A majority of these arrangements are related to the company's wholly-owned captive insurance company. As of September 1, 2007, the company had a maximum financial exposure from these insurance-related standby letters of credit totaling approximately \$13.1 million. The company has had no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the company's financial statements. Accordingly, no liability has been recorded as of September 1, 2007 and June 2, 2007.

Contingencies

As previously reported, the company has received a subpoena from the New York Attorney General's office requesting certain information relating to the minimum advertised price program maintained by the Herman Miller for the Home division. In connection with this matter, the New York Attorney General's office has taken depositions of current and former employees of the company and certain dealers. The company and the New York Attorney General's office have had preliminary discussions regarding possible methods of resolving the matter. The company has reserved its best estimate of a potential amount to resolve this matter. The accrued amount is not material to the company's consolidated financial position.

The company leases a facility in the UK under an agreement that expires in March 2008. Under the terms of the lease, the company is required to perform the maintenance and repairs necessary to address the general dilapidation of the facility over the lease term. The ultimate cost of this provision to the company is dependent on a number of factors including, but not limited to, the future use of the facility by the lessor and whether the company chooses and is permitted to renew the lease term. The company has estimated the cost of these maintenance and repairs to be between \$0 and \$3 million, depending on the outcome of future plans and negotiations. Based on existing circumstances, it is estimated that these costs will most likely approximate \$0.5 million. As a result, this amount has been recorded as a liability reflected under the caption "Other Liabilities" in the Condensed Consolidated Balance Sheets at both September 1, 2007, and June 2, 2007.

The company has a lease obligation in the UK until May 2014 for a facility that it previously exited. The company believes it will be able to assign or sublet the lease for the majority of the remaining lease term to another tenant at current market rates. However, current market rates for comparable office space are lower than the rental payments owed under the lease agreement. As such, the company would remain liable to pay the difference. As a result, the estimated liability of \$1.3 million and \$1.4 million is reflected under the caption "Other Liabilities" in the Condensed Consolidated Balance Sheets at September 1, 2007 and June 2, 2007, respectively.

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The company, for a number of years, has sold various products to the United States Government under General Services Administration ("GSA") multiple award schedule contracts. Under the terms of these contracts, the GSA is permitted to audit the company's compliance with the GSA contracts. The company has occasionally noted errors in complying with contract provisions. From time to time the company has notified the GSA of known instances of non-compliance (whether favorable or unfavorable to the GSA) once such circumstances are identified and investigated. The company does not believe that any of the errors brought to the GSA's attention will adversely affect its relationship with the GSA. Currently there are no GSA post-award audits either scheduled or in process. Management does not expect resolution of potential future audits to have a material adverse effect on the company's consolidated financial statements.

The company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the company's consolidated financial statements.

14. INCOME TAXES

The effective tax rates for the three months ended September 1, 2007 and September 2, 2006, were 33.5 percent and 33.4 percent, respectively. The company's United States federal statutory rate is 35.0 percent. The current year effective rate was below the statutory rate primarily due to the manufacturing deduction under the American Job Creations Act of 2004. The effective rate in the prior year was below the statutory rate primarily due to the manufacturing deduction under the American Job Creations Act of 2004, the release of federal tax reserves relating to the closure of an Internal Revenue Service review for fiscal years 1997 through 2003 and other accrual adjustments related to the company's foreign captive insurance company.

The company adopted the provisions of FIN 48 on June 3, 2007. Prior to the adoption of FIN 48, the company had income tax accruals of \$6.6 million associated with tax benefits taken in tax returns but not recognized for financial statement purposes ("unrecognized tax benefits"). As a result of the adoption of FIN 48, the company recorded an increase in liabilities for unrecognized tax benefits of \$0.8 million, which was recorded as a reduction to beginning retained earnings in fiscal 2008. Including this cumulative effect adjustment, the company had income tax accruals associated with unrecognized tax benefits totaling \$7.9 million as of September 1, 2007. The company's effective tax rate would have been affected by this amount had the unrecognized tax benefits been recognized as a reduction to income tax expense.

The company recognizes interest and penalties related to unrecognized tax benefits through income tax expense in its statement of operations. The company has reserved approximately \$0.2 million for interest and penalties related to the adoption of FIN 48, which is also recorded as a reduction to beginning retained earnings in fiscal 2008. Interest and penalties recorded during the quarters ended September 1, 2007 and September 2, 2006, were negligible. As of September 1, 2007, the company's recorded liability for interest and penalties related to unrecognized tax benefits totaled \$0.8 million.

The company is subject to periodic audits by domestic and foreign tax authorities. Currently, the company is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next 12 months as a result of the audits, however, any tax payments related to these audits, if any, is not expected to be material to the company's consolidated financial statements.

