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CYTEC INDUSTRIES INC/DE/  
Form 10-Q  
October 31, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2007

Commission file number 1-12372

CYTEC INDUSTRIES INC.  
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(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

22-3268660  
(I.R.S. Employer  
Identification No).

Five Garret Mountain Plaza  
West Paterson, New Jersey  
(Address of principal executive offices)

07424  
(Zip Code)

Registrant's telephone number, including area code (973) 357-3100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

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

Large accelerated filer  Accelerated filer  Non-accelerated  filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 47,800,853 shares of common stock outstanding at October 26, 2007.

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES  
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PART I - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

CYTEC INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(Dollars in millions, except per share amounts)

|                             | Three Months Ended<br>September 30, |          | Nine Mo<br>Septem |
|-----------------------------|-------------------------------------|----------|-------------------|
|                             | 2007                                | 2006(1)  | 2007              |
| Net sales                   | \$ 875.1                            | \$ 863.4 | \$ 2,602.6        |
| Manufacturing cost of sales | 683.8                               | 698.3    | 2,045.6           |

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|   |         |         |          |
|---|---------|---------|----------|
| Selling and technical services  | 52.3    | 54.9    | 155.3    |
| Research and process development  | 18.0    | 18.4    | 55.5     |
| Administrative and general  | 29.2    | 25.8    | 84.4     |
| Amortization of acquisition intangibles                                     | 9.7     | 10.6    | 28.6     |
| Gain on sale of assets held for sale  | --      | --      | 15.7     |
| -----   |         |         |          |
| Earnings from operations  | 82.1    | 55.4    | 248.9    |
| Other income (expense), net   | (1.4)   | (1.2)   | 0.1      |
| Equity in earnings of associated companies                                  | 0.5     | 0.8     | 0.9      |
| Interest expense, net   | 10.4    | 14.5    | 31.9     |
| -----   |         |         |          |
| Earnings before income taxes and cumulative effect of accounting change     | 70.8    | 40.5    | 218.0    |
| Income tax provision  | 18.4    | 15.4    | 59.1     |
| -----   |         |         |          |
| Earnings before cumulative effect of accounting change                      | 52.4    | 25.1    | 158.9    |
| Cumulative effect of accounting change (net of income tax benefit of \$0.7) | --      | --      | --       |
| -----   |         |         |          |
| Net earnings  | \$ 52.4 | \$ 25.1 | \$ 158.9 |
| -----   |         |         |          |
| Basic net earnings per common share:  |         |         |          |
| Earnings before cumulative effect of accounting change                      | \$ 1.09 | \$ 0.53 | \$ 3.30  |
| Cumulative effect of accounting change, net of taxes                        | --      | --      | --       |
| -----   |         |         |          |
| Net earnings  | \$ 1.09 | \$ 0.53 | \$ 3.30  |
| -----   |         |         |          |
| Diluted net earnings per common share:                                      |         |         |          |
| Earnings before cumulative effect of accounting change                      | \$ 1.06 | \$ 0.52 | \$ 3.23  |
| Cumulative effect of accounting change, net of taxes                        | --      | --      | --       |
| -----   |         |         |          |
| Net earnings  | \$ 1.06 | \$ 0.52 | \$ 3.23  |
| -----   |         |         |          |
| Dividends per common share  | \$ 0.10 | \$ 0.10 | \$ 0.30  |
| -----   |         |         |          |

(1) 2006 results were restated to show the effect of Financial Accounting Standards Board Staff Position No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities" ("FSP AUG-AIR 1"), which we adopted retroactively during the first quarter of 2007. For further details see Note 2 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(Dollars in millions, except per share amounts)

September  
2007

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Assets

Current assets

|   |    |   |
|---|----|---|
| Cash and cash equivalents   | \$ |   |
| Trade accounts receivable, less allowance for doubtful accounts of<br>\$4.6 and \$5.1 at September 30, 2007 and December 31, 2006, respectively |    | 5 |
| Other accounts receivable   |    |   |
| Inventories   |    | 4 |
| Deferred income taxes   |    |   |
| Other current assets  |    |   |
| Assets held for sale  |    |   |

---

Total current assets 1,2

---

Investment in associated companies

|   |  |     |
|---|--|-----|
| Plants, equipment and facilities, at cost |  | 1,9 |
| Less: accumulated depreciation            |  | (9) |

---

Net plant investment 1,0

---

|   |  |   |
|---|--|---|
| Acquisition intangibles, net of accumulated amortization of<br>\$126.6 and \$92.1 at September 30, 2007 and December 31, 2006, respectively |  | 4 |
|---|--|---|

Goodwill 1,0

Deferred income taxes

Other assets

---

Total assets \$ 3,9

---

Liabilities

Current liabilities

|                                      |    |   |
|--------------------------------------|----|---|
| Accounts payable                     | \$ | 3 |
| Short-term borrowings                |    |   |
| Current maturities of long-term debt |    | 1 |
| Accrued expenses                     |    | 2 |
| Income taxes payable                 |    |   |
| Deferred income taxes                |    |   |
| Liabilities held for sale            |    |   |

---

Total current liabilities 6

---

Long-term debt 7

Pension and other postretirement benefit liabilities 3

Other noncurrent liabilities 3

Deferred income taxes 1

Stockholders' equity

Common stock, \$.01 par value per share, 150,000,000 shares authorized;  
issued 48,132,640 shares 2

Additional paid-in capital 1,4

Retained earnings (

Accumulated other comprehensive income (loss)

Treasury stock, at cost, 428,748 shares in 2007 and 510,006 shares in 2006 (

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Total stockholders' equity 1,8

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Total liabilities and stockholders' equity \$ 3,9

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(1) Balances at December 31, 2006 have been restated to show the effect of

