

CYTEC INDUSTRIES INC/DE/
Form 10-Q
October 22, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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.)
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Five Garret Mountain Plaza Woodland Park, New Jersey (Address of principal executive offices)	07424 (Zip Code)
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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 Website, 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):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Small reporting company <input type="checkbox"/>

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 71,553,510 shares of common stock outstanding at October 16, 2015.

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

CYTEC INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$497.3	\$506.8	\$1,520.5	\$1,523.0
Manufacturing cost of sales	326.8	342.0	1,040.4	1,018.2
Selling and technical services	35.4	35.3	106.9	109.6
Research and process development	12.8	12.0	37.3	37.2
Administrative and general	34.7	31.0	95.2	93.3
Amortization of acquisition intangibles	3.4	3.6	10.3	10.9
Earnings from operations	84.2	82.9	230.4	253.8
Other expense, net	1.5	1.6	3.0	2.2
Interest expense, net	4.0	3.1	11.6	9.3
Earnings from continuing operations before income taxes	78.7	78.2	215.8	242.3
Income tax provision	19.2	24.4	57.6	70.2
Earnings from continuing operations	59.5	53.8	158.2	172.1
Net (loss) gain on sale of discontinued operations, net of tax	—	(0.2)	(1.5)	11.0
(Loss) earnings from discontinued operations, net of tax	—	(0.2)	(1.5)	11.0
Net earnings	\$59.5	\$53.6	\$156.7	\$183.1
Comprehensive income	\$30.7	\$2.1	\$89.5	\$134.1
Earnings (loss) per share:				
Basic earnings (loss) per common share:				
Continuing operations	\$0.83	\$0.74	\$2.20	\$2.38
Discontinued operations	—	—	(0.02)	0.15
	\$0.83	\$0.74	\$2.18	\$2.53
Diluted earnings (loss) per common share:				
Continuing operations	\$0.81	\$0.73	\$2.16	\$2.34
Discontinued operations	—	—	(0.02)	0.15
	\$0.81	\$0.73	\$2.14	\$2.49
Dividends per common share	\$0.125	\$0.125	\$0.375	\$0.25

See accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions, except per share amounts)

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 170.9	\$ 133.9
Trade accounts receivable, less allowance for doubtful accounts of \$3.5 and \$3.8 at September 30, 2015 and December 31, 2014, respectively	286.2	265.1
Other accounts receivable	72.9	74.6
Inventories	309.4	307.6
Deferred income taxes	35.1	27.4
Other current assets	21.9	26.2
Total current assets	896.4	834.8
Plants, equipment and facilities, at cost	1,699.7	1,680.8
Less: accumulated depreciation	(589.0	) (559.4
Net plant investment	1,110.7	1,121.4
Acquisition intangibles, net of accumulated amortization of \$80.1 and \$70.8 at September 30, 2015 and December 31, 2014, respectively	128.7	141.6
Goodwill	502.0	508.8
Deferred income taxes	32.8	41.2
Other assets	137.5	119.4
Total assets	\$ 2,808.1	\$ 2,767.2
Liabilities		
Current liabilities		
Accounts payable	\$ 179.1	\$ 172.4
Current maturities of long-term debt	1.5	1.2
Accrued expenses	160.3	184.6
Income taxes payable	9.2	8.4
Deferred income taxes	0.4	0.3
Total current liabilities	350.5	366.9
Long-term debt	740.1	741.7
Pension and other postretirement benefit liabilities	229.1	245.9
Other noncurrent liabilities	156.3	170.3
Deferred income taxes	34.5	31.4
Stockholders' equity		
Preferred stock, 20,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value per share, 150,000,000 shares authorized; issued 99,822,154 at September 30, 2015 and 99,772,436 at December 31, 2014	1.0	1.0
Additional paid-in capital	481.7	474.2
Retained earnings	1,829.3	1,699.6
Accumulated other comprehensive (loss) income	(54.1	) 13.1
Treasury stock, at cost, 28,275,035 shares at September 30, 2015 and 28,732,931 shares at December 31, 2014	(960.3	) (976.9
Total stockholders' equity	1,297.6	1,211.0
Total liabilities and stockholders' equity	\$ 2,808.1	\$ 2,767.2
See accompanying Notes to Consolidated Financial Statements		

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows provided by (used in) operating activities		
Net earnings	\$156.7	\$183.1
(Loss) earnings from discontinued operations, net of tax	(1.5)	) 11.0
Net earnings from continuing operations	158.2	172.1
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Depreciation	52.1	46.5
Amortization	13.4	13.5
Share-based compensation	10.0	9.8
Deferred income taxes	5.4	18.8
Pension and postretirement benefit (income) expense	(2.3)	) 0.7
Contributions to pension and postretirement plans	(11.6)	) (10.6)
Non-cash loss on disposal of assets	0.9	1.9
Unrealized (gain) loss on foreign currency forward contracts	(5.8)	) 7.9
Changes in operating assets and liabilities:		
Trade accounts receivable	(38.0)	) (50.1)
Other receivables	4.3	(5.6)
Inventories	(11.8)	) (48.7)
Other assets	(5.0)	) 1.1
Accounts payable	13.3	22.4
Accrued expenses	(19.0)	) (1.6)
Income taxes payable	(2.5)	) 4.2
Other liabilities	(1.6)	) (10.6)
Net cash provided by operating activities of continuing operations	160.0	171.7
Net cash (used in) provided by operating activities of discontinued operations	(3.2)	) 0.3
Net cash provided by operating activities	156.8	172.0
Cash flows used in investing activities:		
Additions to plants, equipment and facilities	(96.9)	) (170.3)
Other investing activities, net	—	(0.1)
Net cash used in investing activities	(96.9)	) (170.4)
Cash flows provided by (used in) financing activities:		
Proceeds from long-term debt	0.5	1.3
Payments on long-term debt	(0.9)	) (0.4)
Change in short-term borrowings, net	—	2.9
Cash dividends	(26.8)	) (17.9)
Proceeds from the exercise of stock options	9.9	14.3
Excess tax benefits from share-based payment arrangements	3.8	6.7
Net cash (used in) provided by financing activities	(13.5)	) 6.9
Effect of currency rate changes on cash and cash equivalents	(9.4)	) (7.7)
Increase in cash and cash equivalents	37.0	0.8
Cash and cash equivalents, beginning of period	133.9	151.8
Cash and cash equivalents, end of period	\$170.9	\$152.6

See accompanying Notes to Consolidated Financial Statements

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

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) 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 consolidated 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 condensed consolidated 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. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in the Company’s 2014 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.

Reclassifications

Certain amounts reported for prior years in the unaudited consolidated financial statements and accompanying notes have been reclassified to conform to the current year’s presentation.