For the majority of tax jurisdictions, the company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2004.

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15. EMPLOYEE BENEFIT PLANS

The following tables summarize the costs of the company's employee pension and post-retirement plans for the periods indicated.

(In Millions)

	Three Months Ended			
	Pension Benefits		Post-Retirement Benefits	
	September 1, 2007	September 2, 2006	September 1, 2007	September 2, 2006
Domestic:				
Service cost	\$ 2.3	\$ 2.2	\$	\$
Interest cost	4.0	4.0	0.3	0.3
Expected return on plan assets	(5.4)	(5.3)		
Net amortization loss	0.7	0.5	0.1	0.1
Net periodic benefit cost	<u>\$ 1.6</u>	<u>\$ 1.4</u>	<u>\$ 0.4</u>	<u>\$ 0.4</u>
International:				
Service cost	\$ 0.6	\$ 0.5		
Interest cost	1.1	0.9		
Expected return on plan assets	(1.3)	(1.0)		
Net amortization loss	0.1	0.4		
Net periodic benefit cost	<u>\$ 0.5</u>	<u>\$ 0.8</u>		

During the first quarter of fiscal 2007, the company made a \$2 million voluntary contribution to its international pension plan. The company is currently evaluating what additional voluntary contributions, if any, will be made to its various employee retirement plans in fiscal 2008. Actual contributions will be dependent upon investment returns, changes in pension obligations and other economic and regulatory factors.

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that affected the company's financial condition, earnings and cash flows during the periods included in the accompanying condensed consolidated financial statements. References to "Notes" are to the footnote disclosures included in the condensed consolidated financial statements.

Discussion of Current Business Conditions

Our operating results for the quarter ended September 1, 2007 provided a solid start to the fiscal year. It represented the fifteenth consecutive quarter of year-over-year consolidated net sales growth. Our strong beginning backlog, combined with consistent order pacing early in the quarter, drove growth of 9.3% in revenue over the prior year first quarter. This increased sales volume provided improved leverage within our gross margin and operating expense percentages, and was further enhanced by benefit gained from our most recent price increase, improved leverage within our gross margin and operating expense percentages. As a result, operating earnings, net earnings, and earnings per share all showed double-digit increases over the prior year.

Our Non-North American Furniture Solutions business segment had another outstanding quarter; reporting double-digit increases in net sales and operating earnings. Order levels within the segment also remained strong throughout the quarter. Our focused efforts to extend our reach into new geographic markets, combined with new products and the continued expansion of our independent dealer network contributed to these positive results.

Net sales within our North American Furniture Solutions segment were 9.1% higher than the prior year quarter. While we were pleased with this top-line increase, we were disappointed in the volume of new orders booked in the period. In fact, North American orders in the quarter declined relative to the prior year, driving an overall decrease in our consolidated orders on a year-over-year basis.

The Business Institutional Furniture Manufacturer's Association (BIFMA) issued its most recent domestic industry forecast in August 2007. The report outlines an expectation that the industry will continue to experience growth in shipments and orders through calendar year 2008. However, these growth rates were revised downward from those reported in the previous BIFMA forecast. An expected softening in the non-residential construction sector and a negative outlook for corporate profitability were cited as drivers of the revised forecast.

The decline in orders we experienced in the first quarter, particularly when viewed in the context of BIFMA's revised industry forecast, suggest we may be entering a period of cyclical softening in the North American contract office furniture market. Accordingly, we are taking steps to adjust our cost structure to the current order levels we are seeing in the business. As always, our goal in making these adjustments is to, at a minimum, maintain operating profitability in the near-term without sacrificing the investments required to achieve our long-term strategic goals.

Analysis of First Quarter Results

The quarters ended September 1, 2007 and September 2, 2006 each included 13 weeks of operations. The following table presents certain key highlights from the results of operations for the periods indicated.

In millions, except per share data

	Three Months Ended		
	September 1, 2007	September 2, 2006	Percent Change
Net Sales	\$ 491.7	\$ 449.7	9.3%
Gross Margin	167.5	152.3	10.0%
Operating Expenses	113.8	106.6	6.8%
Operating Earnings	53.7	45.7	17.5%
Net Earnings	33.5	28.5	17.5%
Earnings per share - diluted	0.54	0.43	25.6%
Orders	483.8	503.2	-3.9%
Backlog	279.8	293.9	-4.8%

Consolidated Sales, Orders, and Backlog

Net sales in the first quarter of \$491.7 million were \$42.0 million higher than the same period last year. An estimated \$7 million to \$8 million of this increase is attributed to the general price increase we implemented in February 2007. The amount of the price increase that we have captured as additional net sales has been between 30% and 50% of the total list price increase. This capture rate is similar to our experience with general list price increases implemented in recent years. The competitive pricing environment within our industry generally precludes us from capturing the full benefit of a list price increase.