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FSP AUG-AIR 1, which was adopted retroactively during the first quarter of 2007. For further details see Note 2 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Dollars in millions)

|  |    | Nine<br>Sep |
|--|----|-------------|
|  |    | 2007        |
| <hr/>  |    |             |
| Cash flows provided by (used in) operating activities                          |    |             |
| Net earnings   | \$ | 158.        |
| Non cash items included in net earnings:                                       |    |             |
| Depreciation   |    | 74.         |
| Amortization   |    | 33.         |
| Share-based compensation   |    | 10.         |
| Deferred income taxes  |    | 14.         |
| Gain on sale of assets   |    | (15.)       |
| Asset impairment charges   |    | -           |
| Cumulative effect of accounting change, net of taxes                           |    | -           |
| Other  |    | 2.          |
| Changes in operating assets and liabilities, excluding effects of divestiture: |    |             |
| Trade accounts receivable  |    | (51.)       |
| Other receivables  |    | 16.         |
| Inventories  |    | (5.)        |
| Other assets   |    | (3.)        |
| Accounts payable   |    | (5.)        |
| Accrued expenses   |    | (0.)        |
| Income taxes payable   |    | (9.)        |
| Other liabilities  |    | (24.)       |
| <hr/>  |    |             |
| Net cash provided by operating activities                                      |    | 194.        |
| <hr/>  |    |             |
| Cash flows provided by (used in) investing activities                          |    |             |
| Additions to plants, equipment and facilities                                  |    | (65.)       |
| Proceeds received on sale of assets  |    | 30.         |
| <hr/>  |    |             |
| Net cash used in investing activities  |    | (35.)       |
| <hr/>  |    |             |
| Cash flows provided by (used in) financing activities                          |    |             |
| Proceeds from long-term debt   |    | 222.        |
| Payments on long-term debt   |    | (319.)      |
| Change in short-term borrowings, net   |    | 4.          |
| Cash dividends   |    | (14.)       |
| Proceeds from the exercise of stock options                                    |    | 31.         |

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|  |        |
|--|--------|
| Purchase of treasury stock                                   | (49.)  |
| Excess tax benefits from share-based payment arrangements    | 8.     |
| Other  | 0.     |
| <hr style="border-top: 1px dashed black;"/>                  |        |
| Net cash used in financing activities                        | (116.) |
| <hr style="border-top: 1px dashed black;"/>                  |        |
| Effect of currency rate changes on cash and cash equivalents | 2.     |
| <hr style="border-top: 1px dashed black;"/>                  |        |
| Increase/(decrease) in cash and cash equivalents             | 45.    |
| Cash and cash equivalents, beginning of period               | 23.    |
| <hr style="border-top: 1px dashed black;"/>                  |        |
| Cash and cash equivalents, end of period                     | \$ 68. |

(1) 2006 results were restated to show the effect of FSP AUG-AIR 1, which was adopted retroactively during the first quarter of 2007. For further details see Note 2 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements

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### CYTEC INDUSTRIES INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Currencies in millions, except per share amounts, unless otherwise indicated)

#### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. Financial statements prepared in accordance with U.S. GAAP require management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and other disclosures. In the opinion of management, these financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position and the results of our operations and cash flows for the interim periods presented. The results of operations for any interim period are not necessarily indicative of the results of operations for the full year. The financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements contained in the Company's 2006 Annual Report on Form 10-K. Unless indicated otherwise, the terms "Company", "Cytec", "we", "us" and "our" each refer collectively to Cytec Industries Inc. and its subsidiaries.

#### 2. DEFERRED PLANNED MAINTENANCE COSTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Staff Position No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities" ("FSP"). This FSP prohibits accruing as a liability the future costs of periodic major overhauls and maintenance of plant and equipment under the "accrue-in-advance" methodology, as the costs for future planned major maintenance activities do not meet the definition of a liability. We adopted the FSP as of January 1, 2007 and restated our prior consolidated financial statements accordingly. Prior to adoption, we utilized the accrue-in-advance method for incremental costs to be incurred for the planned major maintenance

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activities in our Building Block Chemicals segment. We adopted the deferral method to account for maintenance expenses incurred for scheduled maintenance activities, which are amortized evenly until the next scheduled activity. The impact to our consolidated results of operations was a \$0.3 increase in net earnings for the year ended December 31, 2006, and a \$0.1 and a \$0.3 increase in net earnings for the three and nine months ended September 30, 2006, respectively. As a result of these changes, basic and diluted earnings per share for the three months ended September 30, 2006 increased \$0.01 per share. The impact on 2006 basic earnings per share for the nine months ended September 30, 2006 was an increase of \$0.01 per share and diluted earnings per share is unchanged. The impact to our consolidated financial position was an increase in retained earnings of \$6.6 as of December 31, 2006, as a result of an increase in other assets for \$2.3 for the addition of prior unamortized deferred charges and a decrease in accrued expenses of \$8.5, as well as adjustments of deferred taxes for these respective items. There was no impact to our 2006 net cash provided by operating activities in our consolidated statement of cash flows.

### 3. NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits companies to choose to measure certain financial assets and liabilities at fair value (the "fair value option"). If the fair value option is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and may generally be made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that the adoption of SFAS 159 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. SFAS 157 applies only to fair value measurements that are already required or permitted by other accounting standards (except for measurements of share-based payments) and is intended to increase the consistency of those measurements. Accordingly, SFAS 157 does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are still in the process of reviewing the impact of adopting this statement. However, we do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial statements.

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### 4. DIVESTITURES

In October 2006, we completed the first of three phases of the sale of our water treatment chemicals and acrylamide product line to Kemira Group ("Kemira"). This first phase included the product lines themselves, the related intellectual property, the majority of the manufacturing sites and essentially all of the sales, marketing, manufacturing, R&D and technical services personnel. The manufacturing sites in the first phase included Mobile, Alabama, Longview, Washington, Bradford, UK, and the acrylamide manufacturing plant at our Fortier, Louisiana facility which will be operated by our personnel under a long term

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manufacturing agreement. The sale of our Botlek manufacturing site in the Netherlands was completed and transferred to Kemira in January 2007 as part of the phase two closing. We will continue to supply acrylonitrile to the Kemira acrylamide plants at Fortier and Botlek under long term supply agreements. In addition, under various long term manufacturing agreements, we will manufacture certain water treatment products for Kemira at several of our sites and Kemira will manufacture for us certain mining chemicals at the Mobile, Alabama and Longview, Washington sites and various other products at the Botlek site. These contracts were all deemed to be at estimated fair value. Sales of certain assets at subsidiaries in Asia/Pacific and Latin America were settled in the third quarter 2007. Settlements for working capital at the remaining subsidiaries in Asia/Pacific and Latin America are expected to occur in the fourth quarter 2007, and the transfer of a subsidiary in Latin America is expected to close in the fourth quarter of 2007 to complete the last phase of the transaction.

The timing of the flow of funds is as follows: approximately \$208.0 was received in October 2006 for the first closing, and approximately \$21.0 was received for the second closing in January 2007. We also received approximately \$6.0 in February 2007 for a working capital adjustment from the first phase closing per the terms of the contract. During the third quarter of 2007, we received approximately \$3.1 from completed transfers of the assets at various subsidiaries in Asia/Pacific and Latin America. An estimated \$6.0 is expected to be received in the fourth quarter of 2007 from the third quarter transfers not yet settled in cash and the pending transfer of one subsidiary in Latin America, bringing estimated total proceeds to \$244.0. We recorded a pre-tax gain of \$75.5 (\$59.6 after-tax) related to the first phase closing in the fourth quarter of 2006, and a pre-tax gain of \$15.7 (\$15.3 after-tax) in the first quarter of 2007 from the phase two closing.

