

CYTEC INDUSTRIES INC/DE/

Form 10-Q

April 24, 2012

[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 March 31, 2012

Commission file number 1-12372

**CYTEC INDUSTRIES INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction)

22-3268660  
(I.R.S. Employer)

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

of incorporation or organization)

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):

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 45,986,146 shares of common stock outstanding at April 13, 2012.

---

**Table of Contents**

**CYTEC INDUSTRIES INC. AND SUBSIDIARIES**

**10-Q Table of Contents**

	Page
<b><u>Part I – Financial Information</u></b>	
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>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	31
<b><u>Part II – Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	32
Item 6. <u>Exhibits</u>	32
<u>Signature</u>	33
<u>Exhibit Index</u>	34

**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)**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net sales	\$ 783.3	\$ 766.0
Manufacturing cost of sales	572.7	585.6
Selling and technical services	55.4	54.7
Research and process development	20.0	19.2
Administrative and general	39.5	32.3
Amortization of acquisition intangibles	9.4	9.5
Gain on sale of assets	0.0	3.3
Earnings from operations	86.3	68.0
Other income (expense), net	1.5	(4.0)
Net loss on early extinguishment of debt	0.0	0.1
Equity in earnings of associated companies	0.2	0.6
Interest expense, net	8.7	9.2
Earnings from continuing operations before income taxes	79.3	55.3
Income tax provision	25.7	15.0
Earnings from continuing operations	53.6	40.3
Earnings from operations of discontinued business, net of tax	0.0	6.8
Gain on sale of discontinued operations, net of tax	0.0	36.8
Earnings from discontinued operations, net of tax	0.0	43.6
Net earnings	53.6	83.9
Less: Net earnings attributable to noncontrolling interests	(0.5)	(0.7)
Net earnings attributable to Cytec Industries Inc.	\$ 53.1	\$ 83.2
Comprehensive income	\$ 88.5	\$ 137.5
Less: Comprehensive income attributable to noncontrolling interest	(0.2)	(0.7)
Comprehensive income attributable to Cytec Industries Inc.	\$ 88.3	\$ 136.8
Earnings per share attributable to Cytec Industries Inc.		
Basic earnings per common share		
Continuing operations	\$ 1.16	\$ 0.80
Discontinued operations	0.00	0.88

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

	\$ 1.16	\$ 1.68
Diluted earnings per common share		
Continuing operations	\$ 1.14	\$ 0.79
Discontinued operations	0.00	0.87
	\$ 1.14	\$ 1.66
Dividends per common share	\$ 0.1250	\$ 0.1250
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)**

	March 31, 2012	December 31, 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 419.7	\$ 415.8
Trade accounts receivable, less allowance for doubtful accounts of \$5.0 and \$5.0 in 2012 and 2011, respectively	466.9	396.6
Other accounts receivable	42.4	42.5
Inventories	427.6	374.3
Deferred income taxes	40.0	39.4
Other current assets	28.1	19.2
<b>Total current assets</b>	<b>1,424.7</b>	<b>1,287.8</b>
Investment in associated companies	19.9	19.2
Plants, equipment and facilities, at cost	1,982.7	1,939.2
Less: accumulated depreciation	(858.0)	(824.7)
<b>Net plant investment</b>	<b>1,124.7</b>	<b>1,114.5</b>
Acquisition intangibles, net of accumulated amortization of \$293.2 and \$278.8 in 2012 and 2011, respectively	300.9	303.4
Goodwill	710.8	675.7
Deferred income taxes	20.9	26.6
Other assets	114.0	109.5
<b>Total assets</b>	<b>\$ 3,715.9</b>	<b>\$ 3,536.7</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 359.0	\$ 281.6
Short-term borrowings	8.0	3.5
Accrued expenses	201.7	214.2
Income taxes payable	28.2	20.8
Deferred income taxes	2.1	1.8
<b>Total current liabilities</b>	<b>599.0</b>	<b>521.9</b>
Long-term debt	637.9	635.9
Pension and other postretirement benefit liabilities	329.1	337.4
Other noncurrent liabilities	282.7	271.1
Deferred income taxes	75.1	77.1
<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 49,590,043 in 2012 and 49,586,198 in 2011	0.5	0.5

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

Additional paid-in capital	459.6	461.2
Retained earnings	1,523.7	1,476.4
Accumulated other comprehensive loss	(31.2)	(66.5)
Treasury stock, at cost, 3,632,226 shares in 2012 and 4,077,360 shares in 2011	(164.4)	(185.0)
Total Cytec Industries Inc. stockholders' equity	1,788.2	1,686.6
Noncontrolling interests	3.9	6.7
Total equity	1,792.1	1,693.3
Total liabilities and stockholders' equity	\$ 3,715.9	\$ 3,536.7