2. MERGER AGREEMENT WITH SOLVAY SA

On July 29, 2015, we announced that the Company had entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Solvay SA (“Solvay”) and its wholly owned subsidiary, Tulip Acquisition Inc. (“Merger Subsidiary”). Pursuant to the Merger Agreement, Merger Subsidiary will be merged with and into the Company (the “Merger”), with the Company surviving as a wholly-owned subsidiary of Solvay (the “Surviving Corporation”). In connection with the Merger, each issued and outstanding share of our common stock, par value \$0.01 per share, other than shares held by the Company, Solvay or any of their respective subsidiaries and shares with respect to which appraisal rights are properly demanded and not waived, withdrawn or lost, will be converted into the right to receive \$75.25 in cash, without interest and less any applicable withholding taxes.

Each of the Company, Solvay and Merger Subsidiary has made customary representations and warranties in the Merger Agreement. The Company has also agreed to various customary covenants and agreements, including, among others, and subject to certain exceptions, to conduct its business in the ordinary course of business between the execution of the Merger Agreement and closing of the Merger and not to engage in certain specified types of transactions during such period. Under the terms of the Merger Agreement, the Company is permitted to pay regular quarterly dividends in an amount not to exceed \$0.125 per share. In addition, the Company will be subject to customary “no-shop” restrictions on its ability to solicit alternative acquisition proposals from third parties and to provide information to, and engage in discussions with, third parties regarding alternative acquisition proposals, except as permitted by the Merger Agreement.

The Merger Agreement contains specified termination rights, including the right for each of the Company and Solvay to terminate the Merger Agreement if the Merger is not consummated by January 28, 2016 (subject to one automatic three-month extension if all of the conditions to closing, other than the conditions related to obtaining certain governmental approvals, have been satisfied). The Merger Agreement also provides for other customary termination rights for both Solvay (including if the Board of Directors of the Company changes its recommendation in respect of the Merger) and the Company, and further provides that the Company would be required to pay Solvay a termination

fee equal to \$140.0 following a termination in certain circumstances.

The Merger is subject to certain closing conditions, including (i) the approval of the Merger Agreement by a majority of the outstanding shares of our common stock, (ii) the absence of any law or order prohibiting the consummation of the Merger, (iii) expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (the "HSR Act") and expiration or termination of any applicable waiting period or, if applicable, receipt of approval (which approvals remains in

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full force and effect), under any similar foreign antitrust or competition laws in Brazil, the European Union, Israel, Japan, Mexico, South Korea, Turkey and Ukraine; and (iv) the conclusion of any review, investigation or other proceeding by the Committee on Foreign Investment in the United States (“CFIUS”) pursuant to Section 721 of the Defense Production Act of 1950, as added by the Exon-Florio Amendment of 1988 and as amended by the Foreign Investment and National Security Act of 2007. In addition to customary conditions in favor of both parties regarding the accuracy of the other party’s representations and warranties (subject to customary materiality qualifiers) and the other party’s compliance with its covenants and agreements contained in the Merger Agreement (subject to customary materiality qualifiers), Solvay’s obligations to complete the Merger are also subject to the conditions that there have been no event or occurrence that would reasonably be expected to have a material adverse effect on the Company, the receipt of approval from the Defense Security Service of the U.S. Department of Defense and the absence of written objection from the Directorate of Defense Trade Controls of the U.S. Department of State.

The Company and Solvay submitted a joint voluntary notice to CFIUS on September 14, 2015 and CFIUS is currently reviewing the proposed transaction. The Company and Solvay notified the Directorate of Defense Trade Controls of the transaction on September 21, 2015, and are working with the Defense Security Service on a detailed plan to mitigate foreign ownership, control or influence. The applicable waiting period under the HSR Act expired on September 24, 2015. The Company made applicable filings in Mexico and Ukraine on September 24, 2015, in South Korea on October 5, 2015, in Israel on October 8, 2015, in Turkey on October 9, 2015 and in the European Union on October 13, 2015. The Company currently expects that applicable filings in Brazil and Japan will be made in due course.

Assuming timely satisfaction of the necessary closing conditions, we currently expect the closing of the Merger to occur in the fourth quarter of 2015.

3. NEW ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” The guidance requires that adjustments to provisional amounts recognized in a business combination be recorded during the measurement period in the period in which the adjustment amounts are determined. This also applies to the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result to the change in the provisional amounts as if the accounting had been completed at the acquisition date. Additional disclosures are required to clarify the impact the adjustments to provisional amounts would have had on prior periods (by income statement line item) as if the accounting had been completed at the acquisition date. The update is effective for reporting periods beginning after December 15, 2015 and for interim periods within those fiscal years, with early adoption permitted. We do not anticipate adoption of this guidance to have a material effect on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” The guidance requires an entity to measure inventory at the lower of cost or net realizable value, from the current guidance of the lower of cost or market. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU should be applied prospectively, and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with earlier application permitted. We do not anticipate adoption of this guidance to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” The guidance provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting of other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. The update is effective for reporting periods beginning after December 15, 2015 and for interim periods within those fiscal years, with early adoption permitted. Entities have the option of applying either a full retrospective approach to all periods presented or a prospective approach to all arrangements entered into or materially modified after the effective date. We do not

anticipate adoption of this guidance to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," which was amended by ASU No. 2015-15, "Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," issued in August 2015. These ASUs will require the presentation of debt issuance costs in financial statements as a direct reduction of related debt liabilities with amortization of debt issuance costs reported as interest expense. However, the guidance allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any

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outstanding borrowings on the line-of-credit arrangement, which is consistent with current U.S. GAAP standards. ASU 2015-03 and ASU 2015-15 are effective for annual periods, and interim periods within those fiscal years, beginning after December 15, 2015 and are to be applied retrospectively upon adoption. Early adoption is permitted, including adoption in an interim period for financial statements that have not been previously issued. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This guidance focuses on a reporting company's consolidation evaluation to determine whether they should consolidate certain legal entities. This guidance is effective for annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements, but do not anticipate it will be material.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which will supersede current revenue recognition guidance in Accounting Standards Codification Topic 605, "Revenue Recognition." The new standard is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and clarify guidance for multiple-element arrangements. In July 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which delays the effective date of the standard by one year to the first quarter of 2018 to provide companies sufficient time to implement the standard. Early adoption is permitted, but not before the first quarter of 2017. Adoption can occur using one of two prescribed transition methods. We have not yet selected a transition method and continue to evaluate the impact this guidance, as well as amendments to the guidance that have been proposed by the FASB, will have on our future consolidated financial statements and related disclosures.

4. DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

The following tables display summarized activity in our consolidated statements of income for discontinued operations during the three and nine months ended September 30, 2015 and 2014 related to our former Coating Resins ("Coatings") business and other divestitures.

	Three Months Ended September 30, 2015		2014				
	Coatings	Total	Coatings		Distribution Product Line	Total	
(Loss) gain on sale of discontinued operations	\$—	\$—	\$(0.1	)	\$0.2	\$0.1
Income tax expense on (loss) gain on sale	—	—	(0.3	)	—	(0.3
(Loss) earnings from discontinued operations, net of tax	\$—	\$—	\$(0.4	)	\$0.2	\$(0.2
	Nine Months Ended September 30, 2015		2014				
	Coatings	Total	Coatings		Distribution Product Line	Pre- Acquisition Umeco	Total
(Loss) gain on sale of discontinued operations	\$(2.3) \$(2.3) \$(3.6)	\$0.2	\$3.6	\$0.2
Income tax benefit on (loss) gain on sale	0.8	0.8	10.8	—	—	10.8	
(Loss) earnings from discontinued operations, net of tax	\$(1.5) \$(1.5) \$7.2		\$0.2	\$3.6	\$11.0
Discontinued operations							

Coating Resins

On April 3, 2013, we completed the divestiture of our remaining Coatings business to Advent International (“Advent”), a global private equity firm. In connection with the sale of the business to Advent, we agreed to retain certain liabilities, including liabilities for U.S. pension and other postretirement benefits and certain tax liabilities related to taxable periods (or portions thereof) ending on or before April 3, 2013. For the nine months ended September 30, 2015, we recorded after-tax losses of \$1.5 related to the sale of Coatings, of which \$0.1 was for these tax liabilities and \$1.4 of additional costs of exiting a former

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Coatings facility. During the three and nine months ended September 30, 2014, we recorded after-tax charges of \$0.1 and \$1.4, respectively, related to certain of these tax liabilities. For the three and nine months ended September 30, 2014, we also incurred after-tax charges of approximately \$0.3 and \$2.5, respectively, for purchase price and working capital adjustments related to the sale. Additionally, in the nine months ended September 30, 2014, we recorded tax benefits of \$11.1 based on our best estimate of the purchase price allocation attributable to the Coatings business sold in various taxing jurisdictions. These after-tax losses and gains are included in Net (loss) gain on sale of discontinued operations, net of tax in the consolidated statements of income. The final price paid and loss on sale remains subject to final working capital and other customary adjustments.

As of September 30, 2015, the final working capital adjustment on the Coatings divestiture transaction is in dispute. We believe we will recover the net amount we have recorded with respect to the final working capital adjustment.

Other divestituresIndustrial Materials distribution product line

In the third quarter of 2014, we recorded an after-tax benefit of \$0.2 related to final purchase price and settlement of final working capital adjustments from the sale of the Industrial Materials distribution product line in July 2013, which we acquired as part of the Umeco acquisition in 2012. These amounts are included in Net (loss) gain on sale of discontinued operations, net of tax in the consolidated statements of income.

Former Umeco entities divested prior to our acquisition

As part of our acquisition accounting for Umeco in 2012, we established reserves related to income tax and value added tax liabilities of an entity that had been divested by Umeco in 2011, for periods that were under audit prior to its divestiture. We continued to accrue interest through the end of 2013. In the first quarter of 2014, we agreed to a settlement for audit periods through March 31, 2009, which resulted in a benefit of approximately \$3.6. The benefit is included in Net (loss) gain on sale of discontinued operations, net of tax in the consolidated statement of income for the nine months ended September 30, 2014.

5. RESTRUCTURING OF OPERATIONS

In accordance with our accounting policy, restructuring costs are included in our Corporate and Unallocated operating results for segment reporting purposes, which is consistent with management's view of its businesses. Aggregate pre-tax restructuring charges included in the consolidated statements of income were recorded by line item as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Manufacturing cost of sales	\$0.5	\$0.1	\$2.0	\$0.3
Selling and technical services	—	—	0.4	—
Administrative and general	2.3	(0.1)	4.1	0.1
Total	\$2.8	\$—	\$6.5	\$0.4

Details of our 2015 restructuring initiatives are as follows:

During the first quarter of 2015, we approved plans to realign the supporting structure of all our segments and across various functions to take advantage of synergies from the ongoing implementation of our single, global enterprise resource planning ("ERP") system. These plans resulted in a restructuring charge of \$3.5 for severance related to the elimination of approximately 55 positions. The initiative is expected to be completed by the end of 2016. During the second quarter of 2015, we recorded a favorable adjustment of \$0.1 to the 2015 restructuring initiatives, while in the third quarter of 2015, we recorded a favorable adjustment of \$0.4 to these initiatives. The remaining reserve relating to the 2015 restructuring initiatives at September 30, 2015 is \$1.4.

Updates to our 2013 restructuring initiatives are as follows:

During the first nine months of 2015, we recorded a net adjustment of \$3.6 to the 2013 restructuring initiatives, mostly due to recognizing the fair value of a liability related to the leased Huntington Beach facility that we ceased using in the third quarter of 2015. The remaining reserve relating to the 2013 restructuring initiatives at September 30, 2015 is \$3.2.

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Updates to our 2012 restructuring initiatives are as follows:

During the first nine months of 2015, we recorded a net favorable adjustment of \$0.1 to the 2012 restructuring initiatives. The remaining reserve relating to the 2012 restructuring initiatives at September 30, 2015 is \$2.0.

Following are the changes in the restructuring reserve balance through the first nine months of 2015:

Restructuring Initiatives:	2012	2013	2015	Total
Balance at December 31, 2013	\$4.8	\$1.8	\$—	\$6.6
2014 (credits) charges	(0.4	) 1.4	—	1.0
Non-cash items ⁽¹⁾	—	(0.5	) —	(0.5
Cash payments	(1.2	) (0.9	) —	(2.1
Balance at December 31, 2014	\$3.2	\$1.8	\$—	\$5.0
First quarter charges	0.1	—	3.5	3.6
Non-cash items ⁽¹⁾	—	(0.1	) —	(0.1
Cash payments	(0.9	) (0.1	) (1.0	) (2.0
Balance at March 31, 2015	\$2.4	\$1.6	\$2.5	\$6.5
Second quarter (credits) charges	(0.1	) 0.3	(0.1	) 0.1
Non-cash items ⁽¹⁾	—	(0.3	) —	(0.3
Cash payments	(0.2	) (0.6	) (0.5	) (1.3
Balance at June 30, 2015	\$2.1	\$1.0	\$1.9	\$5.0
Third quarter (credits) charges	(0.1	) 3.3	(0.4	) 2.8
Non-cash items ⁽¹⁾	—	(0.3	) —	(0.3
Cash payments	—	(0.8	) —	(0.8
Currency translation adjustments	—	—	(0.1	) (0.1
Balance at September 30, 2015	\$2.0	\$3.2	\$1.4	\$6.6

(1) Includes accelerated depreciation of plant assets at our California sites.