At the time of the sale of the manufacturing facilities included in this transaction, we retained certain environmental liabilities related to those sites. It was anticipated that these liabilities would be transferred to Kemira at some point, and that the value assigned to these liabilities would be negotiated between the parties. We are currently in negotiations to transfer these liabilities, but a mutually agreed valuation has not yet been reached as of September 30, 2007. It is possible that the final valuation agreed for the transfer of these liabilities will exceed their current carrying values, and that could impact the final proceeds and could require an adjustment to our net earnings. In the event that an agreed valuation cannot be reached, we may retain these liabilities and continue to manage them ourselves.

The assets and liabilities of our water treatment chemicals and acrylamide product lines to be sold included in the September 30, 2007 and December 31, 2006 consolidated balance sheets are comprised of (excluding the aforementioned environmental liabilities):

|                               | September 30,<br>2007 | December 31,<br>2006 |
|-------------------------------|-----------------------|----------------------|
| Accounts receivable           | \$ 0.6                | \$ 6.5               |
| Inventories                   | 0.8                   | 4.3                  |
| Property, plant and equipment | --                    | 26.6                 |
| Other assets                  | --                    | 1.4                  |
| Assets held for sale          | \$ 1.4                | \$ 38.8              |
| Accounts payable              | \$ --                 | \$ 3.4               |
| Accrued liabilities           | 0.5                   | 12.7                 |
| Other noncurrent liabilities  | --                    | 0.2                  |
| Liabilities held for sale     | \$ 0.5                | \$ 16.3              |



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5. RESTRUCTURING OF OPERATIONS

In accordance with our policy, restructuring costs are included in our corporate unallocated operating results consistent with management's view of its businesses.

For the three and nine months ended September 30, 2007, we recorded net restructuring charges of \$2.8 and \$5.4, respectively, primarily related to several restructuring initiatives including: the 2006 decision to shut down our manufacturing facility in Dijon, France, for costs that were anticipated at the time the decision was made but were not accruable at that time under relevant accounting rules as actual legal obligations had not yet been incurred; restructuring of our manufacturing site in Willow Island, WV to cease manufacture of several mature products in our polymer additives product line; and restructuring of our liquid coating resins plant in Wallingford, CT to exit a mature product line and consolidate and automate certain operations at the site. We expect to incur additional restructuring costs of approximately \$5.2 in the remainder of 2007 and into 2008 that primarily relate to personnel and site closure costs that are not accruable at September 30, 2007 for the 2007 restructuring initiatives. In addition, we may incur additional site remediation and dismantlement costs for the Dijon facility. We are currently in the process of attempting to sell the site. The restructuring for the three months ended September 30, 2007 was charged as follows: manufacturing cost of sales \$2.7, and administrative and general \$0.1. The restructuring for the nine months ended September 30, 2007 was charged as follows: manufacturing cost of sales \$5.0, and administrative and general \$0.4.

In 2006, we recorded severance of \$19.5 including \$8.4 related to the shut down of the manufacturing facility in Dijon, \$6.4 for the restructuring of our Botlek, Netherlands facility, and \$4.7 for other restructuring initiatives. As of December 31, 2006, the reserve balance related to severance for the 2006 restructuring initiatives was \$13.5 after cash payments of \$6.4 and currency translation adjustments. Also in 2006, we recorded an impairment charge of \$29.3, of which \$13.8 was related to the Botlek facility for the impairment of fixed assets related to our Polymer Additives product line in our Performance Chemicals segment and \$15.5 for the impairment of our manufacturing facility and related intangible assets in Dijon. In addition, we recorded a restructuring charge of \$2.3 for other costs related to the Botlek facility.

2005 restructuring initiatives included aggregate charges of \$16.8 related to both Cytec Engineered Materials and Cytec Specialty Chemicals segments. As of September 30, 2007, the reserve balance related to 2005 restructuring initiatives was \$0.6.

A summary of the restructuring activity is outlined in the table below:

|                   | 2005<br>Restructuring | 2006<br>Restructuring | 2007<br>Restructuring |
|-------------------|-----------------------|-----------------------|-----------------------|
| Balance           |                       |                       |                       |
| December 31, 2006 | \$ 1.4                | \$ 13.5               | --                    |

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|                                  |        |         |           |
|----------------------------------|--------|---------|-----------|
| First Quarter 2007 charges       | --     | 0.8     | --        |
| Cash payments                    | (0.7)  | (1.8)   | --        |
| Currency translation adjustments | --     | 0.2     | --        |
| Balance                          |        |         |           |
| March 31, 2007                   | \$ 0.7 | \$ 12.7 | --        |
| Second Quarter 2007 charges      | --     | 1.8     | --        |
| Cash payments                    | (0.2)  | (4.6)   | --        |
| Currency translation adjustments | 0.1    | --      | --        |
| Balance                          |        |         |           |
| June 30, 2007                    | \$ 0.6 | \$ 9.9  | --        |
| Third Quarter 2007 charges       | --     | 0.8     | 2.0       |
| Cash payments                    | --     | (4.1)   | --        |
| Non-cash charges                 | --     | --      | (0.8) (1) |
| Currency translation adjustments | --     | 0.1     | --        |
| Balance                          |        |         |           |
| September 30, 2007 (2)           | \$ 0.6 | 6.7     | 1.2       |

(1) Restructuring charge includes a \$0.8 charge for asset write-downs relating to excess raw material inventory and spare parts at Willow Island.

(2) Cash payments related to the above restructurings are expected to be completed by the second quarter of 2008, except for certain long-term severance payments.

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## 6. SHARE-BASED COMPENSATION

On January 1, 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires companies to recognize compensation cost in an amount equal to the fair value of share-based payments, such as stock options granted to employees. In accordance with SFAS 123R, we recorded charges related to stock options and stock appreciation rights that are settled with common shares ("stock-settled SARS") of \$3.1 and \$9.5 for the three and nine months ended September 30, 2007, respectively. The adoption of SFAS 123R was recorded as of January 1, 2006 and resulted in a non-cash charge for the cumulative effect of a change in accounting principle of \$1.6 and a non-cash credit of \$0.4 for cash-settled SARS (as a result of the new requirement to record expense at fair value) and non-vested and performance stocks (forfeitures estimated now, as well as grant date only market value of the shares under award), for a net charge of \$1.2, net of a tax benefit of \$0.7. The effect on basic and diluted earnings per share for the cumulative effect charge was \$0.03 and \$0.02 per share, respectively, for the nine months ended September 30, 2006.

