CYTEC INDUSTRIES INC/DE/
Form 10-Q
October 25, 2011

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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, 2011

Commission file number 1-12372

CYTEC INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-3268660**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No).**

Five Garret Mountain Plaza

Woodland Park, New Jersey	**07424**
(Address of principal executive offices)	**(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 x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

There were 49,586,198 shares of common stock outstanding at October 14, 2011.

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$ 778.4	$ 700.1	$ 2,342.3	$ 2,048.7
Manufacturing cost of sales	599.1	533.0	1,781.3	1,533.8
Selling and technical services	51.6	51.1	168.7	149.6
Research and process development	18.7	17.9	65.3	54.0
Administrative and general	27.2	32.8	94.0	94.7
Amortization of acquisition intangibles	9.8	9.1	29.2	27.6
Gain on sale of assets			3.3	
Earnings from operations	72.0	56.2	207.1	189.0
Other income (expense), net	2.6	(2.0)	(3.6)	(4.0)
Net loss on early extinguishment of debt		0.1	0.3	0.8
Equity in earnings of associated companies	0.2	0.4	1.1	0.7
Interest expense, net	8.6	7.8	27.4	23.9
Earnings from continuing operations before income taxes	66.2	46.7	176.9	161.0
Income tax provision	17.7	16.2	51.0	57.4
Earnings from continuing operations	48.5	30.5	125.9	103.6
Earnings from operations of discontinued business, net of tax		7.7	7.9	22.7
Gain on sale of discontinued operations, net of tax			34.6	
Earnings from discontinued operations, net of tax		7.7	42.5	22.7
Net earnings	48.5	38.2	168.4	126.3
Less: Net earnings attributable to noncontrolling interests	(0.6)	(0.5)	(2.2)	(2.0)
Net earnings attributable to Cytec Industries Inc.	$ 47.9	$ 37.7	$ 166.2	$ 124.3
Earnings per share attributable to Cytec Industries Inc.				
Basic earnings per common share				
Continuing operations	$ 0.99	$ 0.61	$ 2.52	$ 2.06
Discontinued operations	$	$ 0.15	$ 0.87	$ 0.46
	$ 0.99	$ 0.76	$ 3.39	$ 2.52
Diluted earnings per common share				

Continuing operations	$ 0.98	$ 0.60	$ 2.49	$ 2.04
Discontinued operations	$	$ 0.15	$ 0.86	$ 0.46
	$ 0.98	$ 0.75	$ 3.35	$ 2.50
Dividends per common share	$ 0.1250	$ 0.0125	$ 0.3750	$ 0.0375

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 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 406.3	$ 383.3
Trade accounts receivable, less allowance for doubtful accounts of $5.1 and $4.2 in 2011 and 2010, respectively	436.1	370.6
Other accounts receivable	46.5	51.4
Inventories	421.1	350.0
Deferred income taxes	33.0	40.6
Other current assets	31.0	22.4
Current assets held for sale		93.1
Total current assets	1,374.0	1,311.4
Investment in associated companies	20.2	19.7
Plants, equipment and facilities, at cost	1,951.1	1,937.5
Less: accumulated depreciation	(845.9)	(811.3)
Net plant investment	1,105.2	1,126.2
Acquisition intangibles, net of accumulated amortization of $274.2 and $245.9 in 2011 and 2010, respectively	319.1	347.0
Goodwill	684.2	685.7
Deferred income taxes	24.4	24.1
Other assets	103.6	88.5
Non-current assets held for sale		71.3
Total assets	$ 3,630.7	$ 3,673.9
Liabilities		
Current liabilities		
Accounts payable	$ 303.8	$ 263.6
Short-term borrowings	4.3	6.1
Accrued expenses	222.0	223.2
Income taxes payable	24.0	19.7
Deferred income taxes	2.3	3.1
Current liabilities held for sale		63.9
Total current liabilities	556.4	579.6
Long-term debt	636.0	641.5
Pension and other postretirement benefit liabilities	317.9	364.2
Other noncurrent liabilities	281.7	272.8
Deferred income taxes	79.1	71.3

Non-current liabilities held for sale				7.6
Stockholders equity				
Preferred stock, 20,000,000 shares authorized; none issued and outstanding				
Common stock, $.01 par value per share, 150,000,000 shares authorized; issued 49,586,198 in 2011 and 49,445,350 in 2010		0.5		0.5
Additional paid-in capital		460.5		451.5
Retained earnings		1,440.7		1,293.0
Accumulated other comprehensive loss		(24.9)		(14.4)
Treasury stock, at cost, 2,692,131 shares in 2011 and 767 shares in 2010		(123.0)		
Total Cytec Industries Inc. stockholders equity		1,753.8		1,730.6
Noncontrolling interests		5.8		6.3
Total equity		1,759.6		1,736.9
Total liabilities and stockholders equity	$	3,630.7	$	3,673.9