On a sequential-quarter basis, net sales in the period increased \$6.4 million or 1.3% from the fourth quarter of fiscal year 2007. This percentage increase is comparable to what we experienced between the fourth quarter of fiscal 2006 and the first quarter of fiscal 2007.

Unlike net sales, new orders in the first quarter of fiscal 2008 were lower than the prior year period. Consolidated orders of \$483.8 million decreased \$19.4 million or 3.9% from the first quarter of fiscal 2007. This represents the first time in 15 consecutive quarters that we have experienced a year-over-year decline in orders. The overall decrease is attributable to lower new orders in North America and may reflect a cyclical softening of business conditions in the North American contract furniture market.

On a sequential-quarter basis, orders in the first quarter increased \$7.0 million or 1.5% from the fourth quarter of fiscal year 2007. The comparable increase in the prior year was 13.9%. We generally experience increased order activity in the first quarter, driven by a seasonal ramp-up in federal government orders and project activity following the industry trade show in June. Although this year, we did not see as many large federal government or commercial project orders as we had in the past.

The backlog of unfilled orders as of September 1, 2007 was \$279.8 million. This amount is down \$14.1 million or 4.8% from our September 2, 2006 backlog of \$293.9 million. The decrease in the backlog compared to the prior year was driven by lower order activity in our North American business segment in the first quarter. On a sequential-quarter basis, the ending backlog decreased \$8.2 million or 2.8% from the fourth quarter of fiscal 2007.

Performance versus the Domestic Contract Furniture Industry

Net sales at our U.S. operations increased 8.4% during the first quarter of fiscal 2008 compared to the same quarter last year. Conversely, over the same period our domestic orders decreased 6.0%. By comparison, BIFMA reported an estimated year-over-year increase in U.S. office furniture shipments of 7.9% for the three-months ended August 2007. Industry orders for the quarter as reported by BIFMA grew 8.9% from the same period last year.

We remain cautious about reaching conclusions regarding changes in market share based on analysis of data on a short term basis due, in part, to the large increase in orders received in the first quarter of fiscal 2007. Instead, we believe such conclusions should only be reached by analyzing comparative data over several quarters. Based on this, we believe our performance relative to the domestic industry over the past 12 months provides evidence that we have been successful in capturing additional domestic market share.

While the sales and order data for our U.S. operations provide a relative comparison to BIFMA, it is not intended to be an exact comparison. The actual data we report to BIFMA is done so in a manner consistent with the BIFMA definition of office furniture "consumption." This definition differs slightly from the categorization we have presented in this report. Notwithstanding this difference, we believe our presentation provides the reader with a more relevant comparison.

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Financial Summary

The following table presents, for the periods indicated, the components of the company's Condensed Consolidated Statements of Operations as a percentage of net sales.

	Three Months Ended	
	September 1, 2007	September 2, 2006
Net Sales	100.0%	100.0%
Cost of Sales	65.9	66.1
Gross Margin	34.1	33.9
Operating Expenses	23.1	23.7
Operating Margin	10.9	10.2
Other Expense, net	0.7	0.6
Earnings Before Income Taxes	10.2	9.5
Income Tax Expense	3.4	3.2
Net Earnings	6.8%	6.3%

Consolidated Gross Margin

Consolidated gross margin in the first quarter totaled 34.1%, representing a 20 basis-point improvement over the same quarter last year. The improvement was driven primarily by benefits received from the February 2007 price increase, combined with additional leverage gained on higher net sales volume. In addition to the impact of our price increase, direct material costs improved relative to the prior year due to favorable commodity prices. These positive factors were partially offset by increased overhead expenses associated with project-related services, the implementation of annual salary and wage increases at the beginning of the fiscal year, and continued inefficiencies associated with the production of one of our newest lines of systems furniture. Despite the increased payroll costs and specific production inefficiencies, total direct labor expenses in the first quarter improved, as a percent of net sales, by 30 basis-points from the prior year.

Manufacturing overhead expenses in the first quarter were higher than the prior first quarter, both in terms of dollars and as a percent of net sales. Costs related to service sales were among the more significant drivers of this increase. In particular, we experienced an increase in service sales within our Non-North American business segment this quarter. These sales generally have lower margins than do sales of Herman Miller product. In addition, during the first quarter we incurred expenses related to contract design and installation services on a large project within our North American Furniture Solutions business segment. Due to the level of uncertainty associated with our ability to be reimbursed for these services, we recognized the expenses, which totaled approximately \$5.0 million, without recording any associated service revenue. Overhead expenses also increased in the quarter relative to the prior year due to higher costs for depreciation and employee benefits, including medical and prescription drug coverage, and salaries for indirect production labor.