For stock options granted before January 1, 2005, the fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model. For stock options and stock-settled SARS granted after January 1,

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2005, the fair value of each award is estimated on the date of grant using a binomial-lattice option valuation model. Stock-settled SARS are economically valued the same as stock options. The binomial-lattice model considers characteristics of fair value option pricing that are not available under the Black-Scholes model. Similar to the Black-Scholes model, the binomial-lattice model takes into account variables such as volatility, dividend yield, and risk-free interest rate. However, in addition, the binomial-lattice model considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. For these reasons, we believe that the binomial-lattice model provides a fair value that is more representative of actual experience and future expected experience than the value calculated in previous years using Black-Scholes. The assumptions for the nine months ended September 30, 2007 and 2006 are noted in the following table:

|  | 2007        | 2006        |
|--|-------------|-------------|
| Expected life (years)                  | 6.2         | 5.7         |
| Expected volatility                    | 27.2%       | 37.6%       |
| Expected dividend yield                | 0.69%       | 0.81%       |
| Range of risk-free interest rate       | 4.8% - 5.2% | 4.4% - 4.7% |
| Weighted-average fair value per option | \$19.50     | \$19.01     |

The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the combination of implied market volatility and our historical volatility. The decrease in our expected volatility from 2006 represents a change in methodology used to calculate the expected volatility. Prior to 2007, our expected volatility was based on a weighted average of the implied volatility and the mean reversion volatility (represents the annualized volatility of the stock prices over our entire stock history) of our stock with weighting of 10% and 90%, respectively. In 2007, we changed the methodology to a weighted average of our implied volatility and our most recent 6.2 years (which represents the most recent expected life of the options/stock-SARS) volatility with weighting of 50% each. We feel that the revised methodology is more representative of the market's expectation of our volatility, based on recent trends and the mature industries in which we participate. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. SFAS 123R specifies that initial accruals be based on the estimated number of instruments for which the requisite service is expected to be rendered. Therefore, we are required to incorporate the probability of pre-vesting forfeiture in determining the number of expected vested options. The forfeiture rate is based on the historical forfeiture experience and prospective actuarial analysis.

### Stock Award and Incentive Plan:

The 1993 Stock Award and Incentive Plan (the "1993 Plan") provides for grants of a variety of awards, such as stock options (including incentive stock options and nonqualified stock options), non-vested stock (including performance stock), stock appreciation rights (including those settled with common shares) and deferred stock awards and dividend equivalents. At September 30, 2007, there are approximately 4,700,000 shares reserved for issuance under the 1993 Plan.

We have utilized the stock option component of the 1993 Plan to provide for the granting of nonqualified stock options and stock-settled SARS with an exercise price at 100% of the market price on the date of the grant. Options and

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stock-settled SARS are generally exercisable in installments of one-third per year commencing one year after the date of grant and annually thereafter, with contract lives of generally 10 years from the date of grant.

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A summary of stock options and stock-settled SARS activity for the nine months ended September 30, 2007 is presented below.

| Options and Stock-Settled SARS Activity: | Number of Units | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|--|-----------------|---------------------------------|---|---------------------------|
| Outstanding at January 1, 2007           | 4,339,920       | \$ 35.00                        |   |                           |
| Granted                                  | 586,006         | 58.22                           |   |                           |
| Exercised                                | (921,251)       | 35.85                           |   |                           |
| Forfeited                                | (134,393)       | 49.88                           |   |                           |
| Outstanding at September 30, 2007        | 3,870,282       | \$ 37.79                        | 5.5   | \$ 118.4                  |
| Exercisable at September 30, 2007        | 2,812,426       | \$ 31.80                        | 4.3   | \$ 102.9                  |

| Nonvested Options and Stock-Settled SARS: | Number of Units | Weighted Average Grant Date Fair Value |
|---|-----------------|--|
| Nonvested at January 1, 2007              | 1,088,466       | \$ 18.24                               |
| Granted                                   | 586,006         | 19.50                                  |
| Vested                                    | (513,811)       | 17.77                                  |
| Forfeited                                 | (102,805)       | 19.05                                  |
| Nonvested at September 30, 2007           | 1,057,856       | \$ 19.09                               |

During the nine months ended September 30, 2007, we granted 586,006 units of stock-settled SARS and stock options. We did not grant any stock-settled SARS prior to 2006. The weighted-average grant-date fair value of the stock-settled SARS and stock options granted during the nine months ended September 30, 2007 and 2006 was \$19.50 and \$19.01 per share, respectively. Stock-settled SARS are deemed to be equity-based awards under SFAS 123R. The total intrinsic value of stock options and stock-settled SARS exercised during the nine months ended September 30, 2007 and 2006 was \$24.9 and \$25.6, respectively. Treasury shares have been utilized for stock option exercises. The total fair value of stock options vested during the nine months ended September 30, 2007 and 2006 was \$9.1 and \$9.7, respectively.

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As of September 30, 2007, there was \$10.6 of total unrecognized compensation cost related to stock options and stock-settled SARS. That cost is expected to be recognized over a weighted-average period of 1.6 years as the majority of our awards vest over three years. Compensation cost related to stock options and stock-settled SARS capitalized in inventory as of September 30, 2007 and December 31, 2006 was approximately \$0.5 and \$0.4, respectively.

Cash received (for stock options only) and the total tax benefit realized from stock options and stock-settled SARS exercised were \$31.8 and \$9.1 for the nine months ended September 30, 2007 and \$40.5 and \$9.4 for the nine months ended September 30, 2006, respectively. Cash used to settle cash-settled SARS was \$0.8 and \$0.3 for the nine months ended September 30, 2007 and 2006, respectively. The liability related to our cash-settled SARS was \$5.1 at September 30, 2007 and \$4.3 at December 31, 2006.

As provided under the 1993 Plan, we have also issued non-vested stock and performance stock. Non-vested shares are subject to certain restrictions on ownership and transferability that lapse upon vesting. Performance stock payouts are based on the attainment of certain financial performance objectives and may vary depending on the degree to which the performance objectives are met. Performance stocks awarded in 2005 relate to the 2007 performance period. The total amount of share-based compensation expense recognized for non-vested and performance stock for the three and nine months ended September 30, 2007 was \$0.1 and \$0.3, respectively, and \$0.3 and \$1.0 for the three and nine months ended September 30, 2006, respectively.

Upon adoption of SFAS 123R, we calculated our additional paid-in capital pool ("APIC Pool") to be \$41.4. Exercises of stock options and stock-settled SARS since the adoption increased the APIC Pool to \$60.5 at September 30, 2007.