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 months ended September 30,	**2011**	**2010**
Cash flows provided by (used in) operating activities		
Net earnings	$ 168.4	$ 126.3
Earnings from discontinued operations	(42.5)	(22.7)
Earnings from continuing operations	125.9	103.6
Noncash items included in earnings from continuing operations:		
Depreciation	71.9	64.0
Amortization	34.5	33.3
Share-based compensation	8.9	8.0
Deferred income taxes	23.0	25.1
Gain on sale of assets	(3.3)	(2.3)
Loss on early extinguishment of debt	0.3	0.8
Unrealized (gain) loss on derivative instruments	3.7	(8.0)
Other	(0.4)	0.5
Changes in operating assets and liabilities (excluding effects of divestiture):		
Trade accounts receivable	(69.0)	(65.2)
Other receivables	11.0	10.2
Inventories	(74.5)	(67.2)
Other assets	(7.6)	(1.4)
Accounts payable	46.4	71.5
Accrued expenses	(10.7)	25.9
Income taxes payable	(14.4)	8.2
Other liabilities	(41.7)	(56.4)
Net cash provided by operating activities of continuing operations	104.0	150.6
Net cash (used in) provided by operating activities of discontinued operations	(8.3)	31.8
Net cash provided by operating activities	**95.7**	**182.4**
Cash flows provided by (used in) investing activities:		
Additions to plants, equipment and facilities	(77.8)	(76.6)
Net proceeds received on sale of assets	3.4	1.7
Net cash used in investing activities of continuing operations	(74.4)	(74.9)
Net cash provided by (used in) investing activities of discontinued operations	149.9	(8.9)
Net cash provided by (used in) investing activities	**75.5**	**(83.8)**
Cash flows provided by (used in) financing activities:		
Payments on long-term debt	(5.9)	(18.4)
Change in short-term borrowings	(2.0)	(2.4)
Cash dividends	(21.2)	(3.2)
Proceeds from the exercise of stock options	6.6	17.7

Purchase of treasury stock	(130.7)	
Excess tax benefits from share-based payment arrangements	1.1	2.9
Other	11.0	
Net cash used in financing activities	**(141.1)**	**(3.4)**
Effect of currency rate changes on cash and cash equivalents	(7.1)	0.2
Increase in cash and cash equivalents	**23.0**	**95.4**
Cash and cash equivalents, beginning of period	383.3	261.7
Cash and cash equivalents, end of period	**$ 406.3**	**$ 357.1**

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 and accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Certain information and footnote disclosures normally included in our annual financial statements 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 2010 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 subsidia

2. NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04. The amendments in this ASU generally represent clarifications of fair value measurement, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU are effective for us in the first quarter 2012, and will be applied prospectively. We do not expect this ASU to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, requiring entities to present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements of net income and other comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. It is effective for us beginning in the first quarter of 2012, and will not impact our results of operations or financial position.

In September 2011, the FASB issued ASU No. 2011-08, intended to simplify how an entity tests goodwill for impairment by allowing entities the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the entity concludes from its qualitative assessment that fair value of the reporting unit exceeds its carrying value, the entity would no longer be required to calculate the fair value of the reporting unit. The amendments will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We do not expect this ASU to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-09, which requires employers to disclose more information regarding its financial obligations related to its participation in multiemployer pension plans. The enhanced disclosures will be required for fiscal years ending after December 15, 2011. We do not expect this ASU to have a material impact on our consolidated financial statements.

