

CYTEC INDUSTRIES INC/DE/  
Form 10-Q  
October 28, 2010  
Table of Contents

**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, 2010

Commission file number 1-12372

**CYTEC INDUSTRIES INC.**

(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**  
**Woodland Park, 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 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  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):

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small 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

There were 49,384,678 shares of common stock outstanding at October 18, 2010.

---

**Table of Contents**

**CYTEC INDUSTRIES INC. AND SUBSIDIARIES**

**10-Q Table of Contents**

|                                                                                                      | <b>Page</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| Part I Financial Information                                                                         |             |
| Item 1. <u>Consolidated Financial Statements</u>                                                     | 3           |
| <u>Consolidated Statements of Income</u>                                                             | 3           |
| <u>Consolidated Balance Sheets</u>                                                                   | 4           |
| <u>Consolidated Statements of Cash Flows</u>                                                         | 5           |
| <u>Notes to Consolidated Financial Statements</u>                                                    | 6           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 34          |
| Item 4. <u>Controls and Procedures</u>                                                               | 35          |
| Part II Other Information                                                                            |             |
| Item 1. <u>Legal Proceedings</u>                                                                     | 36          |
| Item 6. <u>Exhibits</u>                                                                              | 36          |
| <u>Signature</u>                                                                                     | 37          |
| <u>Exhibit Index</u>                                                                                 | 38          |

**Table of Contents****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    |           | Nine Months Ended     |            |
|-----------------------------------------------------------------|-----------------------|-----------|-----------------------|------------|
|                                                                 | September 30,<br>2010 | 2009      | September 30,<br>2010 | 2009       |
| Net sales                                                       | \$ 837.1              | \$ 740.2  | \$ 2,497.8            | \$ 2,037.5 |
| Manufacturing cost of sales                                     | 658.2                 | 605.4     | 1,948.1               | 1,706.2    |
| Selling and technical services                                  | 51.5                  | 48.6      | 150.6                 | 148.6      |
| Research and process development                                | 18.0                  | 17.2      | 54.1                  | 56.1       |
| Administrative and general                                      | 32.8                  | 29.6      | 95.0                  | 90.1       |
| Amortization of acquisition intangibles                         | 9.1                   | 9.7       | 27.6                  | 28.3       |
| Net gain on sale of assets                                      | 0.0                   | 0.0       | 0.0                   | 0.2        |
| Earnings from operations                                        | 67.5                  | 29.7      | 222.4                 | 8.4        |
| Other (expense)/income, net                                     | (2.0)                 | 6.9       | (3.9)                 | 3.6        |
| Net loss on early extinguishment of debt                        | 0.1                   | 8.6       | 0.8                   | 8.6        |
| Equity in earnings of associated companies                      | 0.4                   | 0.2       | 0.7                   | 0.7        |
| Interest expense, net                                           | 7.8                   | 7.6       | 23.9                  | 18.3       |
| Earnings/(loss) before income taxes                             | 58.0                  | 20.6      | 194.5                 | (14.2)     |
| Income tax provision/(benefit)                                  | 19.8                  | 7.6       | 68.2                  | (2.8)      |
| Net earnings/(loss)                                             | 38.2                  | 13.0      | 126.3                 | (11.4)     |
| Less: Net earnings attributable to noncontrolling interests     | (0.5)                 | (0.5)     | (2.0)                 | (1.0)      |
| Net earnings/(loss) attributable to Cytec Industries Inc.       | \$ 37.7               | \$ 12.5   | \$ 124.3              | \$ (12.4)  |
| Earnings/(loss) per share attributable to Cytec Industries Inc. |                       |           |                       |            |
| Basic earnings/(loss) per common share                          | \$ 0.76               | \$ 0.26   | \$ 2.52               | \$ (0.26)  |
| Diluted earnings/(loss) per common share                        | \$ 0.75               | \$ 0.26   | \$ 2.50               | \$ (0.26)  |
| Dividends per common share                                      | \$ 0.0125             | \$ 0.0125 | \$ 0.0375             | \$ 0.15    |

See accompanying Notes to Consolidated Financial Statements

**Table of Contents**

## CYTEC INDUSTRIES INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions, except per share amounts)

|                                                                                                                   | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                                                                                     |                       |                      |
| Current assets                                                                                                    |                       |                      |
| Cash and cash equivalents                                                                                         | \$ 357.1              | \$ 261.7             |
| Trade accounts receivable, less allowance for doubtful accounts of \$5.1 and \$6.6 in 2010 and 2009, respectively | 451.0                 | 374.2                |
| Other accounts receivable                                                                                         | 60.4                  | 58.4                 |
| Inventories                                                                                                       | 420.4                 | 351.9                |
| Deferred income taxes                                                                                             | 39.5                  | 41.3                 |
| Currency swap receivable                                                                                          | 19.5                  | 34.4                 |
| Other current assets                                                                                              | 26.8                  | 19.0                 |
| Total current assets                                                                                              | 1,374.7               | 1,140.9              |
| Investment in associated companies                                                                                | 19.9                  | 21.5                 |
| Plants, equipment and facilities, at cost                                                                         | 2,330.0               | 2,310.0              |
| Less: accumulated depreciation                                                                                    | (1,162.1)             | (1,133.8)            |
| Net plant investment                                                                                              | 1,167.9               | 1,176.2              |
| Acquisition intangibles, net of accumulated amortization of \$238.2 and \$214.8 in 2010 and 2009, respectively    | 360.0                 | 399.5                |
| Goodwill                                                                                                          | 689.7                 | 701.9                |
| Deferred income taxes                                                                                             | 15.8                  | 11.9                 |
| Other assets                                                                                                      | 101.9                 | 107.5                |
| Total assets                                                                                                      | \$ 3,729.9            | \$ 3,559.4           |
| <b>Liabilities</b>                                                                                                |                       |                      |
| Current liabilities                                                                                               |                       |                      |
| Accounts payable                                                                                                  | \$ 354.4              | \$ 276.4             |
| Short-term borrowings                                                                                             | 8.6                   | 10.4                 |
| Current maturities of long-term debt                                                                              | 15.4                  | 16.7                 |
| Accrued expenses                                                                                                  | 229.6                 | 202.2                |
| Income taxes payable                                                                                              | 22.4                  | 19.2                 |
| Currency swap payable                                                                                             | 33.4                  | 45.3                 |
| Deferred income taxes                                                                                             | 2.5                   | 5.2                  |
| Total current liabilities                                                                                         | 666.3                 | 575.4                |
| Long-term debt                                                                                                    | 642.0                 | 658.4                |
| Pension and other postretirement benefit liabilities                                                              | 333.3                 | 388.8                |

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

|                                                                                                                                         |                   |                   |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Other noncurrent liabilities                                                                                                            | 284.2             | 309.7             |
| Deferred income taxes                                                                                                                   | 85.4              | 64.0              |
| <b>Stockholders equity</b>                                                                                                              |                   |                   |
| Preferred stock, 20,000,000 shares authorized; none issued and outstanding                                                              | 0.0               | 0.0               |
| Common stock, \$.01 par value per share, 150,000,000 shares authorized; issued 49,357,136 and 49,316,913 in 2010 and 2009, respectively | 0.5               | 0.5               |
| Additional paid-in capital                                                                                                              | 448.0             | 451.0             |
| Retained earnings                                                                                                                       | 1,245.7           | 1,123.2           |
| Accumulated other comprehensive income                                                                                                  | 19.1              | 16.0              |
| Treasury stock, at cost, 767 shares in 2010 and 594,134 shares in 2009                                                                  | 0.0               | (31.8)            |
| <b>Total Cytec Industries Inc. stockholders equity</b>                                                                                  | <b>1,713.3</b>    | <b>1,558.9</b>    |
| Noncontrolling interests                                                                                                                | 5.4               | 4.2               |
| <b>Total equity</b>                                                                                                                     | <b>1,718.7</b>    | <b>1,563.1</b>    |
| <b>Total liabilities and stockholders equity</b>                                                                                        | <b>\$ 3,729.9</b> | <b>\$ 3,559.4</b> |

See accompanying Notes to Consolidated Financial Statements

**Table of Contents**

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

|                                                           | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------|--------------------------------------------|-------------|
|                                                           | <b>2010</b>                                | <b>2009</b> |
| Cash flows provided by (used in) operating activities     |                                            |             |
| Net earnings/(loss)                                       | \$ 126.3                                   | \$ (11.4)   |
| Noncash items included in net earnings/(loss):            |                                            |             |
| Depreciation                                              | 78.8                                       | 88.8        |
| Amortization                                              | 33.3                                       | 33.1        |
| Share-based compensation                                  | 8.0                                        | 6.2         |
| Deferred income taxes                                     | 21.6                                       | (29.6)      |
| Net gain on sale of assets                                | (2.3)                                      | (0.2)       |
| Non-cash gain on transfer of land                         | 0.0                                        | (8.9)       |
| Net loss on early extinguishment of debt                  | 0.8                                        | 8.6         |
| Unrealized gain on derivative instruments                 | (8.0)                                      | (11.3)      |
| Other                                                     | 0.6                                        | 0.2         |
| Changes in operating assets and liabilities:              |                                            |             |
| Trade accounts receivable                                 | (78.7)                                     | 45.9        |
| Other receivables                                         | (1.5)                                      | 31.9        |
| Inventories                                               | (68.5)                                     | 193.3       |
| Other assets                                              | 3.7                                        | (3.1)       |
| Accounts payable                                          | 84.4                                       | 39.1        |
| Accrued expenses                                          | 29.7                                       | 27.2        |
| Income taxes payable                                      | 8.2                                        | 4.4         |
| Other liabilities                                         | (54.0)                                     | (18.0)      |
| Net cash provided by operating activities                 | 182.4                                      | 396.2       |
| Cash flows (used in) provided by investing activities     |                                            |             |
| Additions to plants, equipment and facilities             | (85.5)                                     | (159.4)     |
| Net proceeds received on sale of assets                   | 1.7                                        | 7.0         |
| Net cash used in investing activities                     | (83.8)                                     | (152.4)     |
| Cash flows provided by (used in) financing activities     |                                            |             |
| Proceeds from long-term debt                              | 0.0                                        | 390.2       |
| Payments on long-term debt                                | (18.4)                                     | (517.5)     |
| Change in short-term borrowings, net                      | (2.4)                                      | (25.4)      |
| Cash dividends                                            | (3.2)                                      | (8.6)       |
| Proceeds from the exercise of stock options               | 17.7                                       | 1.6         |
| Excess tax benefits from share-based payment arrangements | 2.9                                        | 0.0         |
| Net cash used in financing activities                     | (3.4)                                      | (159.7)     |

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

|                                                              |          |          |
|--------------------------------------------------------------|----------|----------|
| Effect of currency rate changes on cash and cash equivalents | 0.2      | 4.0      |
| Increase in cash and cash equivalents                        | 95.4     | 88.1     |
| Cash and cash equivalents, beginning of period               | 261.7    | 55.3     |
| Cash and cash equivalents, end of period                     | \$ 357.1 | \$ 143.4 |

See accompanying Notes to Consolidated Financial Statements

-5-



**Table of Contents**

## 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 2009 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. DIVESTITURES**

In the first quarter of 2009, we sold certain of our European polyurethane product line assets for cash proceeds totaling \$5.7 and recognized a pre-tax gain on sale of \$1.6 (\$1.0 after-tax). The gain is recorded in net gain on sale of assets in the accompanying statements of income.

Also in the first quarter of 2009, we decided to pursue strategic alternatives for our polyurethane product line assets in Asia. Accordingly, we revised the estimated remaining useful life of the assets to reflect the period we expected to continue to use the assets and recognized incremental depreciation expense in the first quarter of 2009 of \$1.2 which is recorded in manufacturing cost of sales. We also recorded a charge of \$0.4 during the first quarter of 2009 for additional costs that were incurred as a result of this decision, which are recorded in selling and technical services. In the second quarter of 2009, we sold our polyurethane product line assets in Asia for \$1.8 of which \$1.2 was received in cash and \$0.6 represents a promissory note from the purchaser. The net loss of \$1.4 resulting from this sale is recorded in net gain on sale of assets in the accompanying statements of income.

**3. RESTRUCTURING OF OPERATIONS**

In accordance with our 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<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|----------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                  | 2010                                | 2009    | 2010                               | 2009    |
| Manufacturing cost of sales      | \$ 3.5                              | \$ 21.0 | \$ 8.3                             | \$ 47.0 |
| Selling and technical services   | 0.0                                 | 0.0     | (0.1)                              | 4.5     |
| Research and process development | 0.0                                 | 0.2     | 0.0                                | 3.8     |
| Administrative and General       | (0.3)                               | 0.9     | (0.8)                              | 4.2     |
| Other expense, net               | 0.0                                 | 0.0     | 0.3                                | 0.0     |
| Total                            | \$ 3.2                              | \$ 22.1 | \$ 7.7                             | \$ 59.5 |

## Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

Details of our 2010 restructuring initiatives are as follows:

In September 2010, we approved plans to consolidate manufacturing activities at one of our European sites. These plans resulted in a restructuring charge of \$3.4 in the third quarter of 2010, of which \$1.2 relates to the severance of nine positions, and \$2.2 relates to the write-down of certain manufacturing assets. We expect the aforementioned plan to be completed by the end of the year.

-6-

## Table of Contents

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 \$5.1 in the second quarter of 2010, of which \$0.4 relates to the severance of 11 positions, \$1.2 relates to asset write-offs, and \$3.5 relates to decommissioning activities. For the three and nine months ended September 30, 2010, we recorded net restructuring charges of \$0.3 and \$5.4, respectively. The remaining reserve of \$4.4 at September 30, 2010 for our 2010 restructuring initiatives is expected to be paid through 2011.

Details of our 2009 restructuring initiatives are as follows:

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.

We launched restructuring initiatives at several of our Specialty Chemical manufacturing locations, which resulted in restructuring charges totaling \$70.4 of which \$40.4 is associated with severance and other employee benefits and \$30.0 is associated with asset write-downs and accelerated depreciation. The manufacturing locations impacted by these initiatives are 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 include the elimination of 366 positions.

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.

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 393 positions.

For the three and nine months ended September 30, 2010, we recorded net favorable adjustments of \$0.5 and \$1.1, 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 in waves throughout 2010 and 2011.

The remaining reserve at September 30, 2010 of \$15.3 relating to 2009 restructuring initiatives is expected to be paid through 2012.

## Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

Details of our 2008 restructuring initiatives are as follows:

In 2008, as a cost reduction initiative and to align our cost structure to the declining demand environment at that time, we decided to restructure certain activities of our Coating Resins segment. These initiatives resulted in restructuring charges of \$11.1 for the twelve months ended December 31, 2008, which primarily related to severance for 93 eliminated positions. These initiatives were completed in 2008. In 2009, the remaining balance of \$0.9 was reversed as a result of actual costs being less than our forecast. All costs were paid in full as of December 31, 2009.