6. SHARE-BASED COMPENSATION

The fair value of each option or stock-settled share appreciation right (“SARS”) award is estimated on the grant date 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 weighted average assumptions for the nine months ended September 30, 2015 and 2014 are noted in the following table:

	Nine Months Ended		
	September 30,		
	2015	2014	
Expected life (years)	6.2	6.3	
Expected volatility	30.4	% 34.6	%
Expected dividend yield	1.03	% 0.63	%
Risk-free interest rate	2.31	% 3.00	%
Weighted-average fair value per option	\$14.40	\$16.46	

The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the combination of implied market volatility and our historical volatility. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. As share-based compensation recognized in the consolidated statements of income is based on awards ultimately expected to vest, we incorporate the probability of pre-vesting forfeiture in determining the number of expected vested options. The forfeiture rate is

based on the historical forfeiture experience and prospective actuarial analysis.

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Stock Award and Incentive Plan

The 1993 Stock Award and Incentive Plan, as amended on September 17, 2014, (the “1993 Plan” or “Amended Plan”) provides for grants of a variety of awards, such as stock options (including incentive stock options and nonqualified stock options), nonvested stock (including performance stock), SARS (including those settled with common shares) and deferred stock awards and dividend equivalents.

At September 30, 2015, there were approximately 7,400,000 shares reserved for issuance under the 1993 Plan, inclusive of approximately 3,500,000 shares reserved for issuance for all outstanding share-based compensation grants.

Stock options and stock-settled SARS

We have utilized the stock option component of the 1993 Plan to provide for the granting of nonqualified stock options and stock-settled SARS with an exercise price at 100% of the market price on the date of the grant. Options and stock-settled SARS are generally exercisable in installments of one-third per year commencing one year after the grant date and annually thereafter, with contract lives of generally 10 years from the grant date.

A summary of stock options and stock-settled SARS activity for the nine months ended September 30, 2015 is presented below:

Options and Stock-Settled SARS Activity:	Number of Units	Weighted Average Exercise Price Per Unit	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	2,996,794	\$28.84		
Granted	565,408	44.69		
Exercised	(467,516)	26.79		
Forfeited	(13,838)	43.22		
Outstanding at September 30, 2015	3,080,848	\$32.00	6.3	\$128.9
Exercisable at September 30, 2015	1,972,525	\$25.69	5.0	\$95.0

During the nine months ended September 30, 2015, we granted 565,408 stock options. The weighted-average grant-date fair value of the stock options granted during the nine months ended September 30, 2015 and 2014 was \$14.40 and \$16.46 per share, respectively. Total pre-tax compensation cost related to stock option and stock-settled SARS was \$2.3 and \$2.4 for the three months ended September 30, 2015 and 2014, respectively, and \$6.8 and \$6.7 during the nine months ended September 30, 2015 and 2014, respectively. The total intrinsic value of stock options and stock-settled SARS exercised during the nine months ended September 30, 2015 and 2014 was \$13.7 and \$32.4, respectively. Treasury shares and newly issued shares have been utilized for stock option and stock-settled SARS exercises.

As of September 30, 2015, there was \$7.0 of total unrecognized compensation cost related to stock options and stock-settled SARS. That cost is expected to be recognized over a weighted-average period of 1.3 years as the majority of our awards vest over 3 years.

Total tax benefits realized from share-based awards was \$5.9 and \$10.9 for the nine months ended September 30, 2015 and 2014, respectively. Cash received from stock options exercised was \$9.9 and \$14.3 for the nine months ended September 30, 2015 and 2014, respectively.

Cash-settled SARS

Our 1993 Plan also provides for the granting of cash-settled SARS, which were granted during 2004 and 2005. Cash-settled SARS are liability-classified awards. Cash used to settle cash-settled SARS exercised during the nine months ended September 30, 2015 and 2014 was \$0.1 and \$0.7, respectively. The total amount of pre-tax income recognized for cash-settled SARS was \$0.1 for both the nine months ended September 30, 2015 and 2014. The liability related to our cash-settled SARS was \$0.2 at December 31, 2014. There were no cash-settled SARS outstanding as of September 30, 2015.

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Nonvested stock, nonvested stock units, and performance stock

The 1993 Plan provides for the issuance of nonvested stock, nonvested stock units, and performance stock. Nonvested stock and nonvested stock units are subject to certain restrictions on ownership and transferability that lapse upon vesting. Performance stock payouts are based on the attainment of certain financial performance objectives and may vary depending on the degree to which the performance objectives are met. We did not grant any performance stock in 2015 and 2014, and there were no outstanding performance stock awards as of September 30, 2015.

A summary of nonvested stock and nonvested stock units for the nine months ended September 30, 2015 is presented below:

Nonvested Stock and Nonvested Stock Units:	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Nonvested at January 1, 2015	307,882	\$34.66
Granted	80,276	45.20
Vested	(118,492	) 25.71
Forfeited	(1,854	) 41.22
Nonvested at September 30, 2015	267,812	\$41.72

During the nine months ended September 30, 2015, we granted 66,308 nonvested stock units to employees and 13,968 shares of nonvested stock to nine directors, which generally vest on the third anniversary of the grant date. The weighted-average fair value of the nonvested stock and nonvested stock units on the grant date was \$45.20 per share.

The total amount of share-based compensation expense recognized for nonvested stock and nonvested stock units was \$1.0 and \$1.1 for the three months ended September 30, 2015 and 2014, respectively, and \$2.9 for both the nine months ended September 30, 2015 and 2014. As of September 30, 2015, there was \$3.8 of total unrecognized compensation cost related to nonvested stock and nonvested stock units. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Compensation cost related to all share-based compensation arrangements capitalized in inventory was approximately \$0.6 and \$0.5 as of September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015 and December 31, 2014, our Additional paid-in capital pool ("APIC Pool"), which represents excess tax benefits available to absorb potential future tax deficiencies, was \$93.4 and \$89.6, respectively.

7. EARNINGS PER SHARE (EPS)

Basic earnings per common share excludes dilution and is computed by dividing net earnings available to common stockholders by the weighted-average number of common shares outstanding (which includes shares outstanding, less performance and nonvested 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.