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### 7. EARNINGS PER SHARE (EPS)

Basic earnings per common share excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding (which includes shares outstanding, less performance and non-vested shares for which vesting criteria have not been met) plus deferred stock awards, weighted for the period outstanding. Diluted earnings per common share is computed by dividing net earnings by the sum of the weighted-average number of common shares outstanding for the period adjusted (i.e., increased) for all additional common shares that would have been outstanding if potentially dilutive common shares had been issued and any proceeds of the issuance had been used to repurchase common stock at the average market price during the period. The proceeds are assumed to be the sum of the amount to be paid to the Company upon exercise of options, the amount of compensation cost attributed to future services and not yet recognized and the amount of income taxes that would be credited to or deducted from capital upon exercise.

The following shows the reconciliation of weighted-average shares:

| Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|-------------------------------------|-------|------------------------------------|-------|
| 2007                                | 2006  | 2007                               | 2006  |
| -----                               | ----- | -----                              | ----- |

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|                                     |            |            |            |            |
|-------------------------------------|------------|------------|------------|------------|
| Weighted average shares outstanding | 48,186,403 | 47,623,743 | 48,166,828 | 47,321,317 |
| Effect of dilutive shares:          |            |            |            |            |
| Options and stock-settled SARS      | 1,118,913  | 1,003,117  | 1,055,141  | 1,101,690  |
| Performance/Restricted Stock        | 25,267     | 72,789     | 24,145     | 66,727     |
| Adjusted average shares outstanding | 49,330,583 | 48,699,649 | 49,246,114 | 48,489,734 |

Outstanding stock options to purchase 35,068 and 10,500 shares of common stock as of September 30, 2007 and 2006, respectively, were excluded from the above calculation because their inclusion would have had an anti-dilutive effect on earnings per share. In addition, 508,945 and 628,940 of outstanding stock-settled SARS as of September 30, 2007 and 2006, respectively, were excluded from the above calculation due to their anti-dilutive effect on earnings per share.

8. INVENTORIES

Inventories consisted of the following:

|                          | September 30,<br>2007 | December 31,<br>2006 |
|--------------------------|-----------------------|----------------------|
| Finished goods           | \$345.6               | \$333.4              |
| Work in process          | 36.6                  | 26.4                 |
| Raw materials & supplies | 116.5                 | 114.8                |
| Total inventories        | 498.7                 | \$474.6              |

9. DEBT

Long-term debt, including the current portion, consisted of the following:

|  | September 30, 2007 |                | December 31, 2006 |                |
|--|--------------------|----------------|-------------------|----------------|
|  | Face               | Carrying Value | Face              | Carrying Value |
| Five-Year Term Loan Due February 15, 2010        | \$ --              | \$ --          | \$ 52.6           | \$ 52.6        |
| Five-Year Revolving Credit Line Due June 7, 2012 | --                 | --             | 42.0              | 42.0           |
| 6.75% Notes Due March 15, 2008                   | 100.0              | 99.7           | 100.0             | 99.7           |
| 5.5% Notes Due October 1, 2010                   | 250.0              | 249.8          | 250.0             | 249.8          |
| 4.6% Notes Due July 1, 2013                      | 200.0              | 201.3          | 200.0             | 201.3          |
| 6.0% Notes Due October 1, 2015                   | 250.0              | 249.5          | 250.0             | 249.5          |
| Other  | 6.1                | 6.1            | 7.3               | 7.3            |
|  | \$ 806.1           | \$ 806.4       | \$ 901.9          | \$ 901.9       |
| Less: Current maturities                         | 101.5              | 101.2          | 1.4               | 1.4            |
| Long-term debt                                   | \$ 704.6           | \$ 705.2       | \$ 900.5          | \$ 900.5       |

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During the first quarter of 2007, we repaid the \$52.6 outstanding balance at December 2006 under the five-year term loan and terminated this facility. In June 2007, we amended and restated our revolving credit agreement to increase the facility from \$350.0 to \$400.0 and extended the maturity date to June 2012. There were no borrowings against the \$400.0 unsecured five-year revolving credit facility at September 30, 2007. This facility contains covenants that are customary for such facilities.

The weighted-average interest rate on all of our debt was 5.07% and 4.81% for the nine months ended September 30, 2007 and 2006, respectively. The weighted-average interest rate on short-term borrowing outstanding as of September 30, 2007 and 2006 was 4.69% and 4.62%, respectively.

#### 10. ENVIRONMENTAL, CONTINGENCIES AND COMMITMENTS

##### Environmental Matters

We are subject to substantial costs arising out of environmental laws and regulations, which include obligations to remove or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites or to pay compensation to others for doing so.

As of September 30, 2007 and December 31, 2006, the aggregate environmental related accruals were \$104.9 and \$102.7, respectively. As of September 30, 2007 and December 31, 2006, \$7.4 of the above amounts was included in accrued expenses, with the remainder included in other noncurrent liabilities. Environmental remediation spending for the three months ended September 30, 2007 and 2006 was \$1.0 and \$0.9, respectively, and for the nine months ended September 30, 2007 and 2006 was \$3.1 and \$3.0, respectively.

These accruals can change substantially due to such factors as additional information on the nature or extent of contamination, methods of remediation required, changes in the apportionment of costs among responsible parties and other actions by governmental agencies or private parties or if we are named in a new matter and determine that an accrual needs to be provided or if we determine that we are not liable and no longer require an accrual.

A further discussion of environmental matters can be found in Note 13 of the Notes to the Consolidated Financial Statements contained in our 2006 Annual Report on Form 10-K.

##### Other Contingencies

We are the subject of numerous lawsuits and claims incidental to the conduct of our or certain of our predecessors' businesses, including lawsuits and claims relating to product liability, personal injury including asbestos, environmental, contractual, employment and intellectual property matters.

During the third quarter of 2006, we completed a study of our asbestos related contingent liabilities and related insurance receivables. We previously commissioned a similar study in 2003. These studies are based on, among other things, detailed data for the past ten years on the incidence of claims, the incidence of malignancy claims, indemnity payments for malignancy and non-malignancy claims, dismissal rates by claim and estimated future claims. In conjunction with this study, we also conducted a detailed review of our

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insurance position and estimated insurance recoveries. We expect to recover close to 54% of our future indemnity costs and certain defense and processing costs already incurred. We anticipate updating the study approximately every three years or earlier if circumstances warrant. We are in the process of negotiating coverage in place and commutation agreements with several of our insurance carriers.

As a result of the findings from the 2006 study, we recorded an increase of \$9.0 in September 2006 to our self insured and insured contingent liabilities for pending and anticipated probable future claims and recorded a higher receivable for probable insurance recoveries for past, pending and future claims of \$6.8. The reserve increase is attributable to higher settlement values which more than offset a decrease in number of claimants. The increase in the receivable is a result of the higher gross liability plus an increase in overall projected insurance recovery rates.