Details of our 2007 restructuring initiatives are as follows:

-7-

**Table of Contents**

In 2007, we initiated restructuring actions across our Specialty Chemicals segments to exit several mature product lines manufactured at our Willow Island, West Virginia and Wallingford, Connecticut facilities. As a result, we recorded total restructuring charges of \$7.0 in 2007 and 2008. These initiatives were completed in 2008. In 2009, the remaining balance of \$0.6 was reversed as a result of actual costs being less than our forecast. All costs were paid in full as of December 31, 2009.

|                                   | 2007<br>Restructuring<br>Initiatives | 2008<br>Restructuring<br>Initiatives | 2009<br>Restructuring<br>Initiatives | 2010<br>Restructuring<br>Initiatives | Total          |       |
|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------|-------|
| <b>Balance December 31, 2008</b>  | <b>\$ 2.0</b>                        | <b>\$ 4.3</b>                        | <b>\$ 0.0</b>                        | <b>\$ 0.0</b>                        | <b>\$ 6.3</b>  |       |
| 2009 charges/(credits)            | (0.6)                                | (0.9)                                | 91.9                                 | 0.0                                  | 90.4           |       |
| Non-cash items                    | 0.0                                  | 0.0                                  | (30.6)                               | (1)                                  | (30.6)         |       |
| Cash payments                     | (1.4)                                | (3.3)                                | (31.0)                               | 0.0                                  | (35.7)         |       |
| Currency translation adjustments  | 0.0                                  | (0.1)                                | 1.3                                  | 0.0                                  | 1.2            |       |
| Other adjustments                 | 0.0                                  | 0.0                                  | (0.8)                                | (2)                                  | (0.8)          |       |
| <b>Balance December 31, 2009</b>  | <b>\$ 0.0</b>                        | <b>\$ 0.0</b>                        | <b>\$ 30.8</b>                       | <b>\$ 0.0</b>                        | <b>\$ 30.8</b> |       |
| 1st quarter charges/(credits)     | 0.0                                  | 0.0                                  | (0.4)                                | 0.0                                  | (0.4)          |       |
| Cash payments                     | 0.0                                  | 0.0                                  | (10.9)                               | 0.0                                  | (10.9)         |       |
| Currency translation adjustments  | 0.0                                  | 0.0                                  | (0.9)                                | 0.0                                  | (0.9)          |       |
| <b>Balance March 31, 2010</b>     | <b>\$ 0.0</b>                        | <b>\$ 0.0</b>                        | <b>\$ 18.6</b>                       | <b>\$</b>                            | <b>\$ 18.6</b> |       |
| 2nd quarter charges/(credits)     | 0.0                                  | 0.0                                  | (0.3)                                | 5.1                                  | 4.8            |       |
| Non-cash items                    | 0.0                                  | 0.0                                  | 0.0                                  | (1.2)                                | (3)            | (1.2) |
| Cash payments                     | 0.0                                  | 0.0                                  | (2.2)                                | (0.2)                                | (2.4)          |       |
| Currency translation adjustments  | 0.0                                  | 0.0                                  | (1.5)                                | 0.0                                  | (1.5)          |       |
| <b>Balance June 30, 2010</b>      | <b>\$ 0.0</b>                        | <b>\$ 0.0</b>                        | <b>\$ 14.6</b>                       | <b>\$ 3.7</b>                        | <b>\$ 18.3</b> |       |
| 3rd quarter charges/(credits)     | 0.0                                  | 0.0                                  | (0.5)                                | 3.7                                  | 3.2            |       |
| Non-cash items                    | 0.0                                  | 0.0                                  | 0.0                                  | (2.2)                                | (4)            | (2.2) |
| Cash payments                     | 0.0                                  | 0.0                                  | (0.2)                                | (1.0)                                | (1.2)          |       |
| Currency translation adjustments  | 0.0                                  | 0.0                                  | 1.4                                  | 0.2                                  | 1.6            |       |
| <b>Balance September 30, 2010</b> | <b>\$ 0.0</b>                        | <b>\$ 0.0</b>                        | <b>\$ 15.3</b>                       | <b>\$ 4.4</b>                        | <b>\$ 19.7</b> |       |

- (1) Represents accelerated depreciation of plant assets and impairment of the land at our facility in La Llagosta, Spain.
- (2) Represents a reclassification of an environmental related restructuring accrual to environmental liabilities.
- (3) Represents write-offs of inventories and construction in progress at our Mt. Pleasant, Tennessee facility.
- (4) Represents write-off of plant assets at a certain European facility.

**4. SHARE-BASED COMPENSATION**

The fair value of each option or stock-settled share appreciation right ( stock-settled 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, 2010 and 2009 are noted in the following table:

|                                        | 2010     | 2009    |
|----------------------------------------|----------|---------|
| Expected life (years)                  | 6.1      | 6.7     |
| Expected volatility                    | 43.3%    | 48.2%   |
| Expected dividend yield                | 0.19%    | 2.23%   |
| Risk-free interest rate                | 3.75%    | 2.7%    |
| Weighted-average fair value per option | \$ 16.73 | \$ 8.58 |

## Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

The expected life of options granted 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 analysis.

-8-

**Table of Contents****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, 2010, there were approximately 1,700,000 shares reserved for issuance under the 1993 Plan, and 4,000,000 shares underlying all outstanding share-based compensation grants.

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, 2010 is presented below.

|                                                 | Number of<br>Units | Average<br>Exercise<br>Price Per<br>Unit | Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|-------------------------------------------------|--------------------|------------------------------------------|--------------------------------------------------------|---------------------------------|
| <b>Options and Stock-Settled SARS Activity:</b> |                    |                                          |                                                        |                                 |
| Outstanding at January 1, 2010                  | 3,822,502          | \$ 39.67                                 |                                                        |                                 |
| Granted                                         | 457,990            | 37.71                                    |                                                        |                                 |
| Exercised                                       | (622,769)          | 31.82                                    |                                                        |                                 |
| Forfeited                                       | (124,091)          | 41.99                                    |                                                        |                                 |
| Outstanding at September 30, 2010               | 3,533,632          | \$ 40.72                                 | 5.9                                                    | \$ 56.2                         |
| Exercisable at September 30, 2010               | 2,549,775          | \$ 43.32                                 | 4.9                                                    | \$ 34.2                         |

During the nine months ended September 30, 2010, we granted 457,990 stock options. The weighted-average grant-date fair value of the stock-settled SARS and stock options granted during the nine months ended September 30, 2010 and 2009 was \$16.73 and \$8.58 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, 2010 and 2009, respectively, and \$5.8 and \$5.3 during the nine months ended September 30, 2010 and 2009, respectively. The total intrinsic value of stock options and stock-settled SARS exercised during the nine months ended September 30, 2010 and 2009 was \$10.5 and \$0.1, 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, 2010 and 2009 was \$7.6 and \$9.7, respectively.

As of September 30, 2010, there was \$6.8 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 1.4 years as the majority of our awards vest over three years.

Cash received (for stock options only) and the tax benefit realized from stock options and stock settled SARS exercised and deferred shares issued were \$17.7 and \$3.9 for the nine months ended September 30, 2010, and \$1.7 and \$0.0 for the nine months ended September 30, 2009, respectively. Cash used to settle cash-settled SARS exercises for the nine months ended September 30, 2010 was \$0.1. There were no cash-settled SARS exercises for the nine months ended September 30, 2009. The liability related to our cash-settled SARS was \$3.4 at September 30, 2010 and \$1.7 at December 31, 2009.

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 share 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. We currently do not expect any outstanding performance stock awards to vest. A summary of non-vested stock and non-vested stock units for the nine months ended September 30, 2010 is presented below.

|                                         | <b>Number<br/>of Units</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date Fair<br/>Value<br/>Per Unit</b> |
|-----------------------------------------|----------------------------|----------------------------------------------------------------------------|
| <b>Non-vested stock and stock units</b> |                            |                                                                            |
| Nonvested at January 1, 2010            | 57,824                     | \$ 31.27                                                                   |
| Granted                                 | 74,915                     | \$ 39.71                                                                   |
| Vested                                  | (4,860)                    | \$ 56.61                                                                   |
| Forfeited                               | (3,139)                    | \$ 37.59                                                                   |
| <br>Nonvested at September 30, 2010     | <br>124,740                | <br>\$ 35.19                                                               |



**Table of Contents**

During the nine months ended September 30, 2010, we granted 60,525 non-vested stock units and 14,390 shares of non-vested stock. The total amount of share-based compensation expense recognized for non-vested shares and non-vested stock units for three months ended September 30, 2010 and 2009 was \$0.5 and \$0.2, respectively, and for nine months ended September 30, 2010 and 2009 was \$1.4 and \$0.6, respectively. As of September 30, 2010, there was \$2.2 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 2.2 years.

Compensation cost related to all share-based compensation arrangements capitalized in inventory as of September 30, 2010 and December 31, 2009 was approximately \$0.4 and \$0.2, respectively.

As of September 30, 2010 and December 31, 2009, our additional paid-in capital pool ( APIC Pool ) which represents excess tax benefits available to absorb potential future tax deficiencies was \$70.1 and \$69.9, respectively.

**5. EARNINGS PER SHARE (EPS)**

Basic earnings/(loss) per common share excludes dilution and is computed by dividing net earnings/(loss) 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/(loss) per common share for the three and nine months ended September 30 (in thousands, except net earnings/(loss) in millions and per share amounts):

|                                                           | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |               |
|-----------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|---------------|
|                                                           | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b>   |
| <b>Numerator:</b>                                         |                                             |             |                                            |               |
| Net earnings/(loss) attributable to Cytec Industries Inc. | \$ 37.7                                     | \$ 12.5     | \$ 124.3                                   | \$ (12.4)     |
| <b>Denominator:</b>                                       |                                             |             |                                            |               |
| Weighted average shares outstanding                       | 49,422                                      | 48,724      | 49,243                                     | 48,125        |
| Effect of dilutive shares:                                |                                             |             |                                            |               |
| Options and stock-settled SARS                            | 521                                         | 54          | 447                                        | 0             |
| Non-vested shares and units                               | 59                                          | 24          | 49                                         | 0             |
| <br>Diluted average shares outstanding                    | <br>50,002                                  | <br>48,802  | <br>49,739                                 | <br>48,125    |
| <br>Basic earnings/(loss) per common share                | <br>\$ 0.76                                 | <br>\$ 0.26 | <br>\$ 2.52                                | <br>\$ (0.26) |
| Diluted earnings/(loss) per common share                  | \$ 0.75                                     | \$ 0.26     | \$ 2.50                                    | \$ (0.26)     |

Since the results for the nine months ended September 30, 2009 were a loss, all per share calculations are performed using the same denominator, as the loss available to common stockholders renders all potential common shares anti-dilutive.

**Table of Contents**

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<br>Ended September 30, |              |
|-------------------------|------------------------------------|--------------|
|                         | 2010                               | 2009         |
| Options                 | 291                                | 1,863        |
| Stock-Settled SARS      | 1,354                              | 1,453        |
| Non-vested shares/units | 0                                  | 0            |
| <b>Total</b>            | <b>1,645</b>                       | <b>3,316</b> |

**6. INVENTORIES**

Inventories consisted of the following:

|                            | September 30,<br>2010 | December 31,<br>2009 |
|----------------------------|-----------------------|----------------------|
| Finished goods             | \$ 286.1              | \$ 234.8             |
| Work in progress           | 31.4                  | 33.6                 |
| Raw materials and supplies | 102.9                 | 83.5                 |
| <b>Total inventories</b>   | <b>\$ 420.4</b>       | <b>\$ 351.9</b>      |

**7. DEBT**

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

|                                               | September 30, 2010 |                 | December 31, 2009 |                 |
|-----------------------------------------------|--------------------|-----------------|-------------------|-----------------|
|                                               | Face               | Carrying Value  | Face              | Carrying Value  |
| Five-Year Revolving Credit Line Due June 2012 | \$ 0.0             | \$ 0.0          | \$ 0.0            | \$ 0.0          |
| 5.5% Notes Due October 1, 2010                | 15.4               | 15.4            | 15.4              | 15.4            |
| 4.6% Notes Due July 1, 2013                   | 141.1              | 141.5           | 157.2             | 157.8           |
| 6.0% Notes Due October 1, 2015                | 250.0              | 249.7           | 250.0             | 249.6           |
| 8.95% Notes Due July 1, 2017                  | 250.0              | 249.4           | 250.0             | 249.4           |
| Other                                         | 1.4                | 1.4             | 2.9               | 2.9             |
|                                               | \$ 657.9           | \$ 657.4        | \$ 675.5          | \$ 675.1        |
| Less: Current maturities                      | (15.4)             | (15.4)          | (16.7)            | (16.7)          |
| <b>Long-term Debt</b>                         | <b>\$ 642.5</b>    | <b>\$ 642.0</b> | <b>\$ 658.8</b>   | <b>\$ 658.4</b> |

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 first quarter of 2010, we repurchased portions of our 4.6% notes due July 1, 2013 with a total carrying value of \$14.5 for a total purchase price of \$15.2 including accrued interest, resulting in a loss of \$0.7. Net loss from our debt repurchases is included in net loss on early

## Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

extinguishment of debt in the accompanying statement of income.

During the second quarter of 2010, we repurchased a portion of our 4.6% notes due July 1, 2013 with a total carrying value of \$0.3 for a total purchase price of \$0.3 including accrued interest, resulting in a loss of less than \$0.1.

During the third quarter of 2010, we repurchased a portion of our 4.6% notes due July 1, 2013 with a total carrying value of \$1.4 for a total purchase price of \$1.5 including accrued interest, resulting in a loss of less than \$0.1.

On July 6, 2009, we sold \$250.0 aggregate principal amount of 8.95% senior unsecured notes due July 1, 2017, which resulted in \$247.7 in net proceeds after original issue discount and underwriting fees. In addition, on June 30, 2009, we commenced

---

## **Table of Contents**

offers to purchase our 5.5% notes due October 1, 2010 and our 4.6% notes due July 1, 2013. In July 2009, we applied the net proceeds from the issuance of the 8.95% notes and corporate cash to repurchase \$234.6 principal amount of our 5.5% notes due October 1, 2010 for a purchase price of \$242.8 plus accrued interest of \$3.7 and \$15.4 principal amount of our 4.6 % notes due July 1, 2013 for a purchase price of \$14.6 plus accrued interest of \$0.1. On October 1, 2010 we paid down the remaining \$15.4 principal of the 5.5% notes, according to its terms.

There were no borrowings outstanding under the \$400.0 unsecured five-year revolving credit facility at September 30, 2010. This facility contains covenants that are customary for such facilities including two financial covenants: the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) and the ratio of consolidated EBITDA to consolidated interest expense. We are in compliance with these covenants and expect to be in compliance for the remainder of the current facility which matures in June 2012.

At September 30, 2010 and December 31, 2009, the fair value of our long-term debt, including the current portion, was \$762.3 and \$746.1, 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 6.80% and 6.47% as of September 30, 2010 and 2009, respectively. The weighted-average interest rate on short-term borrowings outstanding as of September 30, 2010 and 2009 was 1.11% and 1.08%, respectively.