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The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except net earnings in millions and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Earnings from continuing operations	\$59.5	\$53.8	\$158.2	\$172.1
(Loss) earnings from discontinued operations, net of tax	—	(0.2)	(1.5)	11.0
Net earnings	\$59.5	\$53.6	\$156.7	\$183.1
Denominator:				
Weighted average shares outstanding	72,098	72,498	71,966	72,234
Effect of dilutive shares:				
Options and stock-settled SARS	1,143	984	1,007	1,058
Nonvested shares and units	167	185	162	208
Diluted average shares outstanding	73,408	73,667	73,135	73,500
Basic earnings (loss) per common share:				
Earnings from continuing operations	\$0.83	\$0.74	\$2.20	\$2.38
(Loss) earnings from discontinued operations	—	—	(0.02)	0.15
Net earnings per common share	\$0.83	\$0.74	\$2.18	\$2.53
Diluted earnings (loss) per common share:				
Earnings from continuing operations	\$0.81	\$0.73	\$2.16	\$2.34
(Loss) earnings from discontinued operations	—	—	(0.02)	0.15
Net earnings per common share	\$0.81	\$0.73	\$2.14	\$2.49

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

	Nine Months Ended September 30,	
	2015	2014
Options	6	232
Stock-settled SARS	—	—
Nonvested shares and units	—	—
Total	6	232

8. INVENTORIES

Inventories consisted of the following:

	September 30, 2015	December 31, 2014
Finished goods	\$199.4	\$204.1
Work in progress	17.1	10.8
Raw materials and supplies	92.9	92.7
Total inventories	\$309.4	\$307.6

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9. DEBT

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

	September 30, 2015		December 31, 2014	
	Face	Carrying Value	Face	Carrying Value
Five-year revolving credit line due June 2019	\$—	\$—	\$—	\$—
8.95% notes due July 1, 2017	82.3	82.2	82.3	82.2
3.5% notes due April 1, 2023	400.0	397.9	400.0	397.7
3.95% notes due May 1, 2025	250.0	249.9	250.0	249.9
Other	14.9	11.6	17.4	13.1
Total debt	\$747.2	\$741.6	\$749.7	\$742.9
Less: current maturities	(1.5)	(1.5)	(1.4)	(1.2)
Long-term debt	\$745.7	\$740.1	\$748.3	\$741.7

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.

Debt issuances and repurchases

On November 12, 2014, we issued \$250.0 aggregate principal amount of 3.95% senior unsecured notes due May 1, 2025 (“3.95% notes”), which resulted in \$248.3 in net proceeds after original issue discount and underwriting fees. In addition, on November 5, 2014, we commenced offers to purchase our 6.0% notes due October 1, 2015 (“6.0% notes”) and a portion of our 8.95% notes due July 1, 2017 (“8.95% notes”). In November 2014, we applied the net proceeds from the issuance of the 3.95% notes to repurchase \$17.8 principal amount of our 6.0% notes for a purchase price of \$18.7 plus accrued interest of \$0.1. In December 2014, we applied the balance of the net proceeds as follows: (1) to repurchase \$124.0 principal amount of our 6.0% notes for a purchase price of \$129.6 plus accrued interest of \$1.3; and (2) to repurchase \$82.0 principal amount of our 8.95% notes for a purchase price of \$97.8 plus accrued interest of \$3.1. The repurchase of the 6.0% and 8.95% notes resulted in a loss of \$22.7 in 2014, including transaction costs.

Revolving Credit Facility

At September 30, 2015, there were no borrowings outstanding under the Revolving Credit Facility (the “Facility”), and \$400.0 was available for borrowing under the Facility. We are required to comply with certain customary financial covenants under the Revolving Credit Facility: (i) the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”); and (ii) the ratio of consolidated EBITDA to consolidated interest expense. We are in compliance with these covenants and expect to be in compliance through the effective time of the merger with Solvay, which is discussed further in Note 2.

Fair value

At September 30, 2015 and December 31, 2014, the fair value of our debt was \$738.5 and \$761.5, respectively. The fair value of our debt is based on Level 2 inputs, as defined in Note 16. These inputs include 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.

Interest

The weighted-average interest rate on all of our debt was 4.36% and 5.37% as of September 30, 2015 and 2014, respectively. We had no short-term borrowings outstanding at September 30, 2015 and December 31, 2014.

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10. ENVIRONMENTAL, CONTINGENCIES AND COMMITMENTS

Environmental Matters

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

As of September 30, 2015 and December 31, 2014, the aggregate environmental related accruals were \$58.0 and \$59.5, respectively, of which \$9.5 was included in Accrued expenses for both periods, with the remainder of \$48.5 and \$50.0 included in Other noncurrent liabilities as of September 30, 2015 and December 31, 2014, respectively. Environmental remediation spending for the three months ended September 30, 2015 and 2014 was \$1.6 and \$1.7, respectively, and \$4.0 and \$3.9 for the nine months ended September 30, 2015 and 2014, respectively.

We review our environmental remediation accruals quarterly, and adjust our environmental related accruals as needed based on new information. During the nine months ended September 30, 2015, our adjustments resulted in a net increase of \$3.6 in our environmental related accruals, consisting of an increase of \$1.3 related primarily to an inactive U.S. site, for a detailed alternative analysis and feasibility study as required by the EPA as well as future remedial activities, and a net increase of \$2.3 related to several other sites.

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.

Piles Creek

We were notified by the National Oceanic and Atmospheric Administration (“NOAA”), a federal natural resource trustee, that, after an environmental assessment, we are one of six parties potentially responsible for damages to natural resources in Piles Creek, a tidal influenced tributary partially running through an industrial area in Linden, New Jersey. A portion of Piles Creek runs adjacent to the Company’s previously closed landfill in Linden, New Jersey. NOAA further advised that it seeks compensation from the six potentially responsible parties in the form of restoring other tidal wetlands. Thus far, no legal action has been taken by NOAA and the Company is investigating its contribution, if any, to this matter. Accordingly, no loss contingency has been recorded.

A further discussion of environmental matters can be found in Note 12 of Notes to Consolidated Financial Statements contained in our 2014 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 and personal injury, including asbestos, environmental, contractual, employment and intellectual property matters.

As of September 30, 2015 and December 31, 2014, the aggregate self-insured and insured contingent liability was \$44.0 and \$45.9, respectively, and the related insurance recovery receivable for the liability as well as claims for past payments was \$20.3 and \$19.7, respectively. The asbestos liability included in the above amounts at September 30, 2015 and December 31, 2014 was \$33.9 and \$36.5, respectively, and the insurance receivable related to the liability as well as claims for past payments was \$20.0 and \$19.3, respectively. We anticipate receiving a net tax benefit for payment of those claims for which full insurance recovery is not realized.