As of September 30, 2007 and December 31, 2006, the aggregate self-insured and insured contingent liability was \$70.7 and \$72.4, respectively, and the related insurance recovery receivable for the liability as well as claims for past payments was \$37.7 at September 30, 2007 and \$40.9 at December 31, 2006. The asbestos liability included in the above amounts at September 30, 2007 and December 31, 2006 was \$54.0 and \$54.6, respectively, and the insurance receivable related to the asbestos liability as well as claims for past payments was \$35.8 at September 30, 2007 and \$38.1 at December 31, 2006. We anticipate receiving a net tax benefit for payment of those claims to which full insurance recovery is not realized.

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The following table presents information about the number of claimants involved in asbestos claims with us:

|   | Nine Months<br>Ended<br>September 30,<br>2007 | Year Ended<br>December 31,<br>2006 |
|---|---|------------------------------------|
| Number of claimants at beginning of period                      | 8,600   | 22,200                             |
| Number of claimants associated with claims closed during period | (700)   | (15,800)                           |
| Number of claimants associated with claims opened during period | 300   | 2,200                              |
| Number of claimants at end of period                            | 8,200   | 8,600                              |

Numbers in the foregoing table are rounded to the nearest hundred and are based on information as received by us which may lag actual court filing dates by several months or more. Claims are recorded as closed when a claimant is dismissed or severed from a case. Claims are opened whenever a new claim is brought, including from a claimant previously dismissed or severed from another case. The significant decline in the number of claimants during 2006 primarily



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reflects disposition of a large number of unwarranted filings in Mississippi made immediately prior to the institution of tort reform legislation in that state effective January 1, 2003.

It should be noted that the ultimate liability and related insurance recovery for all pending and anticipated future claims cannot be determined with certainty due to the difficulty of forecasting the numerous variables that can affect the amount of the liability and insurance recovery. These variables include but are not limited to: (i) significant changes in the number of future claims; (ii) significant changes in the average cost of resolving claims; (iii) changes in the nature of claims received; (iv) changes in the laws applicable to these claims; and (v) financial viability of co-defendants and insurers.

At September 30, 2007, we are among several defendants in approximately 40 cases in the U.S., in which plaintiffs assert claims for personal injury, property damage, and other claims for relief relating to one or more kinds of lead pigment that were used as an ingredient decades ago in paint for use in buildings. The different suits were brought by government entities and/or individual plaintiffs, on behalf of themselves and others. The suits variously seek compensatory and punitive damages and/or injunctive relief, including: funds for the cost of monitoring; detecting and removing lead based paint from buildings and for medical monitoring; for personal injuries allegedly caused by ingestion of lead based paint; and plaintiffs' attorneys' fees. We believe that the suits against us are without merit, and we are vigorously defending against all such claims. Accordingly, no loss contingency has been recorded.

In July, 2005, the Supreme Court of Wisconsin held in a case in which we were one of several defendants that Wisconsin's risk contribution doctrine applies to bodily injury cases against manufacturers of white lead pigment. Under this doctrine, manufacturers of white lead pigment may be liable for injuries caused by white lead pigment based on their past market shares unless they can prove they are not responsible for the white lead pigment which caused the injury in question. We settled this case for an immaterial amount. Seven other courts have previously rejected the applicability of this and similar doctrines to white lead pigment. Although we are a defendant in approximately 30 similar cases in Wisconsin and additional actions may be filed in Wisconsin, we intend to vigorously defend ourselves if such case(s) are filed based on what we believe to be our non-existent or diminutive market share. In October 2007, the Wisconsin Court of Appeals affirmed the trial court's dismissal of the plaintiff's strict liability and negligent design defect causes of action for white lead carbonate in the case styled Ruben Godoy et al v. E.I DuPont de Nemours et al., one of the approximately 30 Wisconsin lead cases. The decision in this case reinforces our belief that our liability, if any, in these cases will not be material, either individually or in the aggregate, and no loss contingency has been recorded.

We have access to a substantial amount of primary and excess general liability insurance for property damage and believe these policies are available to cover a significant portion of both our defense costs and indemnity costs, if any, for lead pigment related property damage claims. We have agreements with two of our insurers which provide that they will pay for approximately fifty percent (50%) of our defense costs associated with lead pigment related property damage claims.

We commenced binding arbitration proceedings against SNF SA ("SNF") in 2000 to resolve a commercial dispute relating to SNF's failure to purchase agreed amounts of acrylamide under a long-term agreement. In July, 2004, the arbitrators awarded us damages and interest aggregating approximately (euro)11.0 plus interest on the award at a rate of 7% per annum from July 28, 2004 until paid. After further proceedings in France, we collected (euro)12.2 (\$15.7) related to the arbitration award including interest in the second quarter of 2006. Subsequent to the arbitration award, SNF filed a complaint alleging

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criminal violation of French and European Community antitrust laws relating to the contract, which was the subject of the arbitration proceedings, which complaint was dismissed in December 2006. SNF has also filed a final appeal of the court order which allowed us to enforce the award and a separate complaint in France seeking compensation from Cytec for (euro)54.0 in damages it allegedly suffered as a result of our attachment on various SNF receivables and bank accounts to secure enforcement of the arbitration award. We believe that the appeal and complaint are without merit. SNF also appealed the arbitration award in Belgium where the Brussels Court of First Instance invalidated the award in March 2007. We have appealed that decision to the Belgium Court of Appeals, which will review the matter on a de novo basis. The Belgium decision should not affect the enforceability of the award in France.

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While it is not feasible to predict the outcome of all pending environmental matters, lawsuits and claims, it is reasonably possible that there will be a necessity for future provisions for costs for environmental matters and for other contingent liabilities that we believe will not have a material adverse effect on our consolidated financial position, but could be material to our consolidated results of operations or cash flows in any one accounting period. We cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts. Moreover, many of these liabilities are paid over an extended period, and the timing of such payments cannot be predicted with any certainty.

From time to time, we are also included in legal proceedings as a plaintiff involving tax, contract, patent protection, environmental and other legal matters. Gain contingencies related to these matters, if any, are recorded when they are realized.

A further discussion of other contingencies can be found in Note 13 of the Notes to the Consolidated Financial Statements contained in our 2006 Annual Report on Form 10-K.

### Commitments

We frequently enter into long-term contracts with customers with terms that vary depending on specific industry practices. Our business is not substantially dependent on any single contract or any series of related contracts. Descriptions of our significant sales contracts at December 31, 2006 are set forth in Note 13 of the Notes to Consolidated Financial Statements contained in our 2006 Annual Report on Form 10-K.