See accompanying Notes to Consolidated Financial Statements

**Table of Contents**

**CYTEC INDUSTRIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Dollars in millions)

Three months ended March 31,	2012	2011
Cash flows provided by (used in) operating activities		
Net earnings	\$ 53.6	\$ 83.9
Earnings from discontinued operations	0.0	(43.6)
Earnings from continuing operations	53.6	40.3
Noncash items included in earnings from continuing operations:		
Depreciation	26.2	23.2
Amortization	11.0	11.3
Share-based compensation	3.2	3.9
Deferred income taxes	1.3	2.8
Gain on sale of assets	0.0	(3.3)
Loss on early extinguishment of debt	0.0	0.1
Unrealized gain on derivative instruments	(3.7)	(4.2)
Other	(0.2)	(0.6)
Changes in operating assets and liabilities (excluding effects of acquisition and divestitures):		
Trade accounts receivable	(61.3)	(59.6)
Other receivables	(3.1)	(3.7)
Inventories	(46.3)	(49.4)
Other assets	(8.0)	(2.3)
Accounts payable	74.0	114.6
Accrued expenses	(20.6)	(39.1)
Income taxes payable	9.0	4.5
Other liabilities	(2.8)	(17.0)
Net cash provided by operating activities of continuing operations	32.3	21.5
Net cash provided by operating activities of discontinued operations	0.0	5.0
<b>Net cash provided by operating activities</b>	<b>32.3</b>	<b>26.5</b>
Cash flows (used in) provided by investing activities:		
Additions to plants, equipment and facilities	(23.6)	(26.4)
Acquisition of business, net of cash received	(28.6)	
Net proceeds received on sale of assets	2.7	3.4
Net cash used in investing activities of continuing operations	(49.5)	(23.0)
Net cash provided by investing activities of discontinued operations	0.0	156.5
<b>Net cash (used in) provided by investing activities</b>	<b>(49.5)</b>	<b>133.5</b>
Cash flows provided by (used in) financing activities:		
Proceeds from long-term debt	2.0	0.0
Payments on long-term debt	0.0	(1.8)
Change in short-term borrowings, net	4.5	0.3



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

Cash dividends paid	(8.7)	(9.0)
Proceeds from the exercise of stock options	13.4	3.3
Purchase of treasury stock	0.0	(23.8)
Excess tax benefits from share-based payment arrangements	2.3	0.4
Other	(0.3)	0.0
<b>Net cash provided by (used in) financing activities</b>	<b>13.2</b>	<b>(30.6)</b>
Effect of currency rate changes on cash and cash equivalents	7.9	9.3
<b>Increase in cash and cash equivalents</b>	<b>3.9</b>	<b>138.7</b>
Cash and cash equivalents, beginning of period	415.8	383.3
<b>Cash and cash equivalents, end of period</b>	<b>\$ 419.7</b>	<b>\$ 522.0</b>

See accompanying Notes to Consolidated Financial Statements

---

**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 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 2011 Annual Report on Form 10-K, as updated by the Current Report on Form 8-K filed with the SEC on April 19, 2012, related to the Company's changes in reportable segments. All amounts reported in these financial statements are presented according to the realigned reportable segments, as described in Note 15. Unless indicated otherwise, the terms Company, Cytec, we, us and our each refer collectively to Cytec Industries Inc. and its subsidiaries.

**2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-04. The amendments in this ASU generally represent clarifications of fair value measurement, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements. On January 1, 2012, we adopted these amendments on a prospective basis and there was no impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, which requires entities to present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements of net income and other comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was subsequently amended by ASU No. 2011-12, which deferred the requirement for companies to present reclassification adjustments for each component of accumulated other comprehensive income in both other comprehensive income and net income on the face of the financial statements. On January 1, 2012, we adopted the effective portions of ASU No. 2011-05, which are reflected in these financial statements.

**3. CHANGE IN DEPRECIATION METHOD**

Effective January 1, 2012, we changed our method of depreciation for the majority of our North American fixed assets from straight line composite depreciation to straight line by individual asset.

Historically, we have used the composite depreciation method for the Property, Plant and Equipment at the majority of our North American facilities. Under this method, all similar assets across these locations were combined into common pools and depreciated under composite depreciation rates. Recent business divestitures and sales of assets had significantly reduced our composite asset base, and during 2011, we performed a full physical inventory of fixed assets at our composite locations. As part of this analysis, where appropriate, we made changes to certain asset records in our fixed assets system effective January 1, 2012 to segregate individual assets that had been installed together and had previously been combined into one item. We also reviewed the estimated useful lives of our assets at this more specific level.