## **8. 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, 2010 and December 31, 2009, the aggregate environmental related accruals were \$102.0 and \$105.4, respectively. As of September 30, 2010 and December 31, 2009, \$5.5 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, 2010 and 2009 was \$1.1 and \$1.2, respectively, and for the nine months ended September 30, 2010 and 2009 was \$3.2 and \$2.8, respectively.

Our process is to review our environmental remediation accruals quarterly and based on new information, may from time to time adjust our environmental related accruals. During the nine months ended September 30, 2010, based on additional information generated by site evaluations, we increased our environmental related accruals by \$2.7, primarily related to operating sites in the U.S and Europe.

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 11 of the Notes to the Consolidated Financial Statements contained in our 2009 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, 2010 and December 31, 2009, the aggregate self-insured and insured contingent liability was \$59.6 and \$60.8, respectively, and the related insurance recovery receivable for the liability as well as claims for past payments was \$24.7 at September 30, 2010 and \$28.0 at December 31, 2009. The asbestos liability included in the above amounts at September 30, 2010 and December 31, 2009 was \$44.5 and \$45.0, respectively, and the insurance receivable related to the liability as well as claims for past payments was \$23.7 at September 30, 2010 and \$26.5 at December 31, 2009. We anticipate receiving a net tax benefit for payment of those claims for which full insurance recovery is not realized.



**Table of Contents***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<br>Months Ended<br>September 30,<br>2010 | Year Ended<br>December 31,<br>2009 |
|-----------------------------------------------------------------|-----------------------------------------------|------------------------------------|
| Number of claimants at beginning of period                      | 8,000                                         | 8,100                              |
| Number of claimants associated with claims closed during period | (100)                                         | (200)                              |
| Number of claimants associated with claims opened during period | 0                                             | 100                                |
| Number of claimants at end of period                            | 7,900                                         | 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 last study prepared in the third quarter of 2006, is based on, among other things, the incidence and nature of historical claims data through September 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.

As a result of our findings, we recorded a decrease of \$5.0 to our self insured and insured contingent liabilities for indemnity costs for pending and anticipated probable future claims and recorded a decrease of \$4.9 related to receivables for probable insurance recoveries for these pending and future claims. The reserve decrease is attributable to significantly lower projected claim filings offset by more severe malignancy rates and settlement value projections. The decrease in the receivable is a result of the lower gross liability and a shift in the types of future claims expected. Overall, we expect to recover approximately 48% of our future indemnity costs. We have completed coverage in place agreements with most of our larger insurance carriers.

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*

Over the past 15 years we have been named as defendants in more than fifty 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. Seven cases remain outstanding. The different suits were brought by government entities and/or individual plaintiffs, on behalf of themselves and others. The suits variously sought 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 settled one of these cases in 2005 for an immaterial amount in order to avoid litigation costs. In all of the other cases, we prevailed in court or were dismissed as a defendant. We believe that the seven remaining suits

against us are without merit, and we are vigorously defending them.

Six of the remaining lead suits are for personal injury claims and have been filed against us in Wisconsin. 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. Seven other courts have previously rejected the applicability of this and similar doctrines to white lead pigment. 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 Wisconsin lead cases, was affirmed by the Wisconsin Court of Appeals in October 2007 and by the Wisconsin Supreme Court in July 2009. 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.

**Table of Contents**

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

*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.

A further discussion of other contingencies can be found in Note 11 of the Notes to the Consolidated Financial Statements contained in our 2009 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, 2009 are set forth in Note 11 of the Notes to Consolidated Financial Statements contained in our 2009 Annual Report on Form 10-K.

**9. 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, 2010 and 2009 are as follows:

|                                                              | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--------------------------------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                                              | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                                                              | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net earnings/(loss)                                          | \$ 38.2                   | \$ 13.0     | 126.3                    | (11.4)      |
| Other comprehensive income (loss):                           |                           |             |                          |             |
| Accumulated pension liability, net of tax                    | (1.4)                     | (4.9)       | 8.9                      | (3.4)       |
| Unrealized (losses)/gains on cash flow hedges, net of tax    | (7.6)                     | 0.1         | (7.2)                    | (10.0)      |
| Foreign currency translation adjustments                     | 91.7                      | 41.4        | 1.9                      | 66.3        |
| Comprehensive income                                         | \$ 120.9                  | \$ 49.6     | \$ 129.9                 | \$ 41.5     |
| Comprehensive income attributable to noncontrolling interest | 0.8                       | 0.7         | 2.5                      | 1.0         |
| Comprehensive income attributable to Cytec Industries Inc.   | \$ 120.1                  | \$ 48.9     | \$ 127.4                 | \$ 40.5     |



**10. INCOME TAXES**

The effective income tax rate for the three and nine months ended September 30, 2010 was a tax provision of 34.1% (\$19.8) and 35.1% (\$68.2), respectively, compared to a tax provision of 36.9% (\$7.6) and a tax benefit of 19.7% (\$2.8) for the three

**Table of Contents**

and nine months ended September 30, 2009. The 2010 effective tax rate for the year-to-date period was unfavorably impacted by a shift in earnings to higher tax jurisdictions and an \$8.3 charge to tax expense related to the enactment of U.S. health care legislation (as further discussed below). The rate was favorably impacted by a \$3.2 tax benefit primarily attributable to the remeasurement of the future utilization of deferred tax assets in a European tax jurisdiction. The underlying estimated annual income tax rate for the nine months ended September 30, 2010 was 32.3% (excluding accrued interest on unrecognized tax benefits) with an underlying tax rate of 32.6% including such interest.

For the first nine months ended September 30, 2009, the rate was unfavorably impacted by the lack of a tax benefit given to restructuring costs related to our decision to exit our polyurethane product line operations in Asia. The effective income tax rate for the first nine months of 2009 also includes a limited tax benefit for other restructuring charges.

The *Medicare Prescription Drug, Improvement and Modernization Act of 2003* established a U.S. Medicare prescription drug benefit and a tax-free federal subsidy to companies that sponsored retiree health care plans. Pursuant to *The Patient Protection and Affordable Care Act*, as signed into law on March 23, 2010, as amended by the *Health Care and Education Reconciliation Act of 2010* on March 30, 2010, the U.S. tax deductible prescription drug costs will now be reduced by the aforementioned federal subsidy. The impact of this legislation will reduce the future tax deductions with respect to the Company's prescription drug costs. Accordingly, we recorded an \$8.3 charge to tax expense from continuing operations in the first quarter 2010 to reflect the reduction in the related deferred tax asset.

As of September 30, 2010, the amount of unrecognized tax benefits is \$40.3 (gross) of which \$21.2 would impact our effective tax rate, if recognized. The amount of unrecognized tax benefits at December 31, 2009 was \$37.9 (gross) of which \$19.8 would impact our effective tax rate, if recognized.

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 (gross), of approximately \$6.9 as of December 31, 2009, which decreased \$0.1 due to current year tax activity and the impact of foreign exchange, thus resulting in a liability for the payment of interest of \$6.8 (gross) as of September 30, 2010.

**11. OTHER FINANCIAL INFORMATION**

On July 20, 2010, our Board of Directors declared a \$0.0125 per common share cash dividend, payable on August 25, 2010 to shareholders of record as of August 10, 2010. Cash dividends paid in the third quarter of 2010 and 2009 were \$0.7 and \$2.1, respectively, and for the nine months ended September 30, 2010 and 2009 were \$3.2 and \$8.6, respectively. Dividends paid in the first nine months of 2010 include \$1.3 paid by a majority owned subsidiary to its minority shareholder. Dividends paid in the nine months ended September 30, 2009 include \$1.5 paid by a majority owned subsidiary to its minority shareholder. On October 21, 2010 the Board of Directors declared a \$0.0125 per common share cash dividend, payable on November 26, 2010 to shareholders of record as of November 10, 2010.

Income taxes paid for the nine months ended September 30, 2010 and 2009 were \$44.5 and \$26.6, respectively. Interest paid for the nine months ended September 30, 2010 and 2009 was \$30.3 and \$25.4, respectively. Interest income for the nine months ended September 30, 2010 and 2009 was \$5.1 and \$5.1, respectively.

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 (expense)/income, net in the accompanying statements of income.

On September 28, 2009, we transferred title to land previously leased to a third party to such third party. The transfer of title was triggered by the third party exercising their right to purchase the property pursuant to the terms of the original lease. The transfer of title resulted in the recognition of a gain of \$8.9, which represents the unamortized balance of the consideration we received at the inception of the lease as of the date of the exercise of the option to purchase. The gain is recorded in other (expense)/ income, net in the consolidated statement of income.

**Table of Contents****12. SEGMENT INFORMATION**

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

|                                     | Three Months Ended September 30, |          | Nine Months Ended September 30, |            |
|-------------------------------------|----------------------------------|----------|---------------------------------|------------|
|                                     | 2010                             | 2009     | 2010                            | 2009       |
| Net Sales:                          |                                  |          |                                 |            |
| Coating Resins                      | \$ 363.8                         | \$ 336.3 | \$ 1,074.2                      | \$ 878.3   |
| Additive Technologies               |                                  |          |                                 |            |
| Sales to external customers         | 66.4                             | 64.9     | 194.8                           | 178.7      |
| Intersegment sales                  | 0.1                              | 0.3      | 0.6                             | 0.4        |
| In Process Separation               | 75.2                             | 71.2     | 211.0                           | 185.1      |
| Engineered Materials                | 194.7                            | 169.2    | 568.7                           | 539.1      |
| Building Block Chemicals            |                                  |          |                                 |            |
| Sales to external customers         | 137.0                            | 98.6     | 449.1                           | 256.3      |
| Intersegment sales                  | 6.2                              | 6.4      | 19.2                            | 14.6       |
| Net sales from segments             | 843.4                            | 746.9    | 2,517.6                         | 2,052.5    |
| Elimination of intersegment revenue | (6.3)                            | (6.7)    | (19.8)                          | (15.0)     |
| Total consolidated net sales        | \$ 837.1                         | \$ 740.2 | \$ 2,497.8                      | \$ 2,037.5 |

|                                    | Three Months Ended September 30, |                  |         |                  | Nine Months Ended September 30, |                  |           |                  |
|------------------------------------|----------------------------------|------------------|---------|------------------|---------------------------------|------------------|-----------|------------------|
|                                    | 2010                             | %<br>of<br>Sales | 2009    | %<br>of<br>Sales | 2010                            | %<br>of<br>Sales | 2009      | %<br>of<br>Sales |
| Earnings/(loss) from operations:   |                                  |                  |         |                  |                                 |                  |           |                  |
| Coating Resins                     | \$ 19.5                          | 5%               | \$ 18.5 | 6%               | \$ 64.3                         | 6%               | \$ (21.0) | -2%              |
| Additive Technologies              | 9.1                              | 14%              | 3.1     | 5%               | 28.1                            | 14%              | 6.8       | 4%               |
| In Process Separation              | 12.8                             | 17%              | 12.5    | 18%              | 42.0                            | 20%              | 19.4      | 10%              |
| Engineered Materials               | 27.9                             | 14%              | 18.3    | 11%              | 87.5                            | 15%              | 73.5      | 14%              |
| Building Block Chemicals           | 9.7                              | 7%               | 4.8     | 5%               | 28.7                            | 6%               | 9.9       | 4%               |
| Earnings from segments             | 79.0                             | 9%               | 57.2    | 8%               | 250.6                           | 10%              | 88.6      | 4%               |
| Corporate and Unallocated, net (1) | (11.5)                           |                  | (27.5)  |                  | (28.2)                          |                  | (80.2)    |                  |
| Total earnings from operations     | \$ 67.5                          | 8%               | \$ 29.7 | 4%               | \$ 222.4                        | 9%               | \$ 8.4    | 0%               |

- (1) For the three and nine months ended September 30, 2010, Corporate and Unallocated includes pre-tax charges of \$3.2 and \$7.4, respectively, related to the exit of certain phosphorus derivative products in Mt. Pleasant, TN, and for additional restructuring costs primarily associated with consolidating manufacturing operations in Europe during the third quarter. For the three and nine months ended September 30, 2009, Corporate and Unallocated includes pre-tax charges of \$22.1 and \$59.5, respectively, for various manufacturing and organizational restructuring initiatives across our Specialty Chemical and Engineered Materials segments and organizational restructuring activities within corporate operations. Corporate and Unallocated for the nine months ended September 30, 2009 also includes a net loss of \$1.4 related to the exit of our polyurethane product line in Europe and Asia.



**Table of Contents****13. GOODWILL AND OTHER ACQUISITION INTANGIBLES**

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

|                                     | Coating Resins  | Additive Technologies | In Process Separation | Engineered Materials | Total           |
|-------------------------------------|-----------------|-----------------------|-----------------------|----------------------|-----------------|
| <b>Balance, December 31, 2009:</b>  |                 |                       |                       |                      |                 |
| Goodwill                            | 762.2           | 19.6                  | 53.2                  | 256.8                | 1,091.8         |
| Accumulated impairment charges      | (389.9)         | 0.0                   | 0.0                   | 0.0                  | (389.9)         |
|                                     | <b>\$ 372.3</b> | <b>\$ 19.6</b>        | <b>\$ 53.2</b>        | <b>\$ 256.8</b>      | <b>\$ 701.9</b> |
| Currency exchange:                  |                 |                       |                       |                      |                 |
| Goodwill                            | (24.0)          | 0.0                   | 0.8                   | (1.7)                | (24.9)          |
| Accumulated impairment charges      | 12.7            | 0.0                   | 0.0                   | 0.0                  | 12.7            |
|                                     | (11.3)          |                       | 0.8                   | (1.7)                | (12.2)          |
| <b>Balance, September 30, 2010:</b> |                 |                       |                       |                      |                 |
| Goodwill                            | 738.2           | 19.6                  | 54.0                  | 255.1                | 1,066.9         |
| Accumulated impairment charges      | (377.2)         |                       |                       |                      | (377.2)         |
|                                     | <b>\$ 361.0</b> | <b>\$ 19.6</b>        | <b>\$ 54.0</b>        | <b>\$ 255.1</b>      | <b>\$ 689.7</b> |

Other acquisition intangibles consisted of the following major classes:

|                   | Weighted Average Useful Life (years) | Gross Carrying Value |                   | Accumulated Amortization |                   | Net Carrying Value |                   |
|-------------------|--------------------------------------|----------------------|-------------------|--------------------------|-------------------|--------------------|-------------------|
|                   |                                      | September 30, 2010   | December 31, 2009 | September 30, 2010       | December 31, 2009 | September 30, 2010 | December 31, 2009 |
| Technology-based  | 16.2                                 | \$ 55.5              | \$ 55.9           | \$ (34.9)                | \$ (32.3)         | \$ 20.6            | \$ 23.6           |
| Marketing-related | < 2.0                                | 2.0                  | 2.1               | (2.0)                    | (2.1)             | 0.0                | 0.0               |
| Marketing-related | 15.5                                 | 63.9                 | 65.0              | (28.2)                   | (25.6)            | 35.7               | 39.4              |
| Marketing-related | 40.0                                 | 45.3                 | 47.5              | (4.8)                    | (4.2)             | 40.5               | 43.3              |
| Customer-related  | 15.0                                 | 431.5                | 443.8             | (168.3)                  | (150.6)           | 263.2              | 293.2             |
| Total             |                                      | \$ 598.2             | \$ 614.3          | \$ (238.2)               | \$ (214.8)        | \$ 360.0           | \$ 399.5          |

Amortization of acquisition intangibles for the three months ended September 30, 2010 and 2009 was \$9.1 and \$9.7, respectively, and for the nine months ended September 30, 2010 and 2009 was \$27.6 and \$28.3, respectively.