### 11. COMPREHENSIVE INCOME

The components of comprehensive income, which represents the change in equity from non-owner sources, for the three and nine months ended September 30, are as follows:

|                          | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--------------------------|-------------------------------------|---------|------------------------------------|----------|
|                          | 2007                                | 2006(1) | 2007                               | 2006(1)  |
| Net earnings as reported | \$ 52.4                             | \$ 25.1 | \$ 158.9                           | \$ 111.7 |

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Other comprehensive income:

|   |          |         |          |          |
|---|----------|---------|----------|----------|
| Accumulated pension liability (2)           | (3.0)    | --      | 14.8     | --       |
| Unrealized gains on cash flow hedges        | 8.6      | 13.7    | 19.0     | 5.1      |
| Foreign currency translation adjustments    | 46.4     | 2.9     | 60.1 (3) | 41.5     |
| <hr style="border-top: 1px dashed black;"/> |          |         |          |          |
| Comprehensive income (loss)                 | \$ 104.4 | \$ 41.7 | \$ 252.8 | \$ 158.3 |
| <hr style="border-top: 1px dashed black;"/> |          |         |          |          |

- (1) 2006 results were restated to show the effect of FSP AUG-AIR 1, which was adopted retroactively during the first quarter of 2007. For further details see Note 2 to the Consolidated Financial Statements.
- (2) 2007 includes amortization, impacts of a curtailment and remeasurement related to certain U.S. plans, and a settlement in the Netherlands related to the sale of the water treatment and acrylamide product lines. For further details see Note 17 to the Consolidated Financial Statements.
- (3) 2007 includes the impact of recognizing \$13.8 of foreign currency translation adjustments in first quarter net earnings as a component of the gain on the sale of the water treatment and acrylamide product lines.

### 12. INCOME TAXES

The effective income tax rate for the three and nine months ended September 30, 2007 was a tax provision of 26.0% (\$18.4) and 27.1% (\$59.1), respectively, compared to 38.2% (\$15.4) and 26.7% (\$40.9) for the three and nine months ended September 30, 2006. Included in the amount for the third quarter 2007 is a \$3.5 tax benefit as a result of the recently enacted tax legislation that lowered the German corporate tax rates effective January 1, 2008, thereby requiring a commensurate reduction in our net deferred tax liabilities with respect to this tax jurisdiction. The 2007 effective tax rate for the quarter and year to date was unfavorably impacted by a shift in our earnings to higher tax jurisdictions, changes in U.S. tax laws regarding export incentives, and a French restructuring charge for which no tax benefit was given due to the unlikely utilization of related net operating losses. The rate was favorably affected by the relatively low tax expense of \$0.4 with respect to a \$15.7 gain recorded in the first quarter of 2007 on the second phase of the water business divestiture and changes in U.S. tax laws regarding manufacturing incentives. Excluding these items and accrued interest and penalties on unrecognized tax benefits in accordance with FIN 48 as described below, the underlying estimated annual effective tax rate for the nine months ended September 30, 2007 was 29.7%, with a normalized effective rate of 30.25% including such interest and penalties. We increased our normalized effective tax rate to 30.25% in the third quarter, compared to 29.75% for the six months ended June 30, 2007, primarily due to changes in the estimated profitability mix by entity.

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The 2006 effective tax rate for the quarter and year to date was negatively impacted by the limited tax benefit available on the French asset impairment charge offset by the positive impact of a tax benefit from a restructuring charge recorded at 29.6%, the favorable resolution of a legal dispute which was effectively recorded at a tax provision of 20% and a reduction in income tax expense of \$3.5 as a result of the completion of prior years U.S. tax audits.

In 2005, we received a final notice from the Norwegian Assessment Board disclosing an increase to taxable income with respect to a 1999 restructuring of certain of our European operations. The tax liability attributable to this assessment, excluding interest and possible penalties, was approximately 84.0

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Norwegian krone (\$15.4). We unsuccessfully contested this assessment before a Norwegian tribunal in 2006 and filed an appeal in response to this adverse decision during the first quarter of 2007. During the third quarter of 2007, the Norwegian Court of Appeals in a 2 to 1 decision upheld the original tax assessment of approximately 84.0 Norwegian krone (\$15.4). After reviewing the Court of Appeals decision and the merits of the case, we have decided to appeal the case to the Norwegian Supreme Court during the fourth quarter of 2007.

In the event the Norwegian authorities ultimately prevail in their assessment, approximately 22.0 Norwegian krone (\$4.0) of tax related to this matter will be remitted in subsequently filed tax returns beginning with the 2005 taxable period in accordance with Norwegian law. As a result, we remitted 4.4 Norwegian krone (\$0.7) of additional tax in 2006 for the 2005 taxable period related to this dispute. Accordingly, the accrued balance at September 30, 2007 for this contingency was 24.7 Norwegian krone (\$4.5), which represents our remaining liability (including interest) regarding this matter in the event we ultimately accept the Norwegian's court decision as final. We also expect to pay 3.5 Norwegian krone (\$0.6) during 2007 for this issue related to the 2006 taxable period.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the tax authorities. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a \$0.3 decrease in the liability for unrecognized tax benefits. This decrease in liability resulted in an increase to the January 1, 2007 retained earnings balance in the amount of \$0.3. In addition, as of January 1, 2007, we reclassified \$19.3 of unrecognized tax benefits from current taxes payable to non-current taxes payable, which is included in other non-current liabilities on the consolidated balance sheet. The amount of unrecognized tax benefits at January 1, 2007 is \$25.6 (gross) of which \$18.9 would impact our effective tax rate, if recognized. As of September 30, 2007, the amount of unrecognized tax benefits is \$31.6 (gross) of which \$23.2 would impact our effective tax rate, if recognized. There are no known uncertain tax positions which are reasonably possible to change over the next twelve months necessitating a significant change in our unrecognized tax benefits.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of income. We had recorded a liability for the payment of interest and penalties of approximately \$2.4 as of January 1, 2007, increasing to approximately \$3.3 as of September 30, 2007.

The Internal Revenue Service (the "IRS") has completed and closed its audits of our tax returns through 2003. During the second quarter of 2007, the IRS commenced the audit of our tax returns for the years 2004 and 2005.

State income tax returns are generally subject to examination for a period of 3-5 years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination and administrative appeals.