We believe that the straight line depreciation method for individual assets is preferable to the composite method because it is a more precise method of allocating historical cost and will result in a consistent depreciation policy for all of our locations.

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

As a result, the useful lives of our assets are now generally estimated to range from 5 to 30 years for equipment and from 10 to 38 years for buildings. This change in the method of depreciation is considered a change in accounting estimate inseparable from a change in accounting principle, and will result in changes to our depreciation expense prospectively.

For the three months ended March 31, 2012, the changes described above resulted in an increase over our historical depreciation expense of approximately \$1.4 before taxes, or approximately \$0.9 after taxes, which represents a decrease of \$0.02 to

**Table of Contents**

our basic and diluted earnings per share for the period.

**4. ACQUISITIONS*****Acquisition of manufacturing assets of Star Orechem International Private Limited***

On March 30, 2012, we acquired the manufacturing assets of Star Orechem International Private Limited (SOIL), in Nagpur, Central India, in a cash transaction for a total 1,848.2 Indian Rupees, or \$36.1 at the March 30, 2012 exchange rate. The amount is subject to normal and customary adjustments. The acquisition will increase our global capacity for our Metal Extraction Product line of our In-Process Separation segment by approximately 25%, and provides the ability to further expand production at the site. The results of operations of the acquired business will be included in our In-Process Separation segment in future periods. The acquisition was funded from our existing cash on hand and has been accounted for as an acquisition of a business.

We have preliminarily allocated the purchase price to the following separately identifiable assets acquired and liabilities assumed as of March 30, 2012:

<b>(In millions)</b>	
Inventories	\$ 2.0
Other current assets	1.0
Plants, equipment and facility	6.0
Identifiable intangibles	1.2
Goodwill	26.8
Other, net	(0.9)
<b>Total purchase price</b>	<b>\$ 36.1</b>

The preliminary goodwill recognized is largely attributable to the capacity and potential for future strategic growth. None of the goodwill recognized is expected to be deductible for income tax purposes. Approximately \$7.5 of the purchase price was withheld at closing, to be paid upon achievement of certain capacity expansion milestones, resulting in net cash paid in the first quarter of 2012 of \$28.6.

The preliminary amount allocated to Intangibles represents the fair value of non-compete agreements, which were determined based on an independent appraisal. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 fair value measurement.

There were no revenues or earnings included in our consolidated statement of income for the three months ending March 31, 2012.

**5. DISCONTINUED OPERATIONS AND OTHER DIVESTITURES*****Discontinued operations***

On February 28, 2011, we completed the sale of substantially all of the assets and certain liabilities of our Building Block Chemicals business (the Business) to Cornerstone Chemical Company, an affiliate of HIG Capital, LLC (the Purchaser), pursuant to an Asset Purchase Agreement (the Agreement) dated January 28, 2011, between the Company and the Purchaser. The total consideration received initially from the sale was \$175.7, including cash consideration of \$160.7 that we received at closing and a promissory note for \$15.0, due in six years and bearing interest at 7.0% annually. A cash payment of \$6.6 was made to the Purchaser in July 2011 as final settlement of the agreed working capital transferred, resulting in net realized consideration of \$169.1. The assets sold include our Fortier plant located in Westwego, Louisiana, personal property, inventory, accounts receivable, contract rights and certain other assets that are used in or relate to the Business, all as further specified in the Agreement. Liabilities assumed by the Purchaser include accounts payable, contract liabilities, and certain environmental and product liabilities, and certain other liabilities that relate to the Business and are as specified in the Agreement. Certain liabilities relating to the Business were retained by us, including certain environmental, pension and post-retirement healthcare liabilities. For the three months ended March 31, 2011, we recorded an after-tax gain on the sale of \$36.8, which is included in Gain on sale of discontinued operations, net of tax in the accompanying consolidated statements of income. The gain on sale was adjusted later in 2011 to \$34.6 for the final working capital adjustment on the sale.

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

The results of operations of the former Building Block Chemicals segment are reported as discontinued operations, and are therefore excluded from both continuing operations and segment results for all periods presented.

The following table displays summarized activity in our consolidated statements of income for discontinued operations during the three months ended March 31, 2012 and 2011.