On a percent-of-sales basis, direct material expenses decreased 80 basis points from the first quarter of fiscal 2007. A significant amount of this reduction is attributable to the impact of our February 2007 general price increase, which increased net sales without a corresponding increase in expenses. We also benefited in the quarter from a favorable shift in the market price of steel components relative to the prior-year period. We estimate the favorable impact of steel prices, in combination with net pricing changes for other commodities such as aluminum, plastics, and wood particleboard, reduced our first quarter direct material costs in the range of \$1.0 million to \$2.0 million compared to the same period in the prior year. Despite this improvement, we believe it is likely that going forward, we will see continued volatility in market pricing for key commodities. Our product pricing strategy, combined with our commitment to lean manufacturing principles under the Herman Miller Production System (HMPS), continue to be our primary means of addressing the financial impact of this volatility.

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On a sequential-quarter basis, our gross margin percentage in the first quarter increased 50 basis points from the fourth quarter of fiscal 2007. The improvement was driven, in part, by the increase in net sales between periods. In addition, incentive compensation expenses recognized in the first quarter were \$2.3 million lower than the fourth quarter of last year. We also benefited from more favorable direct material pricing in the first quarter of this year. Finally, while we are continuing to work through inefficiencies associated with manufacturing one of our newest furniture lines, we did realize an improvement in gross margin performance for this product during the first quarter.

Operating Expenses and Operating Earnings

Operating expenses in the first quarter were \$113.8 million or 23.1% of net sales compared to \$106.6 million or 23.7% of net sales in the same quarter last year. While our operating expenses improved as a percentage of net sales, the year-over-year increase in absolute dollars totaled \$7.2 million. Approximately \$3.4 million of this increase came from higher compensation-related expenses, including those for accrued incentive bonuses, annual merit increases, and stock-based compensation. Additionally, variable selling expenses in the current year first quarter, including commissions and designer royalties, contributed significantly to the year-over-year increase. Expenses related to charitable contributions were up \$0.6 million compared to the prior year. We also incurred higher occupancy costs in the current year first quarter related to new showroom locations in England and Italy. Partially offsetting these increases in the quarter were lower bad debt expenses driven by a general improvement in our aged accounts receivable balances.

Changes in foreign currency exchange rates from the prior year period also had an impact on the comparison of operating expenses in the current period. We estimate changes in exchange rates increased our consolidated first quarter operating expenses by approximately \$0.9 million relative to the same period last year.

Our investment in research and development, excluding royalties, totaled \$9.7 million in both three month periods ended September 1, 2007 and September 2, 2006.

On a sequential-quarter comparison, operating expenses in the first quarter decreased from the fourth quarter of last year both as a percentage of net sales and in total dollars. Operating expenses in the fourth quarter of fiscal 2007 were \$118.6 million or 24.4% of net sales. Incentive bonus expenses in the current year first quarter were \$2.2 million lower than the fourth quarter of fiscal 2007. Additionally, in the fourth quarter of last year we incurred higher costs related to marketing and product development initiatives, much of which related to preparations for our annual industry tradeshow, which was held in June. Due to the timing of this tradeshow, we typically see a decrease in expense spending between the fourth and first quarters of our fiscal calendar.

Operating earnings in the first quarter were \$53.7 million compared to \$45.7 million last year. As a percentage of net sales, operating earnings were 10.9%, up from 10.2% in the prior year.

Other Income/Expense and Income Taxes

Net other expenses in the first quarter totaled \$3.4 million compared to \$2.9 million in the same period last year. The increase in expense was driven primarily by higher interest costs related to borrowings on our revolving line of credit balance. We also incurred a net foreign currency transaction loss of \$0.3 million in the current quarter compared to a gain of \$0.1 million last year.

The effective tax rates for the three months ended September 1, 2007 and September 2, 2006, were 33.5% and 33.4%, respectively. The current quarter effective rate was below the United States federal statutory rate of 35% primarily due to the manufacturing deduction under the American Job Creations Act of 2004 (AJCA). The effective rate in the prior year first quarter was below the statutory rate primarily due to AJCA deductions, the release of federal tax reserves relating to the closure of an Internal Revenue Service review for fiscal years 1997 through 2003, and other accrual adjustments related to our foreign captive insurance company. We expect our full-year effective tax rate for fiscal 2008 to be between 32% and 34%.