3. DISCONTINUED OPERATIONS

On February 28, 2011, we completed the sale of substantially all of the assets and certain liabilities of our Building Block Chemicals business (the Business) to Cornerstone Chemical Company, an affiliate of HIG Capital, LLC (the Purchaser), pursuant to an Asset Purchase Agreement (the Agreement) dated January 28, 2011, between the Company and the Purchaser. The total consideration received from the sale was $175.7, including cash consideration of $160.7 that we received at closing and a promissory note for $15.0, due in six years and bearing interest at 7.0% annually. A cash payment of $6.6 was made to the Purchaser in July 2011 as final settlement of the agreed working capital

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transferred, resulting in net realized consideration of $169.1. The assets sold include our Fortier plant located in Westwego, Louisiana, personal property, inventory, accounts receivable, contract rights and certain other assets that are used in or relate to the Business, all as further specified in the Agreement. Liabilities assumed by the Purchaser include accounts payable, contract liabilities, and certain environmental and product liabilities, and certain other liabilities that relate to the Business and are as specified in the Agreement. Certain liabilities relating to the Business were retained by us, including certain environmental, pension and post-retirement healthcare liabilities. For the nine months ended September 30, 2011, we recorded an after-tax gain on the sale of $34.6, which is included in Gain on sale of discontinued operations, net of tax in the Consolidated Statements of Income.

The results of operations of the former Building Block Chemicals segment are reported as discontinued operations, and are therefore excluded from both continuing operations and segment results for all periods presented. All previously reported financial information has been revised to conform to the current presentation.

The following table displays summarized activity in our consolidated statements of income for discontinued operations during the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$ 0.0	$ 137.0	$ 96.2	$ 449.1
Earnings from operations of discontinued business before income taxes	$ 0.0	$ 11.4	$ 10.0	$ 33.5
Income tax expense	0.0	(3.7)	(2.1)	(10.8)
Gain on sale of discontinued operations	0.0	0.0	55.3	0.0
Income tax expense on gain on sale	0.0	0.0	(20.7)	0.0
Earnings from discontinued operations, net of tax	$ 0.0	$ 7.7	$ 42.5	$ 22.7

4. OTHER DIVESTITURES

On September 30, 2011, we sold a research and development facility for $11.0 cash. The facility had a carrying value of $32.5 at the time of sale. The transaction includes the leaseback of certain portions of the facility for a 7 year period, with an option to extend the lease for an additional 3 years. As part of the agreement, we are responsible for the remediation of certain environmental matters at the site and therefore, as a result of the environmental remediation obligation, we are precluded from recognizing the sale until the remediation is completed. The forecasted cost of remediation is approximately $1.1. The carrying value of the facility exceeds the proceeds received by $21.5. However, since the facility supports the operations of multiple asset groupings that have sufficient undiscounted cash flows to support the in-use value of the facility, no impairment charge can be recorded at this time. We will adjust the estimated remaining useful life of the facility to the 7 year initial lease period and accelerate the depreciation over that period. If remediation is completed before the end of the lease period, the sale of the facility will be recognized at that time, including the recognition of a loss for any remaining excess carrying value.

During the first quarter of 2011, we sold a former manufacturing plant in Bogota, Colombia for which we recorded a net gain of $3.3, which is recorded in Gain on sale of assets in the accompanying statements of income for the nine months ended September 30, 2011.

In the fourth quarter of 2010, we entered into an agreement to sell our site in San Fernando, Spain, to the local municipality for 13.5 (approximately $18.1 using the exchange rate as of September 30, 2011). We ceased operations at the facilities in the first quarter of 2011, and are cleaning and preparing the site and land, which we expect to transfer to the municipality in mid-2012. We expect to receive proceeds from the sale of the land in installments during the fourth quarter of 2011 and first half of 2012. The first installment of 4.0 (approximately $5.5) was received on October 19, 2011. Any potential gain from the sale of the land will be deferred until our continuing involvement in environmental remediation is complete, projected to be in 2012.

During the first quarter of 2010, we sold our real estate at an inactive site for $2.5 of which $0.5 was received in cash and $2.0 represents a promissory note from the purchaser. The net gain of $2.3 from this sale is recorded in other income (expense), net in the accompanying statements of income for the nine months ended September 30, 2010.

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5. RESTRUCTURING OF OPERATIONS

In accordance with our accounting policy, restructuring costs are included in our corporate unallocated operating results for segment reporting purposes consistent with management s view of its businesses.

Aggregate pre-tax restructuring charges/(credits) included in the statements of income were recorded by line item as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Manufacturing cost of sales	$ 9.7	$ 3.5	$ 10.4	$ 8.3
Selling and technical services	(0.6)	0.0	4.1	(0.1)
Research and process development	0.1	0.0	6.5	0.0
Administrative and general	(0.2)	(0.3)	(0.2)	(0.8)
Other expense, net	0.0	0.0	0.0	0.3
Total	$ 9.0	$ 3.2	$ 20.8	$ 7.7

Details of our 2011 restructuring initiatives are as follows:

In July 2011, we approved plans to discontinue production at our leased powder polyster resins facility in Suzano, Brazil. These plans resulted in a restructuring charge of $9.1 in the third quarter of 2011, of which $1.5 related to the severance of 26 positions, $4.0 related to asset write-offs, and $3.6 related to decommissioning activities and lease termination costs, all of which related to our Coating Resins segment. The plant has ceased operations and decommissioning is expected to be completed in April 2012.