-7-

**Table of Contents**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net sales	\$ 0.0	\$ 96.2
Earnings from operations of discontinued business before income taxes	\$ 0.0	\$ 10.0
Income tax expense	0.0	(3.2)
Gain on sale of discontinued operations	0.0	58.8
Income tax expense on gain on sale	0.0	(22.0)
Earnings from discontinued operations, net of tax	\$ 0.0	\$ 43.6

*Other divestitures*

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

In the fourth quarter of 2010, we entered into an agreement to sell our site in San Fernando, Spain, to the local municipality for 13.5 (approximately \$18.0 using the exchange rate as of March 31, 2012). We ceased operations at the facilities in the first quarter of 2011, and are cleaning and preparing the site and land, which we expect to transfer to the municipality in mid-2012. We are receiving proceeds from the sale of the land in installments. The first installment of 4.0 (approximately \$5.5) was received in the fourth quarter of 2011, and the second installment of 2.1 (approximately \$2.7) was received in the first quarter of 2012. The remaining installments are expected during 2012. Any potential gain from the sale of the land will be deferred until our continuing involvement in environmental remediation is complete, projected to be in 2012.

**6. RESTRUCTURING OF OPERATIONS**

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

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Manufacturing cost of sales	\$ 1.2	\$ (0.1)
Selling and technical services	1.6	0.0
Research and process development	0.4	(0.4)
Administrative and general	0.1	(0.2)
Total	\$ 3.3	\$ (0.7)

*Details of our 2012 restructuring initiatives are as follows:*

In the first quarter of 2012, we reviewed the efficiency of our manufacturing plants in our Coatings Resins segment following reviews of their operating performance. Based on these reviews, we identified opportunities to improve operating efficiency and launched restructuring initiatives that resulted in restructuring charges of \$3.5 related to the severance of 23 positions. The remaining reserve of \$3.5 as of March 31, 2012 related to the accrual is expected to be paid by the end of 2012.

*Details of our 2011 restructuring initiatives are as follows:*

In July 2011, we approved plans to discontinue production at our leased powder polyester resins facility in Suzano, Brazil. These plans resulted in a restructuring charge of \$9.4 in 2011, of which \$1.7 related to the severance of 27 positions, \$4.0 related to asset write-offs, and \$3.7 related to decommissioning activities and lease termination costs, all of which related to our Coating Resins segment. The plant has ceased operations

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

and decommissioning is expected to be completed in the second quarter of 2012. We are also pursuing a sale of the manufacturing assets located at the facility.

In April 2011, we approved plans to realign the supporting structure of our Coating Resins segment to meet the current business needs. This plan was developed in response to continued commoditization of certain product lines as well as a lack of recovery in certain end markets, and was an outcome of our overall review regarding the cash versus the growth classification of product lines within the segment. These actions resulted in a restructuring charge of \$10.3 in 2011 related to severance for the elimination of 80

## Table of Contents

positions in the segment's commercial, technical and administrative functions, primarily in Europe.

In the first quarter of 2012, we recorded net favorable adjustments of \$0.1 related to these initiatives. The remaining reserve of \$3.2 at March 31, 2012 for the above initiatives is expected to be paid through the end of 2012.

### *Details of our 2010 restructuring initiatives are as follows:*

In the fourth quarter of 2010, we initiated restructuring actions in our Coating Resins segment at our San Fernando, Spain facility after reaching agreement for the transfer of the site to the local municipality in exchange for monetary consideration. These actions resulted in a restructuring charge of \$6.6 related to the severance of 38 positions, offset by credits of \$3.6 primarily related to the reversal of asset retirement obligations. During 2011, we recorded an additional restructuring charge of \$1.1 related to these actions.

In September 2010, we approved plans to consolidate manufacturing activities at one of our European sites included in our Coating Resins segment. These plans resulted in a restructuring charge of \$4.0 in 2010, of which \$1.5 related to the severance of nine positions, and \$2.5 related to the write-down of certain manufacturing assets. During 2011, we recorded an additional restructuring charge of \$0.2 related to these plans.

In May 2010, we approved plans to exit the production of certain phosphorus derivative products at our Mt. Pleasant, Tennessee facility. These plans resulted in a restructuring charge of \$5.5 in 2010, of which \$0.4 related to the severance of 10 positions, \$1.7 related to asset write-offs, and \$3.4 related to decommissioning activities, all of which related to our In-Process Separation segment. During 2011, we recorded an additional restructuring charge of \$1.1 related to these plans.

The remaining reserve of \$2.3 at March 31, 2012 for our 2010 restructuring initiatives is expected to be paid through the end of 2012.