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International jurisdictions have statutes of limitations generally ranging from 3-5 years after filing of the respective return. Years still open to examination by tax authorities in major jurisdictions include Austria (2005 onward), Belgium (2004 onward), Germany (2005 onward), Netherlands (2005 onward), Canada (2001 onward), UK (2005 onward), Italy (2005 onward), China (2003 onward), and Norway (1999 onward). We are currently under examination in several of these jurisdictions.

### 13. OTHER FINANCIAL INFORMATION

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On July 19, 2007 the Board of Directors declared a \$0.10 per common share cash dividend, paid on August 27, 2007 to shareholders of record as of August 10, 2007. Cash dividends paid in the third quarter of 2007 and 2006 were \$4.8 and \$4.7, respectively, and for the nine months ended September 30, 2007 and 2006 were \$14.4 and \$14.1, respectively. On October 18, 2007 the Board of Directors declared a \$0.10 per common share cash dividend, payable on November 26, 2007 to shareholders of record as of November 9, 2007.

Income taxes paid for the nine months ended September 30, 2007 and 2006 were \$45.4 and \$43.1, respectively. Interest paid for the nine months ended September 30, 2007 and 2006 was \$31.5 and \$42.4, respectively. Interest income for the nine months ended September 30, 2007 and 2006 was \$1.1 and \$1.4, respectively.

UCB SA ("UCB") was considered a related party during the year ended December 31, 2006 since it then owned more than 10% of Cytec's outstanding common stock. UCB announced in March 2007 that it had sold all of its Cytec shares and as a result, UCB is no longer a related party. As of September 30, 2007 and December 31, 2006, \$2.4 was owed from UCB, which is included in other accounts receivable on the accompanying consolidated balance sheet. The balance represents amounts to be received from UCB for certain pre-acquisition tax liabilities which we have paid or will pay as a result of our acquisition of Surface Specialties.

### 14. SEGMENT INFORMATION

Summarized segment information for our four segments for the three and nine months ended September 30 is as follows:

|                             | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-----------------------------|-------------------------------------|----------|------------------------------------|----------|
|                             | 2007                                | 2006(1)  | 2007                               | 2006(1)  |
| Net sales                   |                                     |          |                                    |          |
| Cytec Performance Chemicals |                                     |          |                                    |          |
| Sales to external customers | \$ 180.7                            | \$ 233.0 | \$ 544.6                           | \$ 688.6 |
| Intersegment sales          | 1.1                                 | 1.3      | 4.8                                | 5.2      |
| Cytec Surface Specialties   | 413.0                               | 383.6    | 1,237.0                            | 1,148.3  |
| Cytec Engineered Materials  | 162.2                               | 150.9    | 492.3                              | 441.6    |
| Building Block Chemicals    |                                     |          |                                    |          |
| Sales to external customers | 119.2                               | 95.9     | 328.7                              | 257.4    |
| Intersegment sales          | 8.8                                 | 20.8     | 26.8                               | 67.2     |

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|                                     |          |          |            |            |
|-------------------------------------|----------|----------|------------|------------|
| Net sales from segments             | 885.0    | 885.5    | 2,634.2    | 2,608.3    |
| Elimination of intersegment revenue | (9.9)    | (22.1)   | (31.6)     | (72.4)     |
| Net sales                           | \$ 875.1 | \$ 863.4 | \$ 2,602.6 | \$ 2,535.9 |

|                                 |         | % of sales |         | % of sales |         | % of sales |         |
|---------------------------------|---------|------------|---------|------------|---------|------------|---------|
| Earnings (loss) from operations |         |            |         |            |         |            |         |
| Cytec Performance Chemicals     | \$ 18.3 | 10%        | \$ 20.8 | 9%         | \$ 54.9 | 10%        | \$ 56.0 |
| Cytec Surface Specialties       | 31.2    | 8%         | 18.8    | 5%         | 79.7    | 6%         | 78.0    |
| Cytec Engineered Materials      | 28.8    | 18%        | 26.7    | 18%        | 96.2    | 20%        | 78.0    |
| Building Block Chemicals        | 9.4     | 7%         | 10.1    | 9%         | 16.6    | 5%         | 16.0    |
| Earnings from segments          | 87.7    | 10%        | 76.4    | 9%         | 247.4   | 9%         | 229.0   |
| Corporate and Unallocated (2)   | (5.6)   |            | (21.0)  |            | 1.5     |            | (47.0)  |
| Earnings from operations        | \$ 82.1 | 9%         | \$ 55.4 | 6%         | \$248.9 | 10%        | \$182.0 |

(1) 2006 results were restated to show the effect of FSP AUG-AIR 1, which was adopted retroactively during the first quarter of 2007. For further details see Note 2 to the Consolidated Financial Statements.

(2) In the third quarter of 2007 Corporate and Unallocated includes a net restructuring charge of \$2.8 for costs related to the shut down of a manufacturing facility in France and restructuring of our polymer additive manufacturing facility in Willow Island and our liquid coating resins manufacturing facility in Wallingford. For nine months 2007, Corporate and Unallocated includes a restructuring charge of \$5.4 for the aforementioned items and a \$15.7 gain as a result of completion of the second phase of the sale of our water treatment chemicals and acrylamide product lines to Kemira (see Note 4 and 5). Nine months 2006 Corporate and Unallocated includes an asset impairment charge of \$15.4 and a net restructuring charge of \$22.6 principally relating to permanently shutting down manufacturing operations in Dijon, France and \$15.7 gain relating to a resolution of a legal dispute (see note 10).

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15. GOODWILL AND OTHER ACQUISITION INTANGIBLES

The following is the activity in the goodwill balances for each segment.

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|                                | Cytec<br>Performance<br>Chemicals |      | Cytec Surface<br>Specialties |       | Cytec<br>Engineered<br>Materials |       | Co |
|--------------------------------|-----------------------------------|------|------------------------------|-------|----------------------------------|-------|----|
| Balance, December 31, 2006     | \$                                | 88.2 | \$                           | 712.4 | \$                               | 241.2 | \$ |
| Currency exchange rate changes |                                   | 2.7  |                              | 37.0  |                                  | --    |    |
| Balance, September 30, 2007    | \$                                | 90.9 | \$                           | 749.4 | \$                               | 241.2 | \$ |

Other acquisition intangibles consisted of the following major classes:

|                   | Weighted<br>Average<br>Useful Life<br>(years) | Gross carrying value  |                      | Accumulated<br>amortization |                      |
|-------------------|---|-----------------------|----------------------|-----------------------------|----------------------|
|                   |   | September 30,<br>2007 | December 31,<br>2006 | September 30,<br>2007       | December 31,<br>2006 |
| Technology-based  | 15.2  | \$ 56.7               | \$ 53.9              | \$ (22.8)                   | \$ (19.0)            |
| Marketing-related |   |                       |                      |                             |                      |