In April 2011, we approved plans to realign the supporting structure of our Coating Resins segment to meet the current business needs. This plan was developed in response to continued commoditization of certain product lines as well as a lack of recovery in certain end markets, and was an outcome of our overall review regarding the cash versus the growth classification of product lines within the segment. These actions resulted in a restructuring charge of $11.5 related to severance for the elimination of 85 positions in the segment s commercial, technical and administrative functions, primarily in Europe. In the third quarter of 2011, we recorded favorable adjustments of $0.4 related to the April 2011 Coating Resins restructuring.

The remaining reserves of $10.3 at September 30, 2011 for the above initiatives are expected to be paid through the first half of 2012.

Details of our 2010 restructuring initiatives are as follows:

In the fourth quarter of 2010, we initiated restructuring actions in our Coating Resins segment at our San Fernando, Spain facility after reaching agreement for the transfer of the site to the local municipality in exchange for monetary consideration, discussed in Note 4. These actions resulted in a restructuring charge of $6.6 related to the severance of 38 positions, offset by credits of $3.6 primarily related to the reversal of asset retirement obligations.

In September 2010, we approved plans to consolidate manufacturing activities at one of our European sites included in our Coating Resins segment. These plans resulted in a restructuring charge of $4.0 in 2010, of which $1.5 related to the severance of nine positions, and $2.5 related to the write-down of certain manufacturing assets.

In May 2010, we approved plans to exit the production of certain phosphorus derivative products at our Mt. Pleasant, Tennessee facility. These plans resulted in a restructuring charge of $5.5 in 2010, of which $0.4 related to the severance of 10 positions, $1.7 related to asset write-offs, and $3.4 related to decommissioning activities, all of which related to our In-Process Separation segment.

For the three and nine months ended September 30, 2011, we recorded net unfavorable adjustments of $0.5 and $1.8, respectively, related to our 2010 restructuring initiatives.

The remaining reserve of $3.0 at September 30, 2011 for our 2010 restructuring initiatives is expected to be paid through 2012.

Details of our 2009 restructuring initiatives are as follows:

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In 2009, we initiated restructuring actions across all segments and corporate functions. These actions were taken in response to the downturn in the global economy, which especially impacted the automotive, construction and general industrial markets that we serve, and led to a significant reduction in our sales and operating profitability. The following summarizes the details of the restructuring initiatives launched in 2009, which resulted in $91.9 of restructuring charges for the year ended December 31, 2009.

In 2009, we launched restructuring initiatives at several of our Specialty Chemical manufacturing locations, which resulted in restructuring charges totaling $70.4, of which $40.4 was associated with severance and other employee benefits and $30.0 was associated with asset write-downs and accelerated depreciation. The manufacturing locations impacted by these initiatives were as follows:

- Closure of our manufacturing facility in La Llagosta, Spain and transfer of the manufacturing of most of the liquid coating resins products produced at the site to our facility in Werndorf, Austria.

- Transfer the manufacturing of our powder coating resins product line from Drogenbos, Belgium to our manufacturing facility in Bassano, Italy and consolidate or eliminate supply chain, sales, marketing and administrative functions at the site.

- Transfer the manufacturing of certain liquid coating resins products from our Hamburg, Germany site to our facility in Werndorf, Austria and consolidate or eliminate certain manufacturing, supply chain, and administrative functions at the site.

- Conversion of our manufacturing facility in Antofagasta, Chile into a blending and distribution facility to support the Mining business and eliminate manufacturing functions at the site.

- Closure of our manufacturing facility in Bogota, Colombia.

The above manufacturing restructuring initiatives included the elimination of 365 positions. During 2010 we recorded a net favorable adjustment of $0.9.

We launched restructuring initiatives across our Engineered Materials segment in response to inventory destocking by parts manufacturers that supply large commercial aircraft manufacturers as well as a sharper than expected decline in business and regional jet production rates. These initiatives resulted in $4.4 of restructuring expenses for severance and employee benefits related to the elimination of 239 positions; during 2010 we recorded a net favorable adjustment of $0.5.