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At the beginning of the first quarter we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). Upon adoption, we recognized an increase in accrued liabilities associated with unrecognized tax benefits. We also recognized an increase in accruals for estimated interest and penalties associated with those unrecognized tax benefits. These accrual adjustments were recorded as a \$1.0 million reduction, net of tax, to the June 3, 2007 balance of retained earnings. This adjustment, which did not impact net earnings for the period, is considered a Cumulative Effect of a Change in Accounting Principle as required by FIN 48. In addition, we reclassified \$8.7 million from current accrued income taxes payable into non-current liabilities. This reclassification was made to match the anticipated timing of future income tax payments.

Reportable Operating Segments

Our business comprises various operating segments as defined by generally accepted accounting principles in the United States. These operating segments are determined on the basis of how we internally report and evaluate financial information used to make operating decisions. For external reporting purposes, we aggregate these operating segments as follows:

North American Furniture Solutions Includes the business associated with the design, manufacture and sale of furniture products for office, healthcare and educational environments, throughout the United States, Canada and Mexico.

Non-North American Furniture Solution Includes the business associated with the design, manufacture and sale of furniture products, primarily for work-related settings, outside North America.

Other Includes our North American residential furniture business as well as other business activities, including Convia, and activities associated with the Herman Miller Creative Office. Convia is our subsidiary aimed at providing programmable electrical and data infrastructure for building interiors. The "other" category also includes unallocated corporate expenses.

Further information regarding our reportable operating segments can be found in Note 9.

Net sales in the first quarter within our North American Furniture Solutions segment totaled \$406.3 million compared to \$372.4 million last year. This represents an increase of 9.1%. Sales within the healthcare industry have remained a key source of growth within the segment, again showing double-digit increases over the prior year. Although in terms of dollars our healthcare business remains modest in relation to total segment sales, we continue to believe that ongoing construction within the industry presents a tremendous commercial growth opportunity. Sales in Canada were strong this quarter, posting a double-digit increase over the prior year first quarter. Our Mexico sales operation reported a year-over-year decrease in net sales in the first quarter. Orders in Mexico, however, were up slightly compared to the prior year. This is a geographic region of our business that has shown strong growth in recent years. The decline in sales is attributed to the timing of projects as opposed to an adverse shift in overall market conditions.

While we were pleased with our growth in net sales in the quarter, we have experienced a softening in the pace of new orders within our core North American contract furniture business. This is clearly an area we are watching closely, particularly in relation to the industry statistics published by BIFMA.

Operating earnings in the first quarter within the North American Furniture Solutions segment were \$42.0 million, or 10.3% of net sales. This compares to \$38.4 million or 10.3% in the same period last year. As previously discussed in the context of our consolidated gross margin performance, during the first quarter we recognized approximately \$5.0 million in contract service expenses without an offsetting amount of service revenue. These additional expenses offset the leverage benefit that would have otherwise been driven by the year-over-year net sales increase.

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Net sales within our Non-North American Furniture Solutions segment totaled \$73.3 million in the first quarter. This compares to \$62.6 million in the first quarter of last year. The year-over-year increase of 17.1% marked another quarter of solid performance, highlighted by particularly strong sales in Asia. Our new manufacturing facility in China has been in operation since February of this year and we are very pleased with how the startup has progressed. This new operation, and an expanding independent dealer network, were among the largest contributors to the sales growth in the region. While sales in Asia are still relatively small in comparison to our consolidated total, it is becoming a more significant part of our global presence and remains a key element of our long-term growth strategy. Although year-over-year sales growth in continental Europe was modest in the first quarter, we reported a double-digit increase in the United Kingdom. Our U.K. operation represents the segment's largest contributor to net sales and operating earnings. Operating earnings in the first quarter for the Non-North American Furniture Solutions segment totaled \$9.9 million, or 13.5% of net sales. This compares to \$6.1 million or 9.7% in the same period last year.

Net sales within the "Other" category were \$12.1 million in the first quarter of this year, compared to \$14.7 million last year. Our fiscal 2007 first quarter results included sales of \$3.1 million to an OEM manufacturer of non-furniture products. That contract has since expired and we are no longer manufacturing and selling the related components. The elimination of these sales is the primary driver of the year-over-year decrease in net sales within the category.