Assuming no change in the gross carrying amount of acquisition intangibles and the 2010 average currency exchange rates remain constant, the estimated future amortization expense for the next five years are as follows:

|                                  | 2010    | 2011    | 2012    | 2013    | 2014    | 2015    |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Intangibles Amortization Expense | \$ 36.9 | \$ 36.9 | \$ 36.8 | \$ 36.2 | \$ 35.8 | \$ 35.7 |

**14. DERIVATIVE FINANCIAL INSTRUMENTS AND COMMODITY HEDGING ACTIVITIES**

**Foreign Currency Derivative and Hedging Activities**

*Currency Forward Contracts*

We periodically enter into currency forward contracts primarily to hedge currency fluctuations of transactions denominated in currencies other than the functional currency of the respective entity. At September 30, 2010, the principal transactions hedged involved accounts receivable, accounts payable and intercompany loans. When hedging currency exposures, our practice is to economically hedge such exposures with forward contracts denominated in the same currency and with similar critical terms as the underlying exposure, and therefore, the instruments are effective at generating offsetting changes in the fair value, cash flows or future earnings of the hedged item or transaction. The fair values of forward contracts are calculated each period.

**Table of Contents**

These forward contracts are not defined as hedging instruments; therefore, all changes in fair values are reported in other (expense)/income, net.

At September 30, 2010, net contractual amounts of forward contracts outstanding translated into U. S. dollars ( USD ) amount to \$159.0. Of this total, \$141.9 was attributed to the exposure in forward selling/purchase of USD. The remaining \$17.1 was attributable to the exposure in forward selling/purchase of Euros, translated into USD equivalent amounts. The net favorable fair values of currency contracts, based on forward exchange rates at September 30, 2010 and December 31, 2009 were \$6.9 and \$0.5, respectively.

*Cross Currency Swaps*

We used cross currency swaps to hedge the changes in the cash flows of certain Euro denominated intercompany loans receivable ( Euro loans ) held by U.S. entities and to hedge a portion of our net investment in Cytec Surface Specialties SA/NV (our largest Euro functional currency subsidiary). Since the loans and underlying investment are denominated in Euros, we have foreign exchange exposure to the Euro/USD exchange rate changes. We originally hedged these foreign exchange exposures by entering into two cross currency swaps each with notional amounts of 207.9 (\$250.0) that settle on October 1, 2010 ( five year swaps ) and October 1, 2015 ( ten year swaps ), respectively. At the initial principal exchange, we paid \$500.0 and received 415.8 from counterparties. At the final exchanges on each of October 1, 2010 and October 1, 2015, we will pay 207.9 and receive \$250.0. The swaps have fixed interest rates on both legs. On the five year swaps, we pay 3.78% interest per annum on the Euro notional amount and we receive 5.5% interest per annum on the USD notional amount. On the ten year swaps, we pay 4.52% interest per annum on the Euro notional amount and we receive 6.0% interest per annum on the USD notional amount. The interest payment dates (April 1 and October 1) and Euro rates coincide with the Euro loans.

Certain five and ten year swaps fix the USD equivalent cash flows of the Euro loans and eliminate foreign exchange variability, since the notional amounts of the swaps equal that of the loans, and all cash flow dates and interest rates coincide between the swaps and the loans; therefore no ineffectiveness is expected. Certain currency swaps were originally designated as cash flow hedges of the changes in value of the future Euro interest and principal receipts that results from changes in the USD to Euro exchange rates on certain Euro denominated intercompany loans receivable we have with one of our subsidiaries. In November 2008, the five year swaps were de-designated as cash flow hedges and we executed new off-setting cross currency swaps ( two year swaps ) to lock-in the Euro forward exchange rate for the principal exchange on the five year swaps due on October 1, 2010.

The two year swaps cover an identical notional amount of 207.9 and also call for a semi-annual exchange of fixed Euro interest receipts for fixed USD interest payments. With respect to the two year swaps, we will receive 3.78% per annum on the Euro notional amount and will pay 3.69% per annum on the USD notional amount on each April 1 and October 1, through the maturity date of the two year swaps, which is also on October 1, 2010. The two year swaps are not designated as cash flow hedges, therefore all changes in fair value are reported in interest expense, net, and other (expense)/income, net.

In September 2010, we de-designated our ten year swaps as hedging instruments due to the early settlement of a 41.6 portion of these swaps by one of our counterparties effective October 1, 2010. As a result of this termination, we executed a new cross currency swap effective October 1, 2010 to maintain the total notional amount of the ten year swaps at 207.9. With respect to this replacement swap, we will pay 4.52% per annum on the Euro notional amount and will receive 5.80% per annum on the USD notional amount on each April 1 and October 1, through the maturity date of the swap, which is also on October 1, 2015. We concurrently designated all the ten year swaps as a net investment hedge of the value of one of our U.S. subsidiaries' net investment in our Belgium-based subsidiary, Cytec Surface Specialties SA/NV, against the risk of adverse foreign exchange movements in the USD value of the Euro. Since the critical terms of the ten year swaps match the critical terms of the net investment in Cytec Surface Specialties SA/NV, the ten year swaps are highly effective in offsetting the changes in the value of the net investment attributable to the change in USD value of the Euro.

**Table of Contents**

All cross currency swaps are recorded at fair value as either assets or liabilities. We accrue the periodic net swap interest payments due each period in the consolidated income statement for the cash flow hedges. Each period we record the change in the fair value of the ten year swaps in accumulated other comprehensive income. For the ten year swaps, prior to its de-designation as cash flow hedges in September 2010, we reclassified an amount out of accumulated other comprehensive income to the income statement to offset the foreign currency gain or loss on the remeasurement to USD of the Euro intercompany loans. The amount of such reclassification depended on changes in the USD/Euro exchange rate occurred during the period. We also accounted for the five year swaps in this manner until de-designation as cash flow hedges in November 2008.

For cross currency swaps designated as a hedge of our net investment in Cytec Surface Specialties SA/NV, the fair value of the ten year swaps is calculated each period with changes in fair value reported in foreign currency translation adjustments within accumulated other comprehensive income (loss), net of tax. Such amounts reclassified to a translation adjustment will remain in other comprehensive income/(loss) until the complete or substantially complete liquidation of our investment in Cytec Surface Specialties SA/NV. The fair values of the two year swaps and, since its de-designation, the five year swaps, are calculated each period with changes in fair value reported in interest expense, net, and other (expense)/income, net. We monitor the counterparty credit risk and the continued probability of the hedged cash flows as to amount and timing.

At September 30, 2010, the favorable/(unfavorable) fair values of the two, five, and ten year swaps were \$19.9, \$(31.9), and \$(20.1), respectively, and at December 31, 2009, the favorable/(unfavorable) fair values of the two, five, and ten year swaps were \$34.8, \$(44.7), and \$(41.6), respectively. The two and five year swaps were settled according to their terms on October 1, 2010.

**Commodity Derivative and Hedging Activities**

We purchase natural gas for utility consumption at our manufacturing facilities and therefore, our overall profitability and operating cash flows are exposed to the variability in the market price. To partially eliminate this variability, we use natural gas forward purchase contracts to hedge a portion of our utility requirements at certain of our North American manufacturing facilities. These forward contracts, which are highly effective at achieving offsetting cash flows of the underlying natural gas purchases, have been designated as cash flow hedges of our forecasted natural gas purchases and are reported on the consolidated balance sheets at fair value in other assets/liabilities, with the effective portion of the fair value of the forward contract included in accumulated other comprehensive income/(loss) on an after-tax basis. Any ineffectiveness, which represents the amount by which the cumulative change in the cash flows of the forward contract is not completely offset by the cumulative change in the cash flows of the hedged transaction is recognized in other (expense)/income, net in the current period. During the nine months ended September 30, 2010 and September 30, 2009 there were no significant gains or losses reported in earnings for ineffectiveness. Gains and losses are reclassified into earnings, as a component of manufacturing cost of sales, in the period the hedged natural gas purchases affect earnings. If the derivative is no longer highly effective in achieving offsetting cash flows, subsequent changes in fair value are recorded in other expense, net. If the hedging relationship is terminated and the originally hedged transaction remains probable of occurring, the unrealized gain or loss associated with forward contracts remains in accumulated other comprehensive income and is recognized in earnings as a component of cost of sales in the period the originally hedged natural gas purchase affects earnings. If the forecasted transaction is no longer probable of occurring we recognize the related gain or loss in other expense, net in that period.

Generally, short-term (one to three months) natural gas usage requirements are hedged up to 90% with a gradual decrease to 10% for the natural gas requirements extending out to twelve months. At September 30, 2010, we held natural gas forwards to purchase approximately 2,000,000 MMBtu of gas with an unfavorable fair value of \$2.2 included in accrued expenses, which will be reclassified into Manufacturing Cost of Sales through June 2011 as the hedged natural gas purchases affect earnings.

At September 30, 2010, we did not have derivative instruments that contained credit-related-risk contingent features or provisions that would trigger immediate settlement or require us to post collateral to our counterparties. Also as of September 30, 2010, we did not have any significant concentration of credit risk arising from our derivative instruments.



**Table of Contents**

The following tables summarize the impact of derivative instruments on our consolidated balance sheets and statements of income:

|                                                                 | Asset Derivatives         |                |                           |                | Liability Derivatives               |                |                                    |                |
|-----------------------------------------------------------------|---------------------------|----------------|---------------------------|----------------|-------------------------------------|----------------|------------------------------------|----------------|
|                                                                 | September 30, 2010        |                | December 31, 2009         |                | September 30, 2010<br>Balance Sheet |                | December 31, 2009<br>Balance Sheet |                |
|                                                                 | Balance Sheet<br>Location | Fair<br>Value  | Balance Sheet<br>Location | Fair<br>Value  | Location                            | Fair<br>Value  | Location                           | Fair<br>Value  |
| <b>Derivatives designated as hedging instruments:</b>           |                           |                |                           |                |                                     |                |                                    |                |
| Natural Gas Forwards                                            |                           |                | Other current assets      | \$ 0.3         | Accrued expenses                    | \$ 2.2         |                                    |                |
| Cross currency swaps (1)                                        | Other current assets      | \$ 1.1         | Other current assets      | 0.4            | Other noncurrent liabilities        | 21.2           | Other noncurrent liabilities       | \$ 42.0        |
| <b>Total derivatives designated as hedging instruments:</b>     |                           | <b>\$ 1.1</b>  |                           | <b>\$ 0.7</b>  |                                     | <b>\$ 23.4</b> |                                    | <b>\$ 42.0</b> |
| <b>Derivatives not designated as hedging instruments:</b>       |                           |                |                           |                |                                     |                |                                    |                |
| Cross currency swaps (2)                                        | Currency Swap receivable  | \$ 19.5        | Currency Swap receivable  | \$ 34.4        | Currency Swap payable               | \$ 33.4        | Currency Swap payable              | \$ 45.3        |
|                                                                 | Other current assets      | 1.9            | Other current assets      | 1.0            |                                     |                |                                    |                |
| Foreign currency forwards                                       | Other current assets      | 7.2            | Other current assets      | 2.4            | Accrued expenses                    | 0.3            | Accrued expenses                   | 1.9            |
| <b>Total derivatives not designated as hedging instruments:</b> |                           | <b>\$ 28.6</b> |                           | <b>\$ 37.8</b> |                                     | <b>\$ 33.7</b> |                                    | <b>\$ 47.2</b> |
| <b>Total derivatives</b>                                        |                           | <b>\$ 29.7</b> |                           | <b>\$ 38.5</b> |                                     | <b>\$ 57.1</b> |                                    | <b>\$ 89.2</b> |

The following tables summarize the amounts and locations of our hedging derivatives gains (losses) recognized for the three months ended September 30, 2010 and 2009:

| Derivatives in Cash Flow Hedging Relationships: | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), Net of Tax Three Months Ended September 30 | Location of Gain or (Loss) Recognized from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30 | Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                 |                                                                                                                          |                                                                                            |                                                                                                                            |                                                                                                                                    | Three Months Ended                                                                                                                                  |
|                                                 |                                                                                                                          |                                                                                            |                                                                                                                            |                                                                                                                                    |                                                                                                                                                     |

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

|                          | 2010             |                 | 2009                        |                  |                  |                    | September 30  |               |
|--------------------------|------------------|-----------------|-----------------------------|------------------|------------------|--------------------|---------------|---------------|
|                          | 2010             | 2009            | 2010                        | 2009             | 2010             | 2009               | 2010          | 2009          |
| Natural Gas Forwards     | \$ (1.2)         | \$ (0.1)        | Manufacturing cost of sales | \$ (0.8)         | \$ (4.8)         | Other expense, net | \$ 0.0        | \$ 0.0        |
| Cross currency swaps (1) | (15.6)           | (9.3)           | Other expense, net          | (28.4)           | (12.9)           |                    | 0.0           | 0.0           |
| <b>Total</b>             | <b>\$ (16.8)</b> | <b>\$ (9.4)</b> |                             | <b>\$ (29.2)</b> | <b>\$ (17.7)</b> |                    | <b>\$ 0.0</b> | <b>\$ 0.0</b> |

**Derivatives in  
Net**

| Investment<br>Hedge<br>Relationships: | Three Months<br>Ended<br>September 30 |        |                    | Three Months<br>Ended<br>September 30 |        |                    | Three Months<br>Ended<br>September 30 |        |
|---------------------------------------|---------------------------------------|--------|--------------------|---------------------------------------|--------|--------------------|---------------------------------------|--------|
|                                       | 2010                                  | 2009   |                    | 2010                                  | 2009   |                    | 2010                                  | 2009   |
| Cross currency swaps (1)              | \$ (1.2)                              | \$ 0.0 | Other expense, net | \$ 0.0                                | \$ 0.0 | Other expense, net | \$ 0.0                                | \$ 0.0 |