We launched several initiatives throughout 2009 in our Specialty Chemical segments and corporate functions across sales, marketing, manufacturing, supply chain, research and development, and administrative functions, including our initiative to establish a shared services center. These initiatives resulted in $17.1 of charges related to severance and employee benefits associated with the elimination of 388 positions; during 2010 we recorded a net favorable adjustment of $2.4.

For the three and nine months ended September 30, 2011, we recorded net favorable adjustments of $0.2 and $1.2, respectively, related to our 2009 restructuring initiatives. All of the aforementioned initiatives were substantially complete as of December 31, 2009, with the exception of the shared services initiative, which is expected to be completed by the end of 2011.

The remaining reserve at September 30, 2011 of $1.4 relating to 2009 restructuring initiatives is expected to be paid through 2013.

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	2009 Restructuring Initiatives	2010 Restructuring Initiatives	2011 Restructuring Initiatives	Total
Balance at December 31, 2009	**$ 30.8**	**$ 0.0**	**$ 0.0**	**$ 30.8**
2010 charges (credits)	(3.6)	12.4	0.0	8.8
Non-cash items	0.0	(0.5) (1)	0.0	(0.5)
Cash payments	(15.2)	(3.3)	0.0	(18.5)
Currency translation adjustments	(1.3)	0.1	0.0	(1.2)
Balance at December 31, 2010	**$ 10.7**	**$ 8.7**	**$ 0.0**	**$ 19.4**
1st quarter charges/(credits)	(1.0)	0.3	0.0	(0.7)
Non-cash items	0.0	0.0	0.0	0.0
Cash payments	(1.2)	(2.8)	0.0	(4.0)
Currency translation adjustments	0.4	0.4	0.0	0.8
Balance at March 31, 2011	**$ 8.9**	**$ 6.6**	**$ 0.0**	**$ 15.5**
2nd quarter charges	0.0	1.0	11.5	12.5
Non-cash items	0.0	0.0	0.0	0.0
Cash payments	(6.0) (2)	(1.7)	(1.4)	(9.1)
Currency translation adjustments	(0.1)	0.1	0.1	0.1
Balance at June 30, 2011	**$ 2.8**	**$ 6.0**	**$ 10.2**	**$ 19.0**
3rd quarter charges	(0.2)	0.5	8.7	9.0
Non-cash items	0.0	0.0	(4.0) (3)	(4.0)
Cash payments	(1.0)	(3.4)	(3.3)	(7.7)
Currency translation adjustments	(0.2)	(0.1)	(1.3)	(1.6)
Balance at September 30, 2011	**$ 1.4**	**$ 3.0**	**$ 10.3**	**$ 14.7**

(1) Represents write-offs of $4.1 related to inventories and construction in progress at our Mt. Pleasant, Tennessee facility and write-off of plant assets at a certain European facility; offset by reversals of asset retirement obligations related to certain European facilities.
(2) Includes a $5.4 payment to an insurance company to transfer a long term severance liability.
(3) Represents a $4.0 charge for the write-off of plant assets at our manufacturing facility in Brazil.

6. SHARE-BASED COMPENSATION

The fair value of each option or stock-settled share appreciation right (SARS) 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 takes into account variables such as volatility, dividend yield, and risk-free interest rate. 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. The assumptions for the nine months ended September 30, 2011 and 2010 are noted in the following table:

Nine Months Ended September 30,	2011	2010
Expected life (years)	6.2	6.1
Expected volatility	40.0%	43.3%
Expected dividend yield	1.04%	0.19%
Risk-free interest rate	3.36%	3.75%

Weighted-average fair value per option	$ 20.83	$ 16.73

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 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. As share-based compensation recognized in the consolidated statement of income is based on awards ultimately expected to vest, we 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.

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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), SARS (including those settled with common shares) and deferred stock awards and dividend equivalents. At September 30, 2011, there were approximately 5,100,000 shares reserved for issuance under the 1993 Plan, inclusive of 3,800,000 shares reserved for issuance for all outstanding share-based compensation grants.

Stock Options and Stock-Settled SARS

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 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.