Changes in currency exchange rates from the prior year affected the U.S. dollar value of net sales within both primary operating segments. We estimate these changes effectively increased first quarter net sales within the North American Furniture Solutions segment by approximately \$1.5 million. This was largely driven by the weakening in the average U.S. dollar / Canadian dollar exchange rate during the period. Within the Non-North American Furniture Solutions segment, exchange rate changes increased first quarter net sales by an estimated \$3.0 million. This increase was driven by favorable movements in the U.S. dollar / British Pound Sterling and U.S. dollar / Euro exchange rates as compared to last year. It is important to note that period-to-period changes in exchange rates have a directionally similar impact on our international expenses as measured in U.S. dollars. Operating earnings within our Non-North American business segment increased an estimated \$0.4 million in the first quarter of this year due to such changes. The estimated impact on operating earnings of our North American business segment was not significant in the first quarter.

Financial Condition, Liquidity, and Capital Resources

The table below presents certain key cash flow and capital highlights for the periods indicated.

(In Millions)

	Three Months Ended	
	September 1, 2007	September 2, 2006
Cash and cash equivalents, end of period	\$ 65.4	\$ 41.9
Short-term investments, end of period	16.0	15.1
Cash generated from (used for) operating activities	31.8	(6.4)
Cash used for investing activities	(8.9)	(7.6)
Cash used for financing activities	(34.5)	(50.7)
Capital expenditures	(8.9)	(8.6)
Stock repurchased and retired	(60.8)	(46.4)
Interest-bearing debt, end of period (1)	207.1	179.4
Available unsecured credit facility, end of period (2)	106.9	136.9

⁽¹⁾ Amounts shown include the fair market values of the company's interest rate swap arrangements. The net fair value of these arrangements totaled \$(0.9) million and \$(1.6) million at September 1, 2007 and September 2, 2006, respectively.

⁽²⁾ Amounts shown are net of outstanding letters of credit, which are applied against the company's unsecured credit facility.

Cash Flow - Operating Activities

Quarter Ended September 1, 2007

Cash generated from operating activities in the first quarter of this year totaled \$31.8 million. Working capital changes from the prior year-end drove a net use of cash totaling \$18.2 million. The single largest driver of this working capital investment in the quarter was the payout of incentive bonuses earned during fiscal 2007. In total, employee compensation and benefit accruals decreased \$40.5 million in the quarter. Additionally, volume-driven increases in accounts receivable and inventory contributed to the net working capital cash outflow. Partially offsetting this were favorable cash flow changes within income taxes and trade accounts payable, which totaled \$14.6 million and \$8.6 million, respectively. We also benefited from increases in accrued liabilities for interest and customer deposits.

Under HMPS, we continue to strive to enhance efficiencies and cost savings by minimizing the amount of inventory on hand. Accordingly, production is order-driven with raw materials purchased as needed to meet order demands. The standard lead-time for the majority of our products is 10 to 20 days. As a result, the velocity of our inventory turns is high. Despite the increase in inventory levels in the current year first quarter, these factors cause our inventory levels to appear relatively low in relation to sales volume.

Quarter Ended September 2, 2006

Cash used for operating activities in the first quarter of fiscal 2007 totaled \$6.4 million. The negative operating cash flow was driven by a significant use of cash in our working capital balances. A \$47.3 million reduction to compensation and benefit accruals drove the single largest working capital cash outflow in the period. The majority of this accrual reduction related to bonuses earned in fiscal 2006 and paid in the first quarter of fiscal 2007. Increases in inventory, accounts receivable and prepaid insurance balances also contributed significantly to working capital outflows in the quarter.

The increase in inventories during the first quarter of fiscal 2007, which totaled \$11.1 million, was the result of three primary factors. First, we experienced a seasonal increase in production levels related to federal government business. Second, we had some orders that did not ship before the end of the quarter due to the timing of the Labor Day holiday. Finally, work-in-process inventory at certain of our owned dealership subsidiaries was up at the end of the quarter due to timing of project installations.

Accounts receivable balances increased in the period due to higher sales volume and a general deterioration in the aging of trade balances from the end of fiscal 2006.

We also made a \$2 million voluntary contribution to our primary international pension plan in the first quarter of fiscal 2007. This contribution is reflected as a reduction to operating cash flows in the period.

Cash Flow - Investing Activities

The majority of the investing activity outflows in both the current and prior year first quarters resulted from the purchase of capital assets. Capital expenditures totaled \$8.9 million in the first quarter compared to \$8.6 million in the prior year. At the end of the first quarter, we had outstanding commitments for future capital purchases of approximately \$8.5 million. We expect full-year capital expenditures for fiscal 2008 to be approximately \$50 million. By comparison, fiscal year 2007 capital expenditures were \$41.3 million.