Asbestos

We, like many other industrial companies, have been named as one of hundreds of defendants in a number of lawsuits filed in the U.S. by persons alleging bodily injury from asbestos. The claimants allege exposure to asbestos at facilities that we own or formerly owned, or from products that we formerly manufactured for specialized applications. Many of these cases involve numerous defendants. 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.

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

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
Number of claimants at beginning of period	5,200	8,100
Number of claimants associated with claims closed during period	(100	) (3,000
Number of claimants associated with claims opened during period	100	100
Number of claimants at end of period	5,200	5,200

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. In 2014, by virtue of a new Texas law, which amended the Texas Civil Code, the Texas courts commenced dismissing dormant asbestos cases without prejudice to re-filing by plaintiffs. In the fourth quarter of 2014, the Texas courts dismissed almost 3,000 claimants with claims against us. We expect additional dismissals in late 2015 and early 2016.

Our asbestos related contingent liabilities and related insurance receivables are based on an actuarial study performed by a third party, which is updated every three years. During the third quarter of 2015, we completed an actuarial study of our asbestos related contingent liabilities and related insurance receivables, which updated our last study completed in the third quarter of 2012. The study is based on, among other things, the incidence and nature of historical claims data through June 30, 2015, 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. The study assumes liabilities through 2044. As a result of our findings, we recorded a decrease of \$0.4 to our self-insured and insured contingent liabilities for indemnity costs for pending and anticipated probable future claims and recorded an increase of \$2.1 related to receivables for probable insurance recoveries for these pending and future claims. The increase in the receivables primarily results from a shift in the types of expected future claims that have more available insurance. Overall, we expect to recover approximately 52% of our future indemnity costs. We have completed

Coverage-In-Place-Agreements with most of our larger insurance carriers.

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 20 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 architectural paint. Eight lead ingestion personal injury 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 others, we prevailed in court or were dismissed as a defendant.

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

In July 2005, in a case in which we were one of several defendants, the Supreme Court of Wisconsin held that Wisconsin's risk contribution doctrine applies to bodily injury cases against manufacturers of white lead pigment.

Under this doctrine, manufacturers of white lead pigment may be liable for injuries caused by white lead pigment based on their past market shares, unless they can prove they are not responsible for the white lead pigment which caused the injury in question. Seven of the eight personal injury cases, including the personal injury case consisting of 164 plaintiffs, were filed before January 2011, when the Wisconsin legislature passed legislation that will make it substantially more difficult to bring lead suits in the future,

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including a 25 year statute of repose. In June 2013, the Governor of Wisconsin signed into law the biennial budget, which contained within it a provision that retroactively applies the 2011 law to all claims of lead poisoning whether filed or accrued.

The defendants, including the Company, moved to dismiss the personal injury lead cases pending in Wisconsin state court pursuant to the new law. By a decision dated March 2014 in the Wisconsin state court case styled Clark et al. v. American Cyanamid Company et al., the court denied the defendants motion holding unconstitutional the retroactive application of the new law. The defendants, including the Company, petitioned for leave to appeal the trial court's decision. The petition for leave was granted by the Wisconsin Appellate Division. By order dated October 2015, the Wisconsin Appellate Division certified the issue to the Wisconsin Supreme Court.

Also, in 2010, the United States District Court for the Eastern District of Wisconsin held that the risk contribution theory imposed by the Wisconsin Supreme Court for lead pigment violates the due process clause set forth in the 14th Amendment to the United States Constitution. The Court's decision was appealed to the United States Circuit Court of Appeals for the Seventh Circuit. The Seventh Circuit Court of Appeals also requested that the parties brief the constitutionality of the new retroactivity provision in the biennial budget. In the third quarter of 2014, the United States Court of Appeals for the Seventh Circuit reversed the trial court's dismissal and held that the risk contribution theory imposed by the Wisconsin Supreme Court for lead pigment is permissible under the United States Constitution. The Court also held that the retroactivity provision of Wisconsin State 845.046 is unconstitutional as it effects a vested right. As a result of the Seventh Circuit's decision, the lead ingestion cases venued in the United States District Court of Wisconsin will proceed. The defendants, including the Company, have moved to dismiss the federal cases for lack of personal jurisdiction. By order dated October 2015, the district court denied the Company's motion to dismiss. Finally, in July 2009, the Wisconsin Supreme Court, in the case styled Ruben Godoy et al v. E.I. DuPont de Nemours et al., upheld a lower court's decision dismissing the plaintiff's strict liability and negligent defect causes of action for white lead carbonate. The decision in these cases, the new statutory law in Wisconsin, and our non-existent or diminutive market share, reinforces our belief that we have no liability in any of the eight Wisconsin cases, and accordingly, we have not recorded a loss contingency.

Stockholder Litigation

On September 17, 2015, an alleged stockholder of Cytec filed a complaint related to the merger in the Superior Court of New Jersey, Passaic County on behalf of a putative class of the Company's stockholders. The lawsuit, captioned Levy v. Cytec Industries Inc., et al., names as defendants the Company, its directors, Solvay and Merger Subsidiary. The Levy complaint generally alleges that our directors breached their fiduciary duties by, among other things, conducting a flawed sales process and approving the merger agreement at an inadequate price, agreeing to a transaction through which the individual defendants will receive certain change of control benefits, and by disseminating a preliminary proxy statement in connection with the merger that is allegedly inaccurate or misleading in various respects. The complaint further alleges that these supposed breaches of duty were aided and abetted by Solvay and Merger Subsidiary. The complaint generally seeks, among other things, compensatory and/or rescissory damages and an award of attorneys' fees. On October 13, 2015, the Cytec defendants filed a motion to dismiss this action. We believe that the claims asserted in the litigation have no merit.

On October 6, 2015, the first of two putative class actions related to the merger was filed by an alleged stockholder of the Company in the United States District Court, District of Delaware. The first lawsuit, captioned Lagarde v. Cytec Industries Inc., names as defendants the Company and its directors, and the second lawsuit, filed on October 21, 2015 and captioned Andersen v. Cytec Industries Inc. et al., names as defendants the Company, its directors, Solvay and Merger Subsidiary. The two Delaware complaints generally allege that our directors made, and exercised control over other persons who also made, untrue statements of fact and omitted to state material facts necessary to make the statements made not misleading in the preliminary proxy statement relating to the merger, supposedly in violation of Sections 14(a) and 20(a) of the Securities and Exchange Act of 1934, 15 U.S.C. §§ 78-n(a) & 78t(a). The Andersen complaint also includes claims that the Company's directors breached their fiduciary duties by, among other things, agreeing to the merger at an inadequate price and following an insufficient sale process, and by making allegedly

inadequate or incomplete disclosures relating to the merger in the preliminary proxy statement, and that the Company, Solvay and Merger Subsidiary aided and abetted those purported breaches of duty. The complaints generally seek, among other things, equitable relief to enjoin Cytec and Solvay from consummating the merger, damages and an award of attorneys' fees. The defendants have not yet answered or otherwise responded to the complaints. The defendants believe that the claims asserted in the litigation have no merit.