**Table of Contents**

The following tables summarize the amounts and locations of our hedging derivatives gains (losses) recognized for the nine months ended September 30, 2010 and 2009:

| Derivatives<br>in Cash<br>Flow<br>Hedging<br>Relationships: | Amount of Gain or<br>(Loss) Recognized in<br>OCI on<br>Derivative<br>(Effective Portion),<br>Net of Tax |                  | Location of Gain or (Loss)<br>Recognized from<br>Accumulated OCI into<br>Income (Effective Portion) | Amount of Gain or<br>(Loss) Reclassified<br>from Accumulated<br>OCI into<br>Income<br>(Effective Portion) |                  | Location of Gain or (Loss)<br>Recognized in Income on<br>Derivative (Ineffective and<br>Portion and Amount<br>Excluded from<br>Effectiveness Testing) | Amount of Gain or<br>(Loss)<br>Recognized in<br>Income on<br>Derivative<br>(Ineffective<br>Portion<br>Amount Excluded<br>from<br>Effectiveness<br>Testing)<br>Nine Months<br>Ended |               |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
|                                                             | Nine Months Ended                                                                                       |                  |                                                                                                     | Nine Months Ended                                                                                         |                  |                                                                                                                                                       | September 30                                                                                                                                                                       |               |
|                                                             | 2010                                                                                                    | 2009             |                                                                                                     | 2010                                                                                                      | 2009             |                                                                                                                                                       | 2010                                                                                                                                                                               | 2009          |
|                                                             | September 30                                                                                            | September 30     |                                                                                                     | September 30                                                                                              | September 30     |                                                                                                                                                       | September 30                                                                                                                                                                       | September 30  |
| Natural Gas Forwards                                        | \$ (3.2)                                                                                                | \$ (4.2)         | Manufacturing cost of sales                                                                         | \$ (3.1)                                                                                                  | \$ (20.1)        | Other expense, net                                                                                                                                    | \$ 0.0                                                                                                                                                                             | \$ 0.0        |
| Cross currency swaps (1)                                    | 13.9                                                                                                    | (21.8)           | Other expense, net                                                                                  | 15.4                                                                                                      | (12.3)           |                                                                                                                                                       |                                                                                                                                                                                    |               |
| <b>Total</b>                                                | <b>\$ 10.7</b>                                                                                          | <b>\$ (26.0)</b> |                                                                                                     | <b>\$ 12.3</b>                                                                                            | <b>\$ (32.4)</b> |                                                                                                                                                       | <b>\$ 0.0</b>                                                                                                                                                                      | <b>\$ 0.0</b> |

| Derivatives<br>in Net<br>Investment<br>Hedge<br>Relationships: | Nine Months Ended |              | Location of Gain or (Loss)<br>Recognized in Income on Derivative | Nine Months Ended |              | Nine Months<br>Ended |              |        |
|----------------------------------------------------------------|-------------------|--------------|------------------------------------------------------------------|-------------------|--------------|----------------------|--------------|--------|
|                                                                | September 30      |              |                                                                  | September 30      |              | September 30         |              |        |
|                                                                | 2010              | 2009         |                                                                  | 2010              | 2009         | 2010                 | 2009         |        |
|                                                                | September 30      | September 30 |                                                                  | September 30      | September 30 | September 30         | September 30 |        |
| Cross currency swaps (1)                                       | \$ (1.2)          | \$ 0.0       | Other expense, net                                               | \$ 0.0            | \$ 0.0       | Other expense, net   | \$ 0.0       | \$ 0.0 |

The following table summarizes the amount and location of gains (losses) recognized in income for our derivatives not designated as hedges for the three and nine months ended September 30, 2010 and 2009:

| Derivatives not Designated as Hedging Instruments: | Location of Gain or (Loss)<br>Recognized in Income on Derivative | Amount of Gain or (Loss)<br>Recognized in Income on Derivative |               |                   |                |
|----------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------|---------------|-------------------|----------------|
|                                                    |                                                                  | Three months ended                                             |               | Nine months ended |                |
|                                                    |                                                                  | September 30,                                                  |               | September 30,     |                |
|                                                    |                                                                  | 2010                                                           | 2009          | 2010              | 2009           |
| Foreign currency forwards                          | Other expense, net                                               | \$ 9.7                                                         | \$ 5.0        | \$ 0.5            | \$ 13.5        |
| Cross currency swaps (2)                           | Other expense, net                                               | (1.0)                                                          | (1.3)         | (3.0)             | (3.2)          |
| Cross currency swaps (2)                           | Interest expense, net                                            | 1.0                                                            | 1.0           | 3.0               | 3.0            |
| Cross currency swaps (3)                           | Interest expense, net                                            | 1.2                                                            | 1.2           | 3.6               | 3.6            |
| <b>Total</b>                                       |                                                                  | <b>\$ 10.9</b>                                                 | <b>\$ 5.9</b> | <b>\$ 4.1</b>     | <b>\$ 16.9</b> |

(1) Ten year swaps

(2) Two and five year swaps.

(3) Represents OCI amortization of previously de-designated hedging relationships.

**Fair Value Measurements**

We determine the appropriate level in the fair value input hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, interest rates, exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability.

All of our derivatives are valued based on Level 2 inputs. Our gas forwards and currency forwards are valued based on readily available published indices for commodity prices and currency exchange rates. Our cross currency swaps are valued using an

**Table of Contents**

income approach based on industry-standard techniques. This model includes a discounted cash flow analysis that nets the discounted future cash receipts and the discounted expected cash payments resulting from the swap. The analysis is based on the contractual terms of the swaps including the period to maturity and observable market-based inputs that include time value, interest rate curves, foreign exchange rates, implied volatilities, as well as other relevant economic measures. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the counterparty's nonperformance risk in the fair value measurements.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and our counterparties. However, as of September 30, 2010, we have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

A summary of the fair value measurements for each major category of derivatives at September 30, 2010 is outlined in the table below:

| Description          | Significant Other<br>Observable<br>Inputs (Level 2) |
|----------------------|-----------------------------------------------------|
| Currency forwards    | \$ 6.9                                              |
| Cross currency swaps | (32.1)                                              |
| Natural gas forwards | (2.2)                                               |
| Total                | \$ (27.4)                                           |

As of September 30, 2010, we did not have any non-financial assets and liabilities that are carried at fair value on a recurring basis in the financial statements or for which a fair value measurement was required for the three and nine months ended September 30, 2010. Included among our non-financial assets and liabilities that are not required to be measured at fair value on a recurring basis are plant, equipment and facilities, goodwill, acquisition intangibles, and asset retirement obligations. For more information regarding our hedging activities and derivative financial instruments, refer to Note 6 to the Consolidated Financial Statements contained in our 2009 Annual Report on Form 10-K.

**15. EMPLOYEE BENEFIT PLANS**

Net periodic cost for our pension and postretirement benefit plans was as follows:

|                                | Pension Plans                    |        | Postretirement Plans |          |
|--------------------------------|----------------------------------|--------|----------------------|----------|
|                                | Three Months Ended September 30, |        |                      |          |
|                                | 2010                             | 2009   | 2010                 | 2009     |
| Service cost                   | \$ 2.2                           | \$ 2.6 | \$ 0.4               | \$ 0.4   |
| Interest cost                  | 12.2                             | 12.5   | 2.8                  | 3.0      |
| Expected return on plan assets | (12.1)                           | (11.6) | (0.8)                | (1.0)    |
| Net amortization               | 4.8                              | 3.2    | (2.6)                | (2.6)    |
| Net periodic cost              | \$ 7.1                           | \$ 6.7 | \$ (0.2)             | \$ (0.2) |

|                                | Nine Months Ended September 30, |        |        |        |
|--------------------------------|---------------------------------|--------|--------|--------|
|                                | 2010                            | 2009   | 2010   | 2009   |
| Service cost                   | \$ 6.9                          | \$ 7.3 | \$ 1.1 | \$ 1.0 |
| Interest cost                  | 36.0                            | 35.9   | 8.3    | 8.8    |
| Expected return on plan assets | (36.2)                          | (34.1) | (2.5)  | (2.8)  |
| Curtailed/ settlement gain (1) | 0.0                             | (0.8)  | 0.0    | 0.0    |
| Net amortization               | 13.2                            | 11.1   | (7.7)  | (7.9)  |

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

|                   |         |         |          |          |
|-------------------|---------|---------|----------|----------|
| Net periodic cost | \$ 19.9 | \$ 19.4 | \$ (0.8) | \$ (0.9) |
|-------------------|---------|---------|----------|----------|

(1) Represents curtailment gains on our plans in Belgium and Germany related to restructuring initiatives. See Note 3 to the consolidated financial statements for further information on restructuring.

We disclosed in our 2009 Annual Report on Form 10-K that we expected to contribute \$63.5 and \$12.1, respectively, to our pension and postretirement plans in 2010. Due to additional voluntary contributions in the fourth quarter, we now expect to contribute a total of \$78.0 to our pension plans in 2010. Through September 30, 2010, \$57.2 and \$8.6 in contributions were made to our pension and postretirement plans, respectively.

**Table of Contents**

In September 2010, using updated demographic data, our actuaries revised the estimated funded status of our U.S. pension and postretirement plans as of January 1, 2010, as well as the related 2010 expenses. As a result, we recorded an increase of \$5.5 to our U.S. pension liabilities, with a corresponding decrease of \$3.4 in accumulated other comprehensive income and an adjustment to deferred taxes for \$2.1 to reflect the revised funded status. These adjustments had an immaterial effect on the expenses for these plans.

In September 2009, using updated demographic data, our actuaries revised the estimated funded status of our U.S. pension and postretirement plans as of January 1, 2009, as well as the related 2009 expenses. As a result, we recorded an increase of \$11.4 to our U. S. pension liabilities, with a corresponding decrease of \$7.0 in accumulated other comprehensive income and an adjustment to deferred taxes for \$4.4 to reflect the revised funded status. We also recorded an increase of \$1.5 to our U. S. postretirement plan liabilities, with a corresponding decrease of \$0.9 in accumulated other comprehensive income and an adjustment to deferred taxes for \$0.6 to reflect the revised funded status. These adjustments had an immaterial effect on the expenses for these plans.

We also sponsor various defined contribution retirement plans in the United States and a number of other countries, consisting primarily of savings and profit growth sharing plans. Contributions to the savings plans are based in part on matching a percentage of employees contributions. Contributions to the profit growth sharing plans are generally based on our financial performance. Amounts expensed related to these plans for the three months ended September 30, 2010 and 2009 were \$5.9 and \$3.9, respectively, and for the nine months ended September 30, 2010 and 2009 were \$19.4 and \$15.6, respectively

---

**Table of Contents**
**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements. Currency amounts are in millions, except per share amounts. Percentages are approximate.

**GENERAL**

We are a global specialty chemicals and materials company and sell our products to diverse major markets for aerospace composites, structural adhesives, automotive and industrial coatings, chemical intermediates, electronics, inks, mining and plastics. Sales price and volume by region and the impact of exchange rates on our reporting segments are important measures that are analyzed by management and are provided in our segment analysis.

We report net sales in four geographic regions: North America, Latin America, Asia/Pacific and Europe/Middle East/Africa. The destination of the sale determines the region under which it is reported consistent with management's view of the business. North America consists of the United States and Canada. Latin America includes Mexico, Central America, South America and the Caribbean Islands. Asia/Pacific is comprised of Asia, Australia and the islands of the South Pacific Rim.

Selling price changes and raw material cost changes year on year are an important factor in profitability especially in years of high volatility. Global oil and natural gas costs in certain countries are highly volatile and many of our raw materials are derived from these two commodities. Discussion of the year to year impact of raw materials and energy is provided in our segment discussion. In addition, higher global demand levels and, occasionally, operating difficulties at suppliers, have limited the availability of certain of our raw materials.

The downturn in the global economy beginning in the fourth quarter of 2008 led to a dramatic reduction in demand for our products across many of our industrial markets, which resulted in a significant decrease in earnings starting in the fourth quarter of 2008. Beginning in January 2009, we initiated various restructuring initiatives within our Specialty Chemical segments and corporate service functions to reduce our structural costs and headcount. As of December 31, 2009, we had substantially completed these actions. In addition, in the second and third quarters of 2009, we also initiated restructuring actions within our Engineered Materials segment to respond to lower demand due to inventory destocking and sharper than expected decline in business and regional jet build rates. We estimate that the aforementioned structural cost reduction actions as well as actions initiated in prior years improved our 2009 results by approximately \$50.0 and the expected ongoing annualized rate of savings is approximately \$120.0. In addition to these restructuring initiatives, we implemented additional short-term cost reduction and liquidity improvement measures across our operations in 2009. These short-term measures included the implementation of furloughs in certain production facilities to better align our cost structure with the reduced demand in 2009, a global salary freeze and bonus limitations, except as required by local law and contracts, and suspension of the company matching contributions to the 401(k) savings program for all U.S. salaried and non-bargaining employees from May 1, 2009 to December 31, 2009. We estimate that these short-term actions improved our 2009 operating earnings by approximately \$76.0. As a result of improved profitability and cash flow, we reinstated our annual merit increase for all U.S. salaried and non-bargaining employees effective April 1, 2010.

**Quarter Ended September 30, 2010, Compared With Quarter Ended September 30, 2009****Consolidated Results**

Net sales for the third quarter of 2010 were \$837.1 compared with \$740.2 for the third quarter of 2009. Overall, sales increased 13% driven by volume increases of 7%, price increases of 9%, offset by unfavorable changes in exchange rates of 3%. Coating Resins sales increased 8% primarily due to volume and price increases partially offset by unfavorable changes in exchange rates. Additive Technologies sales increased 2%, In Process Separation sales increased 6%, and Engineered Materials sales increased 15% primarily due to increased volumes. Building Block Chemicals sales increased 39% primarily due to higher selling prices and to a lesser extent due to higher selling volumes.

For a detailed discussion on revenues refer to the Segment Results section below.

Manufacturing cost of sales was \$658.2 or 78.6% of sales in the third quarter of 2010, compared with \$605.4, or 81.8% of sales in the third quarter of 2009. The 3.2% decrease in manufacturing cost as a percentage of sales, is primarily due to improved manufacturing cost leverage on the increased volume obtained across our segments and lower restructuring charges. Total manufacturing costs increased by \$52.8 due to \$64.5 related to increased raw material costs, \$25.1 due to higher raw material volumes, and \$14.9 due to higher freight and period costs related to the increased sales volumes. Additionally, manufacturing costs increased by \$6.3 related to the elimination of the 2009 short term cost reductions discussed above. The third quarter of 2010 includes \$3.5 of costs primarily associated with additional restructuring to consolidate our



Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

manufacturing operations at one of our European facilities. These increases were partially offset by favorable fixed cost absorption of \$20.1 related to the increased sales volume as well as our initiative to lower inventory levels in 2009, favorable changes in exchange rates of \$16.1

**Table of Contents**

of which \$12.0 related to raw material costs, and \$4.7 of lower costs related to the exit of our polyurethane product line in 2009. The third quarter of 2009 includes a restructuring charge of \$21.0 which is substantially comprised of costs related to the closure of our Specialty Chemicals manufacturing operations in La Llagosta, Spain and Bogota, Colombia, as well as an additional restructuring initiative launched in the third quarter of 2009 within our Engineered Materials segment. See Note 3 to the consolidated financial statements for additional detail.