Cash Flow - Financing Activities

Share repurchases were the most significant factor affecting cash outflows from financing activities. In the first quarter of this year, we repurchased 1,878,229 shares for \$60.8 million or an average of \$32.38 per share. By comparison, 1,701,470 shares were repurchased for \$46.4 million or an average of \$27.31 per share during the same period last fiscal year. At September 1, 2007, we had approximately \$77 million available for future share repurchases on the authorization previously approved by our Board of Directors. Subsequent to the end of our first quarter, our Board of Directors expanded our stock repurchase program by authorizing additional share repurchases up to \$300 million.

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Dividend payments in the current year first quarter totaled \$5.5 million. These payments were partially offset in the current year first quarter by \$1.8 million received from the issuance of new shares. In the prior year first quarter, dividend payments were \$5.3 million and cash generated from share issuances totaled \$1.0 million.

Interest-bearing debt at the end of the first quarter increased \$30.9 million from \$176.2 million at the end of fiscal 2007. Net borrowings against our unsecured revolving credit facility accounted for \$30.0 million of this increase. The remaining increase resulted from changes in the combined fair value of our interest rate swap arrangements during the quarter. Further disclosure regarding our interest rate swap arrangements is provided in Note 12. Our next scheduled debt repayment of \$3.0 million on our private placement notes will be made in the fourth quarter of this fiscal year.

Outstanding standby letters of credit totaling \$13.1 million were considered additional usage against our unsecured revolving credit facility at the end of the first quarter. The provisions of our private placement notes and unsecured credit facility require that we adhere to certain covenant restrictions and maintain certain performance ratios. We were in compliance with all such restrictions and performance ratios again this quarter and expect to remain in compliance in the future.

We believe that our cash on hand, cash generated from operations and our borrowing capacity will provide adequate liquidity to fund near term and future business operations and capital needs.

Contractual Obligations

Contractual obligations associated with our ongoing business and financing activities will result in cash payments in future periods. A table summarizing the amounts and estimated timing of these future cash payments was provided in the company's Form 10-K filing for the year ended June 2, 2007. During the first three months of fiscal 2008, there were no material changes outside the ordinary course of business in the company's contractual obligations or the estimated timing of the future cash payments.

Off-Balance Sheet Arrangements

Guarantees

We provide certain guarantees to third parties under various arrangements in the form of product warranties, loan guarantees, standby letters of credit, lease guarantees, performance bonds and indemnification provisions. These arrangements are accounted for and/or disclosed in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others" as described in Note 13.

Variable Interest Entities

On occasion, we provide financial support to certain independent dealers in the form of term loans, lines of credit, and/or loan guarantees which may represent variable interests in such entities. At September 1, 2007, we were not considered the primary beneficiary of any such dealer relationships under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." Accordingly, we were not required to consolidate the financial statements of any of these entities during the first quarter.

The risks and rewards associated with our interests in these dealerships are primarily limited to our outstanding loans and guarantee amounts. As of September 1, 2007, our maximum exposure to potential losses related to outstanding loans to these other entities totaled \$3.9 million. Information on our exposure related to outstanding loan guarantees provided to such entities is included in Note 13.

Contingencies

See Note 13 to the condensed consolidated financial statements.

Critical Accounting Policies

We strive to report our financial results clearly and understandably. We follow accounting principles generally accepted in the United States in preparing our consolidated financial statements, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. A summary of our more significant accounting policies that require the use of estimates and judgments in preparing the financial statements is provided in our Form 10-K filing for the year ended June 2, 2007. During the first three months of fiscal 2008, there was no material change in the accounting policies and assumptions previously disclosed.

New Accounting Standards

See Note 10 to the condensed consolidated financial statements.

Safe Harbor Provisions

Certain statements in this filing are not historical facts but are "forward-looking statements" as defined under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended. Such statements are based on management's beliefs, assumptions, current expectations, estimates and projections about the office furniture industry, the economy and the company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "should," variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. These risks include, without limitation, employment and general economic conditions, the pace of economic activity in the U.S. and in our international markets, the increase in white collar employment, the willingness of customers to undertake capital expenditures, the types of products purchased by customers, competitive pricing pressures, the availability and pricing of raw materials, our reliance on a limited number of suppliers, currency fluctuations, the ability to increase prices to absorb the additional costs of raw materials, the financial strength of our dealers, the financial strength of our customers, the mix of our products purchased by customers, our ability to attract and retain key executives and other qualified employees, our ability to continue to make product innovations, the success of newly introduced products, our ability to obtain targeted margins from new products, our ability to serve all of our markets, possible acquisitions, divestitures or alliances, the outcome of pending litigation or governmental audits or investigations, political risk in the international markets we serve, and other risks identified in our filings with the Securities and Exchange Commission. Therefore, actual results and outcomes may materially differ from what we express or forecast. Furthermore, Herman Miller, Inc. undertakes no obligation to update, amend, or clarify forward-looking statements.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Direct Material Costs

The company is exposed to risks arising from market price changes for certain direct materials used in its manufacturing processes. The largest direct material costs incurred by the company are for steel, plastic/textiles, wood particleboard and aluminum components. The market price of plastics and textiles are sensitive to the cost of oil and natural gas. The cost of wood particleboard has been impacted by continual downsizing of production capacity in the wood market. Aluminum component prices are sensitive to changes in energy costs associated with the conversion of raw materials to aluminum ingots.