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To date, we have no accrued amounts related to these lawsuits. See Note 2 for additional information related to the Merger with Solvay.

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 12 of Notes to Consolidated Financial Statements contained in our 2014 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, 2014 are set forth in Note 12 of Notes to Consolidated Financial Statements contained in our 2014 Annual Report on Form 10-K.

11. COMPREHENSIVE INCOME

The components of comprehensive income, which represents the change in equity from non-owner sources, for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net earnings	\$59.5	\$53.6	\$156.7	\$183.1
Other comprehensive (loss) income:				
Accumulated pension liability, net of tax	(0.5)	(0.4)	(1.3)	(1.3)
Foreign currency translation adjustments	(28.3)	(51.1)	(65.9)	(47.7)
Comprehensive income	\$30.7	\$2.1	\$89.5	\$134.1

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The following tables present changes in accumulated other comprehensive income (“AOCI”) by component for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015			2014		
	Accumulated Pension Liabilities	Cumulative Translation Adjustments	Total	Accumulated Pension Liabilities	Cumulative Translation Adjustments	Total
Balance, beginning of period	\$5.5	\$ (30.8)	\$ (25.3)	\$7.7	\$90.5	\$98.2
Other comprehensive income before reclassifications	—	(28.3)	(28.3)	—	(51.1)	(51.1)
Amounts reclassified from AOCI	(0.5)	—	(0.5)	(0.4)	—	(0.4)
Net current period OCI	(0.5)	(28.3)	(28.8)	(0.4)	(51.1)	(51.5)
Balance, end of period	\$5.0	\$ (59.1)	\$ (54.1)	\$7.3	\$39.4	\$46.7
	Nine Months Ended September 30, 2015			2014		
	Accumulated Pension Liabilities	Cumulative Translation Adjustments	Total	Accumulated Pension Liabilities	Cumulative Translation Adjustments	Total
Balance, beginning of period	\$6.3	\$6.8	\$13.1	\$8.6	\$87.1	\$95.7
Other comprehensive income before reclassifications	—	(65.9)	(65.9)	—	(47.7)	(47.7)
Amounts reclassified from AOCI	(1.3)	—	(1.3)	(1.3)	—	(1.3)
Net current period OCI	(1.3)	(65.9)	(67.2)	(1.3)	(47.7)	(49.0)
Balance, end of period	\$5.0	\$ (59.1)	\$ (54.1)	\$7.3	\$39.4	\$46.7

The following table presents a summary of reclassification adjustments out of AOCI for the three and nine months ended September 30, 2015 and 2014:

Details of AOCI component	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item in the Consolidated Statements of Income
	2015	2014	2015	2014	
Pension related adjustments:					
Amortization of prior service costs (credits)	\$(0.8)	\$(0.7)	\$(2.1)	\$(2.1)	(1)
	(0.8)	(0.7)	(2.1)	(2.1)	Total before tax
	0.3	0.3	0.8	0.8	Tax expense
Total pension reclassifications	\$(0.5)	\$(0.4)	\$(1.3)	\$(1.3)	Net of tax

These AOCI components are included in the computation of net periodic pension cost, and allocated to various line (1) items on the consolidated statements of income, primarily manufacturing cost of sales. See Note 17 - Employee Benefit Plans for additional information on net periodic pension cost.

12. INCOME TAXES

The effective tax rate for continuing operations for the three and nine months ended September 30, 2015 was a tax provision of 24.4%, or \$19.2, and 26.7%, or \$57.6, respectively, compared to a tax provision of 31.2%, or \$24.4, and 29.0%, or \$70.2, respectively for the three and nine months ended September 30, 2014. The effective tax rate for the three months ended September 30, 2015 was favorably impacted primarily by a net tax benefit of \$5.0 attributable to the closure of the federal tax examination in the U.S. The effective tax rate for the nine months ended September 30, 2015 was favorably impacted by a net tax benefit of \$6.7, consisting of \$7.4 of adjustments to the unrecognized tax positions due to the closure of the U.S. federal tax examination, a statute lapse in non-U.S. jurisdictions, and changes in tax rates for U.S. and certain international operations, partially offset by \$0.7 of valuation allowance charges.

As of September 30, 2015, the amount of gross unrecognized tax benefits for continuing operations is \$6.2, excluding interest, of which \$5.8 would impact our effective tax rate, if recognized. The amount of gross unrecognized tax benefits at

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December 31, 2014 for continuing operations was \$10.0, excluding interest, of which \$9.6 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 and penalties (gross) for continuing operations, of approximately \$1.2 as of December 31, 2014. Activity for the nine months ended September 30, 2015 included a \$0.1 increase for additional accruals, which were offset by a \$0.6 decrease due to the closure of the federal tax examination in the U.S., along with a statute lapse in the non-U.S. jurisdictions, and foreign exchange, thus resulting in a liability for the payment of interest of \$0.7 as of September 30, 2015.

13. OTHER FINANCIAL INFORMATION**Dividends**

On July 16, 2015, the Board of Directors declared a \$0.125 per common share cash dividend, payable on August 25, 2015 to shareholders of record as of August 10, 2015. Cash dividends paid in both the third quarter of 2015 and 2014 were \$9.0, and for the nine months ended September 30, 2015 and 2014 were \$26.8 and \$17.9, respectively. On October 15, 2015, the Board of Directors declared a \$0.125 per common share cash dividend, payable on November 25, 2015 to shareholders of record as of November 10, 2015, as is permitted under the Merger Agreement with Solvay. See Note 2 for additional information related to the Merger with Solvay.

Income taxes paid

Income taxes paid for the nine months ended September 30, 2015 and 2014 were \$54.4 and \$51.7, respectively.

Interest

Interest paid for the nine months ended September 30, 2015 and 2014 was \$19.0 and \$26.0, respectively. Interest income for the nine months ended September 30, 2015 and 2014 was \$0.8 and \$0.4, respectively.