Selling and technical services expenses were \$51.5 in the third quarter of 2010 versus \$48.6 in the third quarter of 2009. Research and process development expenses were \$18.0 versus \$17.2 in the prior year. Administrative and general expenses were \$32.8 versus \$29.6 in the prior year. Overall operating expenses increased \$6.9 due to the elimination of the 2009 short term cost reductions discussed above of \$7.0 and higher costs to support increased volumes of \$3.5. These negative impacts were partially offset by favorable changes in exchange rates of \$2.3 and reduced restructuring costs of \$1.4.

Amortization of acquisition intangibles was \$9.1 in the third quarter of 2010 versus \$9.7 in the third quarter of 2009 due to decreases in Coating Resins as a result of changes in exchange rates.

Other (expense)/income, net was an expense of \$2.0 in the third quarter of 2010 compared with income of \$6.9 in the third quarter of 2009. Third quarter of 2009 included a non-cash gain of \$8.9 realized upon the sale of land leased to a third party after the third party exercised its option to purchase the land.

The 2009 loss on early extinguishment of debt of \$8.6 consists of the loss incurred on the repurchase of \$234.6 principal amount of our 5.5% Notes with an original maturity of October 1, 2010 for a purchase price of \$242.8 plus accrued interest of \$3.7 and \$15.4 principal amount of our 4.6% Notes with an original maturity of July 1, 2013 for a purchase price of \$14.6. Both of the debt repurchases were completed under an offer to repurchase the Notes that expired during the third quarter of 2009.

Interest expense, net was \$7.8 compared with \$7.6 in the prior year. The increase includes \$1.2 of lower capitalized interest as compared to 2009 due to a lower level of capital expenditures in 2010 and \$0.3 of higher interest associated with our 8.95% notes due 2017. These increases were partially offset by \$0.5 of lower interest associated with our 2009 repurchase of 5.5% notes due 2010, \$0.4 of lower interest related to our repurchase of 4.6% notes due 2013, as well as \$0.4 of lower interest due to favorable changes in exchange rates related to interest on our ten year cross currency swap as compared to 2009.

The effective income tax rate for the quarter ended September 30, 2010 was a tax provision of 34.1% (\$19.8), compared to a tax provision of 36.9% (\$7.6) for the quarter ended September 30, 2009. The underlying estimated annual income tax rate for the three months ended September 30, 2010 was 32.3% (excluding accrued interest on unrecognized tax benefits) with an underlying tax rate of 32.6% including such interest.

The effective tax rate for the quarter ended September 30, 2009, was unfavorably impacted by a shift in earnings to higher tax jurisdictions, and limitations on certain tax benefits.

Net income for the third quarter of 2010 was \$37.7 (\$0.75 per diluted share), a \$25.2 increase from the net earnings of \$12.5 (\$0.26 per diluted share) in the same period in 2009. Included in the third quarter of 2010 was \$2.2 of after-tax expenses primarily related to restructuring costs discussed above. Included in the third quarter of 2009 was a \$15.3 of after-tax expenses related to restructuring costs, an after-tax loss of \$5.5 associated with the repurchase of debt under a tender offer, and an after-tax gain of \$5.7 associated with the transfer of ownership of land to a third party.

**Segment Results**

Year-to-year comparisons and analyses of changes in net sales by segment and region are set forth below.

**Coating Resins**

|               | 2010    | 2009    | Total<br>% Change | Price | % Change Due to |          |
|---------------|---------|---------|-------------------|-------|-----------------|----------|
|               |         |         |                   |       | Volume/Mix      | Currency |
| North America | \$ 78.0 | \$ 70.3 | 11%               | 9%    | 2%              | 0%       |
| Latin America | 16.3    | 13.9    | 17%               | 11%   | 7%              | -1%      |

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

|                           |          |          |    |    |     |      |
|---------------------------|----------|----------|----|----|-----|------|
| Asia/Pacific              | 85.3     | 78.2     | 9% | 8% | -2% | 3%   |
| Europe/Middle East/Africa | 184.2    | 173.9    | 6% | 9% | 7%  | -10% |
| Total                     | \$ 363.8 | \$ 336.3 | 8% | 9% | 4%  | -5%  |

-25-

**Table of Contents**

Overall sales were up 8% primarily due to increased selling prices of 9% with increases across all product lines reflecting higher raw material costs. Selling volumes were up 4% due to the continued recovery from the global recession and improved demand in the industrial markets. Unfavorable changes in exchange rates decreased sales by 5%.

Earnings from operations were \$19.5 or 5% of sales in 2010, compared with earnings from operations of \$18.5 or 6% of sales in 2009. The \$1.0 increase in earnings is principally due to the favorable impacts of \$29.9 from higher selling prices, \$8.1 of improved plant leverage on increased volume as well as the initiative to lower inventories in 2009, and \$6.0 from increased selling volumes. These positive impacts were largely offset by higher raw material costs of \$34.7, higher costs of \$6.1 related to the elimination of the short term cost savings initiatives and higher manufacturing and operating expenses, increased freight costs of \$1.9, and changes in exchange rates of \$0.2.

**Additive Technologies**

|                           | 2010           | 2009           | Total<br>% Change | Price     | % Change Due to |            |
|---------------------------|----------------|----------------|-------------------|-----------|-----------------|------------|
|                           |                |                |                   |           | Volume/Mix      | Currency   |
| North America             | \$ 25.9        | \$ 26.2        | -1%               | 4%        | -5%             | 0%         |
| Latin America             | 5.1            | 5.5            | -7%               | 3%        | -10%            | 0%         |
| Asia/Pacific              | 15.9           | 15.5           | 3%                | 4%        | -3%             | 2%         |
| Europe/Middle East/Africa | 19.5           | 17.7           | 10%               | -3%       | 22%             | -9%        |
| <b>Total</b>              | <b>\$ 66.4</b> | <b>\$ 64.9</b> | <b>2%</b>         | <b>2%</b> | <b>2%</b>       | <b>-2%</b> |

Overall sales increased 2% due to increased selling volumes of 2% as a result of improved demand across most industrial markets partially offset by reduced sales due to the divestiture of certain products in 2009. Excluding the impact of the divested products, overall sales increased by 11%. Selling prices increased 2% with increases in all regions except Europe/Middle East/Africa where selling prices decreased by 3% due to competition in both product lines. Unfavorable changes in exchange rates decreased sales by 2%.

Earnings from operations were \$9.1 or 14% of sales in 2010, compared with \$3.1 or 5% in 2009. The \$6.0 increase in earnings is principally due to the improvement in demand with \$3.3 related to improved plant leverage on increased volume as well as the initiative to lower inventories in 2009, \$2.7 related to increased selling volumes and improved product mix, and \$1.2 related to increased selling prices. These positive impacts were partially offset by increased freight costs of \$0.5 due to higher selling volumes, \$0.5 due to the elimination of the short term savings initiatives and higher manufacturing and operating expenses, and unfavorable changes in exchange rates of \$0.4.

**In Process Separation**

|                           | 2010           | 2009           | Total<br>% Change | Price     | % Change Due to |           |
|---------------------------|----------------|----------------|-------------------|-----------|-----------------|-----------|
|                           |                |                |                   |           | Volume/Mix      | Currency  |
| North America             | \$ 20.8        | \$ 20.4        | 2%                | -1%       | 3%              | 0%        |
| Latin America             | 27.1           | 19.7           | 38%               | 2%        | 36%             | 0%        |
| Asia/Pacific              | 15.8           | 16.1           | -2%               | -3%       | -1%             | 2%        |
| Europe/Middle East/Africa | 11.5           | 15.0           | -23%              | 5%        | -26%            | -2%       |
| <b>Total</b>              | <b>\$ 75.2</b> | <b>\$ 71.2</b> | <b>6%</b>         | <b>0%</b> | <b>6%</b>       | <b>0%</b> |

Overall sales were up 6%, primarily due to increased selling volumes of 6% reflecting higher demand in our key alumina and copper mining markets. Overall selling prices and changes in exchange rates were flat compared to 2009.

Earnings from operations were \$12.8 or 17% of sales in 2010, compared with \$12.5, or 18% in 2009. The \$0.3 increase in earnings is principally due to increased selling volumes of \$2.3 which were partially offset by the elimination of the short term savings initiatives and higher operating expenses of \$1.2 mostly due to increased staffing for new business opportunities, increased freight costs of \$0.4 due to higher selling volumes,

and changes in exchange rates of \$0.4.

**Table of Contents****Engineered Materials**

|                           | 2010            | 2009            | Total<br>% Change | Price     | % Change Due to<br>Volume/Mix      Currency |            |
|---------------------------|-----------------|-----------------|-------------------|-----------|---------------------------------------------|------------|
| North America             | \$ 114.3        | \$ 101.4        | 13%               | 2%        | 11%                                         | 0%         |
| Latin America (1)         | 2.4             | 1.4             |                   |           |                                             |            |
| Asia/Pacific              | 19.6            | 12.0            | 63%               | 2%        | 61%                                         | 0%         |
| Europe/Middle East/Africa | 58.4            | 54.4            | 7%                | 1%        | 9%                                          | -3%        |
| <b>Total</b>              | <b>\$ 194.7</b> | <b>\$ 169.2</b> | <b>15%</b>        | <b>2%</b> | <b>14%</b>                                  | <b>-1%</b> |

(1) Due to the low level of sales in this geographic region, percentage comparisons are not meaningful.

Overall sales increased 15% primarily due to increased selling volumes of 14% principally due to the negative impact in the third quarter of 2009 from destocking and lower build rates in the large commercial transport and business/regional jet sectors. Increased selling volumes in 2010 also includes the benefits from higher sales associated with new commercial aircraft programs as well as higher sales in our high performance industrial materials product lines as a result of the improved economy. Selling prices increased 2% and changes in exchange rates decreased sales by 1%.

Earnings from operations were \$27.9 or 14% of sales in 2010, compared with \$18.3 or 11% of sales in 2009. The \$9.6 increase in earnings includes increased selling volumes of \$15.6, benefits primarily associated with higher fixed cost absorption into inventory due to increased production levels, as well as the initiative to lower inventories in 2009, of \$7.9, increased selling prices of \$2.7, and changes in exchange rates of \$0.9. These positive impacts were partially offset by \$15.1 due to the elimination of the short term savings initiatives and higher manufacturing and operating expenses to meet the increasing demand levels and new business opportunities, \$1.5 due to higher raw materials costs, and \$0.9 due to increased freight costs.

**Building Block Chemicals**

|                           | 2010            | 2009           | Total<br>% Change | Price      | % Change Due to<br>Volume/Mix      Currency |           |
|---------------------------|-----------------|----------------|-------------------|------------|---------------------------------------------|-----------|
| North America             | \$ 99.6         | \$ 56.4        | 77%               | 41%        | 36%                                         | 0%        |
| Latin America (1)         | 1.7             | 1.4            |                   |            |                                             |           |
| Asia/Pacific (1)          |                 | 3.3            |                   |            |                                             |           |
| Europe/Middle East/Africa | 35.7            | 37.5           | -5%               | 26%        | -31%                                        | 0%        |
| <b>Total</b>              | <b>\$ 137.0</b> | <b>\$ 98.6</b> | <b>39%</b>        | <b>34%</b> | <b>5%</b>                                   | <b>0%</b> |

(1) Due to the low level of sales in this geographic region, percentage comparisons are not meaningful.

Overall sales increased 39% primarily due to higher selling prices of 34% driven primarily by higher raw material costs used in the manufacturing of acrylonitrile where pricing closely follows raw material cost movements. Overall selling volumes were up 5% from higher acrylonitrile sales in North America partially offset by lower volumes in other regions.

Earnings from operations were \$9.7 or 7% of sales in 2010, compared with \$4.8, or 5% of sales in 2009. The \$4.9 increase in earnings is primarily due to the increased selling prices of \$33.6, benefits associated with higher fixed cost absorption into inventory due to increased production levels of \$1.5, and increased selling volumes of \$1.5. These positive impacts were partially offset by the increased raw material costs of \$27.8, higher manufacturing expenses of \$2.2, and increased freight costs of \$1.8 due to higher selling volumes.

**Nine Months Ended September 30, 2010, Compared With Nine Months Ended September 30, 2009**

**Consolidated Results**

Net sales for the first nine months of 2010 were \$2,497.8 compared with \$2,037.5 for 2009. Overall, sales increased 23%, driven by volume increases of 15% and price increases of 9%, offset by unfavorable changes in exchange rates of 1%. Selling volumes increased in all segments in 2010 compared to 2009. Higher selling prices increased sales in Engineered Materials, Coatings Resins and Additive Technologies by 1%, 2% and 2%, respectively compared to the 2009 period. In Process Separation experienced a 1% sales decline due to lower prices in 2010. In Building Block Chemicals, where pricing is significantly impacted by raw material costs, sales increased by 58% compared to the 2009 period as a result of increased selling prices. For a detailed discussion on sales refer to the Segment Results section below.

**Table of Contents**

Manufacturing cost of sales was \$1,948.1 or 78.0% of sales for the first nine months of 2010 compared with \$1,706.2 or 83.7% of sales for the first nine months of 2009. The 5.7% decrease in manufacturing cost of sales as a percent of sales is primarily attributable to improved manufacturing cost leverage on the increased volume and lower restructuring charges. The year over year increase of \$241.9 in manufacturing cost of sales includes \$175.4 related to the increased raw materials volume, \$145.8 related to higher raw material costs, and \$39.1 related to higher freight and period costs, due to higher volumes. Additionally, costs increased \$17.3 related to the elimination of the 2009 short term cost reductions previously discussed. These increases were partially offset by favorable fixed cost absorption of \$62.8 related to increased production as well as the initiative to lower inventory levels in 2009, \$19.7 in 2010 due to the exit of certain product lines in 2009, and the favorable impact of changes in exchange rates of \$10.3, of which \$11.4 relates to raw materials. The first nine months of 2010 includes \$8.3 of costs primarily related to the exit of a phosphorus product at our Mt. Pleasant manufacturing facility, and additional restructuring at one of our European manufacturing locations. Manufacturing cost of sales for the first nine months of 2009 includes restructuring charges of \$47.0 which includes manufacturing cost savings initiatives launched within our Specialty Chemical and Engineered Materials segments and corporate functions throughout 2009.

Selling and technical services expenses were \$150.6 in the first nine months of 2010 versus \$148.6 in the first nine months of 2009. Research and process development expenses were \$54.1 versus \$56.1 in the prior year. Administrative and general expenses were \$95.0 versus \$90.1 in the prior year. Overall operating expenses increased by \$4.9. This increase is related to higher 2010 operating costs of \$18.5, including the elimination of the 2009 short term cost reductions previously discussed, offset by lower restructuring charges in 2010 of \$13.4.

Amortization of acquisition intangibles was \$27.6 in the first nine months of 2010 versus \$28.3 in the first nine months of 2009.