Foreign Exchange Risk

The company manufactures its products in the United States, United Kingdom and China. It also sources completed products and product components from outside the United States. The company's completed products are sold in numerous countries around the world. Sales in foreign countries as well as certain expenses related to those sales are transacted in currencies other than the company's reporting currency, the U.S. dollar. Accordingly, production costs and profit margins related to these sales are affected by the currency exchange relationship between the countries where the sales take place and the countries where the products are sourced or manufactured. These currency exchange relationships can also affect the company's competitive positions within these markets.

In the normal course of business, the company enters into contracts denominated in foreign currencies. The principal foreign currencies in which the company conducts its business are the British Pound Sterling, Euro, Canadian dollar, Japanese Yen, Mexican Peso, and Chinese Renminbi. As of September 1, 2007, the company had outstanding three forward currency instruments designed to offset 5 million of its net asset exposure denominated in a non-functional currency. At June 2, 2007, the company had outstanding three forward currency instruments designed to offset 4 million in non-functional currency exposure. These forward currency instruments are marked to market at the end of the period, with changes in fair value reflected in net earnings. At September 1, 2007 and June 2, 2007, the related fair values of these forward currency instruments were negligible.

Interest Rate Risk

Interest-bearing debt as of the end of the first quarter, excluding the fair market values of our interest rate swap arrangements, totaled \$208.0 million. This amount includes obligations associated with the company's long-term debt securities, private placement notes, and unsecured revolving credit facility. The company is subject to interest rate variability on \$83.0 million of this debt. Accordingly, the cost of servicing this variable-rate debt may increase or decrease in the future as market interest rates change.

As of September 1, 2007, the weighted-average interest rate on the company's variable-rate debt was approximately 7.2%. Based on the level of variable-rate debt outstanding as of that date, a 1 percentage-point increase in the weighted-average interest rate would increase the company's estimated annual pre-tax interest expense by approximately \$0.8 million.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, the company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 1, 2007, and have concluded that as of that date, the company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarterly period ended September 1, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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HERMAN MILLER, INC.
PART II OTHER INFORMATION

Item 1: Legal Proceedings

Referred to in Note 13 of the condensed consolidated financial statements.

Item 1A: Risk Factors

There have been no material changes from the information provided in the Company's Annual Report on Form 10-K for the year ended June 2, 2007.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

(A) During the period covered by this report, the company did not sell any of its equity shares that were not registered under the Securities Act of 1933.

(C) Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the first quarter ended September 1, 2007.

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased(1)</u>	<u>(b) Average price Paid per Share or Unit</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs</u>
6/3/07 - 6/30/07		\$		\$ 138,029,779
7/1/07 - 7/28/07	1,339,387	\$ 33.01	1,339,387	\$ 93,886,048
7/29/07 - 9/1/07	538,842	\$ 30.82	538,842	\$ 77,276,745
Total	1,878,229	\$ 32.38	1,878,229	

⁽¹⁾ No shares were purchased outside of a publicly announced plan or program.

The company repurchased shares under previously announced plans authorized by the Board of Directors as follows.

Plan announced on October 2, 2006, providing share repurchase authorization of \$100,000,000 with no specified expiration date, however, the company has repurchased all of the shares authorized under this plan.

Plan announced on April 24, 2007, providing share repurchase authorization of \$100,000,000 with no specified expiration date.

No repurchase plans expired or were terminated during the first quarter of fiscal 2008, nor do any plans exist under which the company does not intend to make further purchases.

Subsequent to the end of the first quarter, the company's Board of Directors expanded its stock repurchase program by authorizing additional share repurchases up to \$300 million with no specified expiration date.

(a)(1) As contemplated in the Registration Statements, the Corporation filed the Second Amended and Restated

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Item 6: Exhibits

The following exhibits (listed by number corresponding to the Exhibit table as Item 601 in Regulation S-K) are filed with this Report:

31.1 Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

HERMAN MILLER, INC.

October 10, 2007

/s/ Brian C. Walker

Brian C. Walker
Chief Executive Officer

October 10, 2007

/s/ Curtis S. Pullen

Curtis S. Pullen
Chief Financial Officer