A summary of stock options and stock-settled SARS activity for the nine months ended September 30, 2011 is presented below:

Options and Stock-Settled SARS Activity:	Number of Units	Weighted Average Exercise Price Per Unit	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	3,417,687	$ 40.76		
Granted	416,718	51.49		
Exercised	(284,396)	32.27		
Forfeited	(173,400)	47.92		
Outstanding at September 30, 2011	3,376,609	$ 42.40	5.6	$ 9.1
Exercisable at September 30, 2011	2,517,984	$ 43.01	4.6	$ 6.8

During the nine months ended September 30, 2011, we granted 416,718 stock options. The weighted-average grant-date fair value of the stock options granted during the nine months ended September 30, 2011 and 2010 was $20.83 and $16.73 per share, respectively. Total pre-tax compensation cost related to stock option and stock-settled SARS was $1.8 and $1.8 during the three months ended September 30, 2011 and 2010, respectively, and $5.5 and $5.8 during the nine months ended September 30, 2011 and 2010, respectively. The total intrinsic value of stock options and stock-settled SARS exercised during the nine months ended September 30, 2011 and 2010 was $6.7 and $10.5, respectively. Treasury shares and newly issued shares have been utilized for stock option and stock-settled SARS exercises. The total fair value of stock options and stock-settled SARS vested during the nine months ended September 30, 2011 and 2010 was $6.8 and $7.6, respectively.

As of September 30, 2011, there was $7.8 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 1.3 years as the majority of our awards vest over three years.

Total tax benefits realized from share-based awards was $2.3 and $3.9, for the nine months ended September 30, 2011 and 2010, respectively. Cash received from stock options exercised was $6.6 and $17.7 for the nine months ended September 30, 2011 and 2010, respectively.

Cash-Settled SARS

Our 1993 Plan also provides for the granting of cash-settled SARS, which were granted during 2004 and 2005. Cash-settled SARS are liability-classified awards. Cash used to settle cash-settled SARS exercised during the nine months ended September 30, 2011 and the nine months ended September 30, 2010 was $0.0 and $0.1, respectively. The total amount of pre-tax (income) expense recognized for cash-settled SARS was $(1.6) and $1.8 for the nine months ended September 30, 2011 and 2010, respectively. The liability related to our cash-settled SARS was $1.0 at September 30, 2011 and $2.6 at December 31, 2010.

Non-vested stock, non-vested stock units and performance stock

As provided under the 1993 Plan, we have also issued non-vested stock, non-vested stock units and performance stock. Non-vested stock and stock units 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

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performance objectives are met. We did not grant any performance stock in 2011 and 2010. During 2008, we granted performance stock awards for 47,927 shares (assuming par payout) to nine employees, which related to the 2010 performance period. Of these awards, 8,092 vested for which we recorded an expense of $0.4 in the fourth quarter of 2010. The shares were distributed in January 2011.

A summary of non-vested stock and non-vested stock units for the nine months ended September 30, 2011 is presented below:

Non-vested stock and stock units	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Nonvested at January 1, 2011	124,740	$ 35.19
Granted	70,626	$ 52.02
Vested	(4,840)	$ 56.85
Forfeited	(7,164)	$ 46.11
Nonvested at September 30, 2011	183,362	$ 40.40

During the nine months ended September 30, 2011, we granted 58,242 non-vested stock units to employees and 12,384 shares of non-vested stock to nine directors, which generally vest on the third anniversary of the date of grant. The weighted average fair value of the nonvested stock and nonvested stock units on the date of grant was $52.02 per share which was equal to the closing market price of our stock on the date of the grant. The total amount of share-based compensation expense recognized for non-vested stock, non-vested stock units and performance stock was $0.7 and $0.5 for the three months ended September 30, 2011 and 2010, respectively, and was $1.9 and $1.4 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, there was $3.2 of total unrecognized compensation cost related to non-vested stock and stock units. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Compensation cost related to all share-based compensation arrangements capitalized in inventory as of September 30, 2011 and December 31, 2010 was approximately $0.3 and $0.2, respectively.

As of September 30, 2011 and December 31, 2010, our additional paid-in capital pool (APIC Pool) which represents excess tax benefits available to absorb potential future tax deficiencies was $71.3 and $70.3, respectively.