Other (expense)/income, net was an expense of \$3.9 in the first nine months of 2010 compared with income of \$3.6 in the first nine months of 2009. Included in other (expense)/income for the first nine months 2009 is a gain of \$8.9 realized upon the sale of land leased to a third party after the third party exercised its option to purchase the land. In 2010 we experienced increased foreign currency gains of \$2.0 compared to the 2009 period.

The 2010 loss on early extinguishment of debt of \$0.8 relates to the loss incurred principally in the first quarter on the repurchase of \$14.5 carrying amount of our 4.6% notes due with an original maturity of July 1, 2013 for a purchase price of \$15.2 including interest. The 2009 loss on early extinguishment of debt of \$8.6 consists of the loss incurred on the repurchase of \$234.6 principal amount of our 5.5% Notes with an original maturity of October 1, 2010 for a purchase price of \$242.8 plus accrued interest of \$3.7 and \$15.4 principal amount of our 4.6% Notes with an original maturity of July 1, 2013 for a purchase price of \$14.6. Both of the debt repurchases were completed under an offer to repurchase the Notes that expired during the third quarter of 2009.

Interest expense, net was \$23.9 in the first nine months of 2010 compared with \$18.3 in the first nine months of 2009. Interest expense increased as the result of \$11.5 of higher interest associated with our 8.95% notes due 2017, and \$3.3 of lower capitalized interest as compared to 2009 due to a lower level of capital expenditures in 2010. These increases were partially offset by \$7.0 of lower interest associated with our 2009 repurchase of 5.5% notes due 2010, \$1.5 of lower interest related to our repurchase of 4.6% notes due 2013, and \$0.6 of lower interest due to lower revolving credit facility borrowing as compared to 2009.

The effective income tax rate for the nine months ended September 30, 2010 was a tax provision of 35.1% (\$68.2), compared to a tax benefit of 19.7% (\$2.8) for the nine months ended September 30, 2009. The 2010 effective tax rate for the year-to-date period was unfavorably impacted by a shift in earnings to higher tax jurisdictions and an \$8.3 charge to tax expense related to the enactment of U.S. health care legislation. The rate was favorably impacted by a \$3.2 tax benefit primarily attributable to the re-measurement of the future utilization of deferred tax assets in a European tax jurisdiction. See note 10 to the consolidated financial statements for additional detail on the impact of U.S. health care legislation. The underlying estimated annual income tax rate for the nine months ended September 30, 2010 was 32.3% (excluding accrued interest on unrecognized tax benefits) with an underlying tax rate of 32.6% including such interest.

For the nine months ended September 30, 2009, the effective tax rate was unfavorably impacted by a shift in earnings to higher tax jurisdictions, lack of a tax benefit given to the net loss on the sale of our polyurethane product line in Asia, and limitations on certain favorable U.S. tax benefits.

Net income for the first nine months of 2010 was \$124.3 (\$2.50 per diluted share) compared with a net loss in 2009 of \$12.4 (\$0.26 per diluted share). Included in the first nine months of 2010 was a \$3.4 of after-tax expenses related to the exit of certain phosphorus derivative products at our Mt. Pleasant manufacturing facility, a tax expense of \$8.3 related to the enactment of U.S. health care legislation and net restructuring charges of \$1.5. Included in the first nine months of 2009 was a \$40.4 of after-tax expenses related to net restructuring costs, an after-tax loss of



Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

\$1.9 associated with the sale of our polyurethane product line assets in Asia and Europe, an after-tax loss of \$5.5 associated with the repurchase of debt under a tender offer during the third

**Table of Contents**

quarter of 2009, and a non-cash after-tax gain \$5.7 associated with the transfer of ownership of land to a third party.

**Segment Results**

Year-to-year comparisons and analyses of changes in net sales by segment and region are set forth below.

**Coating Resins**

|                           | 2010              | 2009            | Total<br>% Change | Price     | % Change Due to<br>Volume/Mix      Currency |            |
|---------------------------|-------------------|-----------------|-------------------|-----------|---------------------------------------------|------------|
| North America             | \$ 236.9          | \$ 197.8        | 20%               | 2%        | 18%                                         | 0%         |
| Latin America             | 48.1              | 35.0            | 37%               | -1%       | 38%                                         | 0%         |
| Asia/Pacific              | 249.1             | 193.1           | 29%               | 2%        | 24%                                         | 3%         |
| Europe/Middle East/Africa | 540.1             | 452.4           | 19%               | 2%        | 22%                                         | -5%        |
| <b>Total</b>              | <b>\$ 1,074.2</b> | <b>\$ 878.3</b> | <b>22%</b>        | <b>2%</b> | <b>22%</b>                                  | <b>-2%</b> |

Overall sales were up 22% primarily due to increased selling volumes of 22% across all regions and all product lines due to the continued recovery from the global recession that had significantly impacted sales in 2009. Overall selling prices increased 2%, with increased pricing across all product lines to offset the higher raw material costs. Unfavorable changes in exchange rates decreased sales 2%.

Earnings from operations were \$64.3 or 6% of sales in 2010, compared with losses from operations of \$21.0 or -2% of sales in 2009. The \$85.3 increase in earnings is principally due to the positive impacts of \$82.2 due to higher selling volumes, \$31.6 of higher fixed cost absorption due to higher production volumes supporting the increased sales demand and the 2009 initiative to reduce inventory levels, and \$18.8 due to higher selling prices. These positive impacts were partially offset by unfavorable impacts of \$20.3 from higher raw material costs, \$14.1 from higher operating expenses and the elimination of the 2009 short term cost savings initiatives, \$10.5 from higher freight costs related to higher selling volumes, and \$2.3 from unfavorable changes in exchange rates.

**Additive Technologies**

|                           | 2010            | 2009            | Total<br>% Change | Price     | % Change Due to<br>Volume/Mix      Currency |           |
|---------------------------|-----------------|-----------------|-------------------|-----------|---------------------------------------------|-----------|
| North America             | \$ 77.6         | \$ 70.2         | 11%               | 2%        | 9%                                          | 0%        |
| Latin America             | 14.3            | 14.6            | -2%               | 0%        | -2%                                         | 0%        |
| Asia/Pacific              | 47.6            | 39.9            | 19%               | 3%        | 13%                                         | 3%        |
| Europe/Middle East/Africa | 55.3            | 54.0            | 2%                | 0%        | 5%                                          | -3%       |
| <b>Total</b>              | <b>\$ 194.8</b> | <b>\$ 178.7</b> | <b>9%</b>         | <b>2%</b> | <b>7%</b>                                   | <b>0%</b> |

Overall sales increased 9% primarily due to increased selling volumes of 7% reflecting higher demand in both the polymer additive and the specialty additive product lines due to continued improvement in the economic conditions. Excluding the impact of the divested products, overall sales increased by 24%. Selling prices increased 2% with increases in most regions except Europe/Middle East/Africa, where selling prices remained flat due to strong competition in both product lines.

Earnings from operations were \$28.1, or 14%, of sales in 2010, compared with \$6.8, or 4%, of sales in 2009. The \$21.3 increase in earnings is principally due to the positive impacts of \$15.0 related to higher selling volumes and favorable product mix, \$5.5 of higher fixed cost absorption due to higher production volumes from increased demand, \$2.4 of lower raw material costs predominately in the polymer additive business, and \$0.5 related to changes in exchange rates. These positive impacts were partially offset by increased freight costs of \$2.8 due to increased sales volumes, and \$1.6 due to the elimination of the short term savings initiatives and higher manufacturing and operating expenses.



**Table of Contents****In Process Separation**

|                           | 2010            | 2009            | Total<br>% Change | Price      | % Change Due to |           |
|---------------------------|-----------------|-----------------|-------------------|------------|-----------------|-----------|
|                           |                 |                 |                   |            | Volume/Mix      | Currency  |
| North America             | \$ 54.0         | \$ 47.2         | 14%               | -2%        | 16%             | 0%        |
| Latin America             | 67.5            | 55.6            | 21%               | -2%        | 23%             | 0%        |
| Asia/Pacific              | 49.5            | 48.2            | 3%                | -1%        | -2%             | 6%        |
| Europe/Middle East/Africa | 40.0            | 34.1            | 17%               | 2%         | 16%             | -1%       |
| <b>Total</b>              | <b>\$ 211.0</b> | <b>\$ 185.1</b> | <b>14%</b>        | <b>-1%</b> | <b>14%</b>      | <b>1%</b> |

Overall sales were up 14% primarily due to increased selling volumes of 14% as a result of higher demand in both the mining and phosphine markets. The favorable changes in exchange rates increased sales by 1%, which was offset by the impact of lower selling prices of 1%, due to lower raw material cost in phosphines.

Earnings from operations were \$42.0 or 20% of sales in 2010, compared with \$19.4 or 10% in 2009. The \$22.6 increase in earnings is principally due to increased sales volumes of \$16.7, lower raw material costs of \$10.3, and \$5.2 of higher fixed cost absorption due to higher production volumes. These positive impacts were partially offset by the elimination of the short term savings initiatives and higher manufacturing and operating expenses of \$3.6 mostly due to increased staffing for new business opportunities, unfavorable changes in exchange rates of \$2.5, lower selling prices of \$2.1, and increased freight costs of \$1.3 due to higher volumes.

**Engineered Materials**

|                           | 2010            | 2009            | Total<br>% Change | Price     | % Change Due to |           |
|---------------------------|-----------------|-----------------|-------------------|-----------|-----------------|-----------|
|                           |                 |                 |                   |           | Volume/Mix      | Currency  |
| North America             | \$ 338.5        | \$ 327.2        | 3%                | 1%        | 2%              | 0%        |
| Latin America (1)         | 5.7             | 3.2             |                   |           |                 |           |
| Asia/Pacific              | 49.5            | 37.0            | 34%               | 0%        | 34%             | 0%        |
| Europe/Middle East/Africa | 175.0           | 171.7           | 2%                | 1%        | 2%              | -1%       |
| <b>Total</b>              | <b>\$ 568.7</b> | <b>\$ 539.1</b> | <b>5%</b>         | <b>1%</b> | <b>4%</b>       | <b>0%</b> |

(1) Due to the level of sales in this geographic region, percentage comparisons are not meaningful.

Overall sales increased 5% primarily due to increased selling volumes of 4%. In 2010, selling volumes increased due to new commercial aircraft programs and higher sales in our high performance industrial materials product lines as a result of the improved economy. These benefits were partially offset by decreases in business/regional jet and rotorcraft sales due to the decline in overall civil aircraft build rates. In addition, military segment sales were lower due to the wind down of certain programs in advance of new programs. Higher selling prices increased sales by 1%.

Earnings from operations were \$87.5 or 15% of sales in 2010, compared with \$73.5, or 14% in 2009. The \$14.0 increase in earnings includes \$17.0 of benefits primarily associated with higher fixed cost absorption into inventory due to increased production levels and the initiative to lower inventories in 2009, increased selling volumes of \$16.8, increased selling prices of \$5.0, and favorable impact of changes in exchange rates of \$0.6. These positive impacts were partially offset by \$23.2 due to the elimination of the short term savings initiatives and higher manufacturing and operating expenses to meet the increasing demand levels and new business opportunities, \$1.7 due to increased freight costs, and \$0.6 due to higher raw materials costs.

**Building Block Chemicals**

|                           | <b>2010</b>     | <b>2009</b>     | <b>Total<br/>% Change</b> | <b>Price</b> | <b>% Change Due to</b> |                 |
|---------------------------|-----------------|-----------------|---------------------------|--------------|------------------------|-----------------|
|                           |                 |                 |                           |              | <b>Volume/Mix</b>      | <b>Currency</b> |
| North America             | \$ 301.5        | \$ 142.6        | 111%                      | 60%          | 51%                    | 0%              |
| Latin America (1)         | 6.0             | 2.6             |                           |              |                        |                 |
| Asia/Pacific              | 21.9            | 32.4            | -32%                      | 39%          | -71%                   | 0%              |
| Europe/Middle East/Africa | 119.7           | 78.7            | 52%                       | 61%          | -9%                    | 0%              |
| <b>Total</b>              | <b>\$ 449.1</b> | <b>\$ 256.3</b> | <b>75%</b>                | <b>58%</b>   | <b>17%</b>             | <b>0%</b>       |

---

## **Table of Contents**

(1) Due to the level of sales in this geographic region, percentage comparisons are not meaningful.

Overall sales increased 75% primarily due to higher selling prices of 58%, driven primarily by higher raw material costs used in the manufacturing of acrylonitrile where pricing closely follows raw material cost movements and overall short supply in the export market for acrylonitrile. Overall selling volumes were up 17% due to overall short supply in the acrylonitrile market and improved demands for melamine end markets.

Earnings from operations were \$28.7 or 6% of sales in 2010, compared with \$9.9 or 4% of sales in 2009. The \$18.8 increase in earnings is primarily due to the increased selling prices of \$148.9, increased sales volumes of \$17.6, and improved plant leverage on increased volume of \$3.5. These positive impacts were partially offset by the increased raw material costs of \$137.6, increased manufacturing and operating costs of \$9.1, and increased freight costs of \$5.0 due to higher selling volumes.

## **LIQUIDITY AND FINANCIAL CONDITION**

At September 30, 2010, our cash balance was \$357.1 compared with \$261.7 at December 31, 2009.

Cash flows provided by operating activities were \$182.4 in 2010 compared with \$396.2 in 2009. Trade accounts receivable increased \$78.7 due to higher sales with an average days outstanding of 47 days for the third quarter of 2010, which is slightly higher than the 2009 fourth quarter average of 46 days. Inventory increased \$68.5 due to improved demand and higher production volumes. Inventory average days on hand were at 61 days for the third quarter of 2010, which is flat compared to the 2009 fourth quarter average of 61 days. Accounts payable increased by \$84.4 due to higher purchases reflecting higher demand levels. Third quarter 2010 accounts payable average days outstanding were up at 53 days compared to the fourth quarter 2009 average of 46 days. Other liabilities decreased \$54.0 primarily due to contributions to our defined benefit plans. Accruals for our pension and post retirement plans, net of amortization of other comprehensive income, were \$6.7 and \$6.9, respectively, for the nine months ended September 30, 2010. Through September 30, 2010, \$57.2 and \$8.6 in contributions were made, respectively, to our pension and postretirement plans. Due to additional voluntary contributions to our pension plans in the fourth quarter, we now expect to contribute \$78.0 and \$12.1, respectively, to our pension and postretirement plans in 2010. Accrued expenses increased \$29.7, primarily due to increased benefits costs, partially offset by adjustments to restructuring accruals during 2010.

Cash flows used in investing activities were \$83.8 in 2010 compared to \$152.4 in 2009. During the first quarter of 2010, we sold certain real estate for cash proceeds totaling \$1.7. Capital spending for the first nine months of 2010 was \$85.5 compared to \$159.4 in 2009. Capital spending in 2010 is primarily attributable to purchased equipment for our delayed carbon fiber line in Greenville, South Carolina and expansion work at our composites plant in Greenville, Texas, which have amounted to \$28.0 in 2010. The remainder is mostly maintenance of business capital across the Company. The \$73.9 decrease is mostly related to our decision to delay the completion of the carbon fiber expansion project and higher spending related to maintenance turnarounds in Building Block Chemicals during 2009. We continue to evaluate the timing of the carbon fiber project as market conditions change. Our capital spending for 2010 is expected to be in the range of \$120.0 to \$130.0 although some of the cash spending may extend over into 2011.