14. SEGMENT INFORMATION

Summarized segment information for our four continuing segments for the three and nine months ended September 30, 2015 and 2014 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Net sales:	2015	2014	2015	2014
Aerospace Materials				
Sales to external customers	\$261.5	\$250.8	\$785.6	\$756.7
Intersegment sales	0.1	0.7	0.2	0.8
Industrial Materials	63.8	80.3	206.1	250.0
In Process Separation	106.3	108.2	323.2	308.3
Additive Technologies	65.7	67.5	205.6	208.0
Net sales from segments	497.4	507.5	1,520.7	1,523.8
Elimination of intersegment revenue	(0.1) (0.7) (0.2) (0.8
Total consolidated net sales	\$497.3	\$506.8	\$1,520.5	\$1,523.0

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Earnings from operations:	Three Months Ended September 30,					Nine Months Ended September 30,						
	2015	% of Sales		2014	% of Sales		2015	% of Sales		2014	% of Sales	
Aerospace Materials	\$54.8	21	%	\$45.7	18	%	\$153.6	20	%	\$136.4	18	%
Industrial Materials	1.2	2	%	6.8	9	%	11.7	6	%	24.7	10	%
In Process Separation	30.8	29	%	27.1	25	%	92.1	28	%	74.8	24	%
Additive Technologies	10.8	16	%	8.4	12	%	29.5	14	%	26.7	13	%
Earnings from segments	97.6	20	%	88.0	17	%	286.9	19	%	262.6	17	%
Corporate and Unallocated, net ⁽¹⁾	(13.4)			(5.1)			(56.5)			(8.8)		
Total earnings from operations	\$84.2	17	%	\$82.9	16	%	\$230.4	15	%	\$253.8	17	%

For the three and nine months ended September 30, 2015, Corporate and Unallocated, net includes restructuring charges of \$2.8 and \$6.5, respectively, which are detailed further in Note 5, and charges of \$4.5 related to the merger with Solvay, which is discussed further in Note 2. For the nine months ended September 30, 2015, Corporate and Unallocated, net includes charges of \$15.8 for net mark-to-market (“MTM”) adjustments of our pension and postretirement benefit plans representing the impact of inventory capitalization related to the fourth (1) quarter 2014 MTM adjustment, and costs of \$11.3, in connection with a lockout of employees at one of our plants. For both the three and nine months ended September 30, 2014, Corporate and Unallocated, net includes costs of \$0.6 in connection with a lockout of employees at one of our plants. For the nine months ended September 30, 2014, it includes benefits of \$6.2 for MTM adjustments of our pension and postretirement benefit plans representing the impact of inventory capitalization related to the fourth quarter 2013 MTM adjustment, and restructuring charges of \$0.4 related to prior year initiatives.

15. GOODWILL AND OTHER ACQUISITION INTANGIBLES

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

	Aerospace Materials	Industrial Materials	In Process Separation	Additive Technologies	Total
Balance at December 31, 2014	\$233.7	\$182.2	\$65.1	\$27.8	\$508.8
2015 Activity:					
Foreign currency translation adjustments	(2.4)	(1.9)	(2.5)	—	(6.8)
Balance at September 30, 2015	\$231.3	\$180.3	\$62.6	\$27.8	\$502.0

Other acquisition intangibles consisted of the following major classes:

	Weighted Average Useful Life (Years)	Gross Carrying Value		Accumulated Amortization		Net Carrying Value	
		September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Technology-based	14.3	\$46.1	\$47.3	\$(28.5)	\$(26.6)	\$17.6	\$20.7
Marketing-related	10.2	13.7	13.8	(8.4)	(7.6)	5.3	6.2
Customer-related	15.8	149.0	151.3	(43.2)	(36.6)	105.8	114.7
Total		\$208.8	\$212.4	\$(80.1)	\$(70.8)	\$128.7	\$141.6

Amortization of acquisition intangibles for the three months ended September 30, 2015 and 2014 was \$3.4 and \$3.6, respectively, and for the nine months ended September 30, 2015 and 2014 was \$10.3 and \$10.9, respectively.

Assuming no change in the gross carrying amount of acquisition intangibles and the September 30, 2015 currency exchange rates remain constant, the estimated annual future amortization expense for 2015 and the next five years are as follows:

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	2015	2016	2017	2018	2019	2020
Intangibles amortization expense	\$13.7	\$13.5	\$12.1	\$10.6	\$9.8	\$9.4

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16. DERIVATIVE FINANCIAL INSTRUMENTS AND CERTAIN 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, 2015, the principal transactions hedged involved accounts receivable and accounts payable. 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. These forward contracts are not defined as hedging instruments and therefore, all changes in fair values are reported in Other expense, net.

At September 30, 2015, net contractual notional amounts of forward contracts outstanding translated into U.S. dollars (“USD”) totaled \$259.2. Of this total, \$176.1 was attributed to the exposure in forward selling/purchase of USD, and \$83.1 was attributable to the exposure in forward selling/purchase of Euros translated into USD equivalent amounts. The net unfavorable fair values of currency contracts, based on forward exchange rates at September 30, 2015 and December 31, 2014 were \$0.3 and \$6.1, respectively.

Credit risk

At September 30, 2015, 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, 2015, we did not have any significant concentration of credit risk arising from our derivative instruments.

The following table summarizes the impact of derivative instruments on our consolidated balance sheets:

Derivatives not designated as hedging instruments:	Asset Derivatives				Liability Derivatives			
	September 30, 2015		December 31, 2014		September 30, 2015		December 31, 2014	
Location	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
Foreign currency forwards	Other current assets	\$2.5	Other current assets	\$0.6	Accrued expenses	\$2.8	Accrued expenses	\$6.7

The following table summarizes the amount and location of gains or (losses) recognized in income for our derivatives not designated as hedges for the three and nine months ended September 30, 2015 and 2014:

Derivatives not designated as hedging instruments:	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		Three Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Foreign currency forwards	Other expense, net	\$(0.5)	\$(16.7)

Fair Value Measurements

We have certain assets and liabilities that are carried at fair value on a recurring basis in the financial statements, for which 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 currency forwards are valued based on readily available published indices for commodity prices and currency exchange rates.

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The net fair value of our foreign currency forward contracts, based on Level 2 inputs, at September 30, 2015 was approximately \$0.3 unfavorable.

As of September 30, 2015, we did not have any non-financial assets and liabilities that are carried at fair value on a recurring basis in the consolidated financial statements or for which a fair value measurement was required for the nine months ended September 30, 2015. 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 7 of Notes to Consolidated Financial Statements contained in our 2014 Annual Report on Form 10-K.

17. EMPLOYEE BENEFIT PLANS

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

Three Months Ended September 30,	Pension Plans		Postretirement Plans		
	2015	2014	2015	2014	
Service cost	\$0.5	\$0.9	\$0.2	\$0.3	
Interest cost	8.2	10.9	2.0	2.0	
Expected return on plan assets	(10.7	) (12.7	) (0.3	) (0.3)
Net amortization					