7. EARNINGS PER SHARE (EPS)

Basic earnings per common share excludes dilution and is computed by dividing net earnings available to common stockholders 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 available to common stockholders 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. Under this method, an increase in the fair market value of the Company s stock can result in a greater dilutive effect from potentially dilutive common shares. 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 table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30 (in thousands, except net earnings in millions and per share amounts):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Earnings from continuing operations	$ 47.9	$ 30.0	$ 123.7	$ 101.6
Earnings from discontinued operations, net of tax		7.7	42.5	22.7
Net earnings attributable to Cytec Industries Inc.	$ 47.9	$ 37.7	$ 166.2	$ 124.3
Denominator:				
Weighted average shares outstanding	48,364	49,422	49,076	49,243
Effect of dilutive shares:				
Options and stock-settled SARS	380	521	507	447
Non-vested shares and units	90	59	83	49
Diluted average shares outstanding	48,834	50,002	49,666	49,739
Basic earnings per common share:				
Earnings from continuing operations	$ 0.99	$ 0.61	$ 2.52	$ 2.06
Earnings from discontinued operations	$	$ 0.15	$ 0.87	$ 0.46
Net earnings per common share attributable to Cytec Industries Inc.	$ 0.99	$ 0.76	$ 3.39	$ 2.52
Diluted earnings per common share:				
Earnings from continuing operations	$ 0.98	$ 0.60	$ 2.49	$ 2.04
Earnings from discontinued operations	$	$ 0.15	$ 0.86	$ 0.46
Net earnings per common share attributable to Cytec Industries Inc.	$ 0.98	$ 0.75	$ 3.35	$ 2.50

The following table sets forth the anti-dilutive shares/units excluded from the above calculation because their inclusion would have had an anti-dilutive effect on earnings per share (in thousands):

Nine Months Ended September 30,	2011	2010
Options	859	291
Stock-Settled SARS	1,149	1,354
Non-vested shares/units	1	0
Total	**2,009**	**1,645**

8. INVENTORIES

Inventories consisted of the following:

	September 30, 2011	December 31, 2010
Finished goods	$ 276.5	$ 237.4
Work in progress	28.6	29.0
Raw materials and supplies	116.0	83.6
Total inventories	**$ 421.1**	**$ 350.0**

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9. DEBT

Long-term debt consisted of the following:

	September 30, 2011		December 31, 2010	
	Face	Carrying Value	Face	Carrying Value
Five-Year Revolving Credit Line Due June 2016	$ 0.0	$ 0.0	$ 0.0	$ 0.0
4.6% Notes Due July 1, 2013	135.2	135.5	140.7	141.1
6.0% Notes Due October 1, 2015	250.0	249.7	250.0	249.7
8.95% Notes Due July 1, 2017	250.0	249.5	250.0	249.4
Other	1.3	1.3	1.3	1.3
Long-term Debt	$ 636.5	$ 636.0	$ 642.0	$ 641.5

All of the outstanding notes are unsecured and may be repaid in whole or in part, at our option at any time subject to a prepayment adjustment.

During the nine months ended September 30, 2011, we repurchased portions of our 4.6% notes due July 1, 2013 with a total carrying value $5.5, for total purchase prices of $5.8, including accrued interest, resulting in a loss of $0.3. There were no debt repurchases for the three months ended September 30, 2011. Net loss from our debt repurchases is included in net loss on early extinguishment of debt in the accompanying statement of income.

During the three and nine months ended September 30, 2010, we repurchased portions of our 4.6% notes due July 1, 2013, with a total carrying value of $1.4 and $16.2, respectively, for total purchase prices of $1.5 and $17.0, respectively, including accrued interest, resulting in losses of $0.1 and $0.8, respectively.

On June 21, 2011, we amended and restated our existing Five Year Credit Agreement (the Agreement). The material terms and conditions of the Agreement remain substantially similar to the prior agreement except as set forth below. As the result of the amendment and restatement, the maximum amount we may borrow under the Agreement continues to be $400.0 but now includes a $25.0 swing line and the term of the Agreement was extended to June 21, 2016. Subject to the consent of the lenders, we have the ability under certain circumstances to extend the term of the Agreement through June 21, 2019 and to increase the maximum amount we may borrow under the Agreement to up to $500.0.

There were no borrowings outstanding under the $400.0 unsecured five-year revolving credit facility at September 30, 2011. We continue to be required to comply with certain customary financial covenants under the Agreement: (i) the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), and (ii) the ratio of consolidated EBITDA to consolidated interest expense. We are in compliance with these covenants and expect to be in compliance for the foreseeable future.

At September 30, 2011 and December 31, 2010, the fair value of our long-term debt was $726.2 and $726.9, respectively. The fair value is based on a discounted cash flow analysis which incorporates the contractual terms of the notes and observable market-based inputs that include time value, interest rate curves, and credit spreads.

The weighted-average interest rate on all of our debt was 6.89% and 6.80% as of September 30, 2011 and 2010, respectively. The weighted-average interest rate on short-term borrowings outstanding as of September 30, 2011 and 2010 was 0.78% and 1.11%, 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, 2011 and December 31, 2010, the aggregate environmental related accruals were $108.1 and $104.6,

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respectively, of which $10.0 and $5.5 is included in accrued expenses at September 30, 2011 and December 31, 2010, respectively, with the remainder included in other noncurrent liabilities. Environmental remediation spending for the three months ended September 30, 2011 and 2010 was $1.5 and $1.1, respectively, and for the nine months ended September 30, 2011 and 2010 was $4.1 and $3.2, respectively.