Net cash flows used in financing activities were \$3.4 in 2010 compared with \$159.7 in 2009. During the first nine months of 2010, we had net debt repayments of \$20.8 and cash dividends of \$3.2, which was mostly offset by proceeds received on the exercise of stock options of \$17.7.

Approximately \$45.0 remained authorized under our stock buyback program as of September 30, 2010. We did not repurchase any shares in the first nine months of 2010. We do not expect to repurchase any shares in 2010.

Cash dividends paid in the third quarter of 2010 and 2009 were \$0.7 and \$2.1, respectively, and for the nine months ended September 30, 2010 and 2009 were \$3.2 and \$8.6, respectively. Dividends paid in the first nine months of 2010 include \$1.3 paid by a majority owned subsidiary to its minority shareholder. Dividends paid in the three and nine months ended September 30, 2009 include \$1.5 paid by a majority owned subsidiary to its minority shareholder. On July 20, 2010 the Board of Directors declared a \$0.0125 per common share cash dividend, payable on August 25, 2010 to shareholders of record as of August 10, 2010. On October 21, 2010, the Board of Directors declared a \$0.0125 per common share cash dividend, payable on November 26, 2010 to shareholders of record as of November 10, 2010.

We believe that we have the ability to fund our operating cash requirements and planned capital expenditures as well as the ability to meet our debt service requirements for the foreseeable future from existing cash and from internal cash generation. However, from time to time, based on such factors as local tax regulations, prevailing interest rates and our plans for capital investment or other investments, it may make economic sense to utilize our existing credit lines in order to meet those cash requirements, which may include debt-service related disbursements. We are required to meet financial ratios under our \$400.0 five-year revolving credit agreement, including a maximum permitted ratio of Total

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

Consolidated Debt (as defined) to Consolidated EBITDA (as defined) and a minimum consolidated EBITDA (as defined) to interest expense ratio. Complying with these ratios could limit our ability to plan for or react to market conditions or meet extraordinary capital needs and could

## **Table of Contents**

otherwise restrict our financing activities. Our ability to comply with the covenants will depend on our future operating performance, which may be adversely affected by general economic conditions. If we fail to comply with those covenants and terms, we will be in default. In this case, we would be required to obtain waivers from our lenders in order to maintain compliance. If we were unable to obtain any necessary waivers, the amounts outstanding under this agreement could be accelerated, and become immediately due and payable, and we would not be able to borrow any additional funds under the agreement while such default continued. We are in compliance with these covenants and expect to be in compliance for the remainder of the current facility which matures in June 2012. We have no borrowings outstanding under the agreement as of September 30, 2010. Our ability to fully utilize our revolving credit agreement can be limited by our actual calculated Debt Covenant Ratio as compared to the maximum Debt Covenant Ratio permitted under the agreement. At September 30, 2010, the full amount of the facility is available to us, and we expect that the full amount will continue to be available based on our current forecasts.

We have not guaranteed any indebtedness of our unconsolidated associated company.

Inflation at this time is not considered significant although higher costs for energy and commodities could impact our future operating expenses and capital spending. The impact of increasing raw material costs are discussed under Customers and Suppliers in Business in Item 1 in our 2009 Annual Report on Form 10-K.

There were no material changes in contractual obligations from December 31, 2009 to September 30, 2010. Reference is also made to Note 10 in the Notes to Consolidated Financial Statements included herein which describes certain gross liabilities totaling \$40.3 for unrecognized tax benefits that will be resolved at some point over the next several years.

## **OTHER**

### **2010 OUTLOOK**

In our October 21, 2010 press release, which was also furnished as an exhibit to a current report on Form 8-K, we presented our estimate of the full year 2010 earnings at the time based on various assumptions set forth in the press release. There can be no assurance that sales or earnings will develop in the manner projected. Actual results may differ materially. See Comments on Forward Looking Statements.

### **Critical Accounting Policies**

See Critical Accounting Policies under Item 7A of our 2009 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 24, 2010 and incorporated by reference herein. There were no changes to our critical accounting policies.

### **COMMENTS ON FORWARD-LOOKING STATEMENTS**

A number of the statements made by us in this report, in our Annual Report on Form 10-K, or in other documents, including but not limited to the Chairman, President and Chief Executive Officer's letter to Stockholders, our press releases and other periodic reports to the Securities and Exchange Commission, may be regarded as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include, among others, statements concerning: our or any of our segments outlooks for the future, anticipated results of acquisitions and divestitures, selling price and raw material cost trends, the effects of changes in currency rates and forces within the industry, anticipated costs, the completion dates of and anticipated expenditures for capital projects, expected sales growth, operational excellence strategies and their results, expected annual underlying tax rates, our long-term goals, future legal settlements and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Such statements are based upon our current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may vary materially from those set forth in the forward-looking statements.

The following factors, among others, could affect our anticipated results: our ability to successfully complete planned or ongoing restructuring and capital expansion projects, including realization of the anticipated results from such projects; our ability to maintain or improve current ratings on our debt; our ability to obtain financing or borrow fully against committed lines, changes in financial conditions or the financial status of our existing lenders markets; changes in global and regional economies; the financial well-being of our customers and the end consumers of our products; changes in demand for our products or in the quality, costs and availability of our raw materials and energy; customer inventory reductions; the actions of competitors; currency and interest rate fluctuations; technological change; our ability to renegotiate expiring long-term contracts; our ability to raise our selling prices when our product costs increase; changes in employee relations, possible strikes or work stoppages at our facilities or at the facilities of our customers or suppliers; new laws and regulations or changes in their interpretation, including



those related to taxation, global warming and those particular to the purchase, sale, storage and

**Table of Contents**

manufacture of chemicals or operation of chemical plants; governmental funding for those military programs that utilize our products; litigation, including its inherent uncertainty and changes in the number or severity of various types of claims brought against us and changes in the laws applicable to these claims; quality problems; difficulties in plant operations and materials transportation, including those caused by hurricanes or other natural forces; short or long term climate changes; environmental matters; returns on employee benefit plan assets and changes in the discount rates used to estimate employee benefit liabilities; changes in the medical cost trend rate; changes in accounting principles or new accounting standards; political instability or adverse treatment of foreign operations in any of the significant countries in which we or our customers operate; war, terrorism or sabotage; epidemics; and other unforeseen circumstances.

**Table of Contents****Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** (Currencies in millions)

For a discussion of market risks at year-end, refer to Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 24, 2010, and incorporated by reference herein. Other 2010 financial instrument transactions include:

**Commodity Price Risk:** At September 30, 2010, we held natural gas forwards, with an unfavorable fair value of \$2.2, which will be reclassified into Manufacturing Cost of Sales through June 2011 as the hedged natural gas purchases affect earnings.

Assuming all other factors are held constant, a hypothetical increase/decrease of 10% in the price of natural gas would cause an increase/decrease of approximately \$2.6 in the value of the forwards.

**Interest Rate Risk:** At September 30, 2010, our outstanding borrowings consisted of \$8.6 of short-term borrowings and \$657.4 of long-term debt, including the current portion. The long-term debt had a carrying and face value of \$642.0 and \$642.5, respectively, and a fair value of approximately \$746.9.

Assuming other factors are held constant, a hypothetical increase/decrease of 1% in the weighted-average prevailing interest rates on our variable rate debt outstanding as of September 30, 2010, would increase/decrease interest expense by approximately \$0.1 for the next fiscal quarter.

**Currency Risk:** We periodically enter into currency forward contracts primarily to hedge currency fluctuations of transactions denominated in currencies other than the functional currency of the respective entity. At September 30, 2010, the principal transactions hedged involved accounts receivable, accounts payable and intercompany loans. When hedging currency exposures, our practice is to hedge such exposures with forward contracts denominated in the same currency and with similar critical terms as the underlying exposure, and therefore, the instruments are effective at generating offsetting changes in the fair value, cash flows or future earnings of the hedged item or transaction.

At September 30, 2010, the currency and net contractual amounts of forward contracts outstanding translated into U. S. dollar equivalent amounts totaled \$159.0. The favorable fair value of currency contracts, based on forward exchange rates at September 30, 2010, was approximately \$6.9. Assuming that period-end exchange rates between the underlying currencies of all outstanding contracts and the various hedged currencies were to adversely change by a hypothetical 10%, the fair value of all outstanding contracts at September 30, 2010 would decrease by approximately \$11.3. However, since these contracts economically hedge specific transactions, any change in the fair value of the contracts would be offset by changes in the underlying value of the item or transaction being hedged.

We used cross currency swaps to hedge the changes in the cash flows of certain Euro denominated intercompany loans receivable ( Euro loans ) held by U.S. entities and to hedge a portion of our net investment in Cytec Surface Specialties SA/NV (our largest Euro functional currency subsidiary). The swaps included an initial exchange of \$500.0 on October 4, 2005 and will require final principal exchanges of \$250.0 on each settlement date of the five-year and ten-year notes (October 1, 2010 and October 1, 2015), respectively. At the initial principal exchange, we paid USDs to counterparties and received Euros. Upon final exchange, we will provide Euros to counterparties and receive USDs. The swaps also call for a semi-annual exchange of fixed Euro interest payments for fixed USD interest receipts. With respect to the five year swaps, we will receive 5.5% per annum and will pay 3.78% per annum on each April 1 and October 1, through the maturity date of the five year swaps. With respect to the ten year swaps, we will receive 6.0% per annum and will pay 4.52% per annum on each April 1 and October 1, through the maturity date of the ten year swaps. Certain currency swaps were originally designated as cash flow hedges of the changes in value of the future Euro interest and principal receipts that results from changes in the USD to Euro exchange rates on certain Euro denominated intercompany loans receivable we have with one of our subsidiaries. In November 2008, the 207.9 five year cross currency swaps were de-designated as cash flow hedges due to our decision to execute new off-setting cross currency swaps ( two year swaps ) to lock-in the Euro forward exchange rate for the principal exchange on the five year swaps due on October 1, 2010.

Prospective changes in the fair value of the five year swaps since the date of de-designation were reported in earnings. The two year swaps cover an identical notional amount of 207.9 and also call for a semi-annual exchange of fixed Euro interest receipts for fixed USD interest payments. With respect to the two year swaps, we will receive 3.78% per annum and will pay 3.69% per annum on each April 1 and October 1, through the maturity date of the two year swaps, which is also on October 1, 2010. The two year swaps are not designated as cash flow hedges. The fair value of the two year swaps is calculated each quarter with changes in fair value reported in earnings. On October 1, 2010, the two and five year swaps settled according to their terms.

## Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-Q

In September 2010, we de-designated our ten year swaps as cash flow hedges due to the early settlement of a 41.6 portion of these swaps by one of our counterparties effective October 1, 2010. As a result of this termination, we executed a new cross currency swap effective October 1, 2010 to effectively maintain the total notional amount of the ten year swap at 207.9. With respect to this replacement swap, we will pay 4.52% per annum on the Euro notional amount and will receive 5.80% per annum on the USD notional amount on each April 1 and October 1, through the maturity date of the swap, which is also on October 1,

-34-

**Table of Contents**

2015. We concurrently re-designated all the ten year swaps as a net investment hedge of the value of one of our U.S. subsidiaries' net investment in our Belgium-based subsidiary, Cytec Surface Specialties SA/NV (our largest Euro functional currency subsidiary), against the risk of adverse foreign exchange movements in the USD value of the Euro. Since the critical terms of the ten year swaps match the critical terms of the net investment in Cytec Surface Specialties SA/NV, the ten year swaps are highly effective in offsetting the changes in the value of the net investment attributable to the change in USD value of the Euro.

At September 30, 2010, the (unfavorable)/favorable fair values of the two, five, and ten year swaps were \$19.9, \$(31.9), and \$(20.1), respectively. The following table summarizes the approximate impact that a change in certain critical inputs would have on the fair values of our cross currency swaps in total. The approximate impact of the change in each critical input assumes all other inputs and factors remain constant. See Note 14 of the Consolidated Financial Statements for additional details on cross currency swaps disclosures.

| Critical Factors         | Change | Approximate<br>Impact On Two,<br>Five, and Ten Year Swaps<br>Favorable/(Unfavorable)<br>Fair Value<br>Combined |        |
|--------------------------|--------|----------------------------------------------------------------------------------------------------------------|--------|
|                          |        | \$                                                                                                             |        |
| Euro interest rate curve | +10%   | \$                                                                                                             | 2.9    |
| Euro interest rate curve | -10%   |                                                                                                                | (2.9)  |
| USD interest rate curve  | +10%   |                                                                                                                | (2.1)  |
| USD interest rate curve  | -10%   |                                                                                                                | 2.2    |
| Euro/USD exchange rate   | +10%   |                                                                                                                | (30.3) |
| Euro/USD exchange rate   | -10%   |                                                                                                                | 30.3   |

From time to time we also enter into designated forward Euro contracts to adjust the amount of the net investment hedge. At September 30, 2010, we had no designated forward contracts.

**Item 4. CONTROLS AND PROCEDURES**

We carried out an evaluation, under the supervision and with the participation of the management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the period ended September 30, 2010. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

There were no changes in internal controls during the third quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

Information regarding legal proceedings is included in Note 8 to the Consolidated Financial Statements herein and in Note 11 to the Consolidated Financial Statements contained in our 2009 Annual Report on Form 10-K.

**Item 6. EXHIBITS**

(a). Exhibits

See Exhibit Index on page 38 for exhibits filed with this Quarterly Report on Form 10-Q.

**Table of Contents**

**SIGNATURE**

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

CYTEC INDUSTRIES INC.

By: /s/ David M. Drillock  
David M. Drillock

Vice President and

Chief Financial Officer

October 27, 2010

**Table of Contents**

Exhibit Index

|         |                                                                                                                                                                   |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.2(m) | Cytec Supplemental Savings Plan, as amended and restated effective October 21, 2010.                                                                              |
| 12      | Computation of Ratio of Earnings to Fixed Charges for the three and nine months ended September 30, 2010 and 2009                                                 |
| 31.1    | Certification of Shane Fleming, Chief Executive Officer, Pursuant to Rule 13a-14(a) of the Securities Exchange Act                                                |
| 31.2    | Certification of David Drillock, Chief Financial Officer, Pursuant to Rule 13a-14(a) of the Securities Exchange Act                                               |
| 32.1    | Certification of Shane Fleming, Chief Executive Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002  |
| 32.2    | Certification of David Drillock, Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document.                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                                                                                                                          |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document.                                                                                                                     |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document.                                                                                                                      |
| 101.LAB | XBRL Taxonomy Label Linkbase Document.                                                                                                                            |