Our process is to review our environmental remediation accruals quarterly and based on new information, we may adjust our environmental related accruals from time to time. During the nine months ended September 30, 2011, based on additional information generated by site evaluations, we increased our environmental related accruals by $7.9, primarily related to inactive sites in the U.S. to meet new remediation design requirements of the relevant authorities.

Our environmental related 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 12 of the Notes to the Consolidated Financial Statements contained in our 2010 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.

As of September 30, 2011 and December 31, 2010, the aggregate self-insured and insured contingent liability was $56.8 and $57.4, respectively, and the related insurance recovery receivable for the liability as well as claims for past payments was $23.2 at September 30, 2011 and $24.3 at December 31, 2010. The asbestos liability included in the above amounts at September 30, 2011 and December 31, 2010 was $42.5 and $43.5, respectively, and the insurance receivable related to the liability as well as claims for past payments was $22.5 at September 30, 2011 and $23.8 at December 31, 2010. We anticipate receiving a net tax benefit for payment of those claims for which full insurance recovery is not realized.

Asbestos

We, like many other industrial companies, have been named as one of hundreds of defendants in a number of lawsuits filed in the U.S. by persons alleging bodily injury from asbestos. The claimants allege exposure to asbestos at facilities that we own or formerly owned, or from products that we formerly manufactured for specialized applications. Most of these cases involve numerous defendants, sometimes as many as several hundred. Historically, most of the closed asbestos claims against us have been dismissed without any indemnity payment by us; however, we can make no assurances that this pattern will continue.

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

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Number of claimants at beginning of period	8,000	8,000
Number of claimants associated with claims closed during period	(100)	(100)
Number of claimants associated with claims opened during period	100	100
Number of claimants at end of period	8,000	8,000

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.

During the third quarter of 2009, we completed an actuarial study of our asbestos related contingent liabilities and related insurance receivables. This study, which updated our previous study prepared in the third quarter of 2006, was based on, among other things, the incidence and nature of historical claims data through June 30, 2009, the incidence of malignancy claims, the severity of indemnity payments for malignancy and non-malignancy claims, dismissal rates by claim type, estimated future claim frequency, settlement values and reserves, and expected average insurance recovery rates by claim type.

Overall, we expect to recover approximately 48% of our future indemnity costs. We have completed coverage in place

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agreements with most of our larger insurance carriers.

Most of our insurance is with carriers with investment grade ratings and only those with such ratings or other solvent carriers were included in the estimation of the recovery of indemnity and incurred defense costs.

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.

Lead Pigment

We currently are one of several defendants in eight personal injury lead ingestion cases, consisting of 172 plaintiffs venued in federal and state courts in Milwaukee, Wisconsin. One of the eight cases consists of 164 claimants, each alleging personal injury as a result of the ingestion of white lead carbonate in paint. The remaining seven cases consist of less than 10 total plaintiffs. We believe that the eight personal injury suits against us are without merit and we are vigorously defending them.

In July 2005, in a case in which we were one of several defendants, the Supreme Court of Wisconsin held 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. Seven of the eight personal injury cases, including the personal injury case consisting of 164 plaintiffs, were filed before January 2011, when the Wisconsin legislature passed legislation that will make it substantially more difficult to bring lead suits in the future. In July 2009, the Wisconsin Supreme Court, in the case styled *Ruben Godoy et al v. E.I DuPont de Nemours et al*., upheld a lower court s decision dismissing the plaintiff s strict liability and negligent defect causes of action for white lead carbonate. The decision in this case, together with our non-existent or diminutive market share, reinforces our belief that we have no liability in any of the Wisconsin cases, and accordingly, we have not recorded a loss contingency.

Other

Periodically, we enter into settlement discussions for lawsuits or claims for which we have meritorious defenses and for which an unfavorable outcome against us is not probable. In such instances, no loss contingency is recorded since a loss is not probable and it is our policy to expense defense costs as incurred. Typically, we consider these types of settlements in fairly limited circumstances usually related to the avoidance of future defense costs and/or the elimination of any risk of an unfavorable outcome. Such settlements, if any, are recorded when it is probable a liability has been incurred, typically upon entering into a settlement agreement.

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.