### *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.

In 2009, we launched restructuring initiatives at several of our In-Process Separation, Additive Technologies, and Coating Resins manufacturing locations, which resulted in restructuring charges totaling \$71.2 of which \$41.2 was associated with severance and other employee benefits and \$30.0 was associated with asset write-downs and accelerated depreciation. The manufacturing locations impacted by these initiatives included:

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

Transfer of the manufacturing of certain liquid coating resins products from our Hamburg, Germany site to our facility in Werndorf, Austria and the consolidation or elimination of 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 elimination of manufacturing functions at the site.

Closure of our manufacturing facility in Bogota, Colombia.



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

The above manufacturing restructuring initiatives included the elimination of 374 positions. During 2010 we recorded a net favorable adjustment of \$0.9.

We launched restructuring initiatives across our Engineered Materials segment in response to inventory destocking by parts manufacturers that supply large commercial aircraft manufacturers as well as a sharper than expected decline in business and regional jet production rates. These initiatives resulted in \$3.6 of restructuring expenses for severance and employee benefits related to the elimination of 230 positions; during 2010 we recorded a net favorable adjustment of \$0.5.

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

**Table of Contents**

During 2011, we recorded net favorable adjustments of \$0.5 related to our 2009 restructuring initiatives. For the three months ended March 31, 2012, we recorded net favorable adjustments of \$0.1. All of the aforementioned initiatives were substantially complete.

The remaining reserve at March 31, 2012 of \$0.7 relating to 2009 restructuring initiatives is expected to be paid through 2014.

<b>Restructuring Initiatives:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
<b>Balance December 31, 2010</b>	<b>\$ 10.7</b>	<b>\$ 8.7</b>	<b>0.0</b>	<b>0.0</b>	<b>\$ 19.4</b>
2011 charges (credits)	(0.5)	2.4	19.7	0.0	21.6
Non-cash items	0.0	0.0	(3.8)(2)	0.0	(3.8)
Cash payments	(9.1)(1)	(8.3)	(10.4)	0.0	(27.8)
Currency translation adjustments	0.2	0.1	(1.4)	0.0	(1.1)
<b>Balance December 31, 2011</b>	<b>\$ 1.3</b>	<b>\$ 2.9</b>	<b>\$ 4.1</b>	<b>\$ 0.0</b>	<b>\$ 8.3</b>
First quarter charges (credits)	(0.1)	0.0	(0.1)	3.5	3.3
Non-cash items	0.0	0.0	0.0	0.0	0.0
Cash payments	(0.5)	(0.7)	(0.9)	0.0	(2.1)
Currency translation adjustments	0.0	0.1	0.1	0.0	0.2
<b>Balance March 31, 2012</b>	<b>\$ 0.7</b>	<b>\$ 2.3</b>	<b>\$ 3.2</b>	<b>\$ 3.5</b>	<b>\$ 9.7</b>

(1) Includes a \$5.4 payment to an insurance company to transfer a long term severance liability.

(2) Includes a \$4.0 charge for the write-off of plant assets at our manufacturing facility in Brazil; offset by reversals of certain asset retirement obligations.

**7. SHARE-BASED COMPENSATION**

The fair value of each option or stock-settled share appreciation right ( SARS ) award is estimated on the date of grant using a binomial-lattice option valuation model. Stock-settled SARS are economically valued the same as stock options. The binomial-lattice model takes into account variables such as volatility, dividend yield, and risk-free interest rate. In addition, the binomial-lattice model considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. The weighted average assumptions for the three months ended March 31, 2012 and 2011 are noted in the following table:

<b>Three months ended March 31,</b>	<b>2012</b>	<b>2011</b>
Expected life (years)	6.2	6.2
Expected volatility	41.86%	40.0%
Expected dividend yield	1.01%	1.04%
Risk-free interest rate	2.11%	3.36%
Weighted-average fair value per option	\$ 19.91	\$ 20.83

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

**Stock Award and Incentive Plan**

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

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 March 31, 2012, there were approximately 6,600,000 shares reserved for issuance under the 1993 Plan, inclusive of 3,800,000 shares reserved for issuance for all outstanding share-based compensation grants. On April 19, 2012, our shareholders approved an amendment to the 1993 Plan to increase the shares issuable under the plan by 2,000,000 shares.

### *Stock options and stock-settled SARS*

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

**Table of Contents**

A summary of stock options and stock-settled SARS activity for the three months ended March 31, 2012 is presented below:

	Number of Units	Weighted Average Exercise Price Per Unit	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
<b>Options and Stock-Settled SARS Activity:</b>				
Outstanding at January 1, 2012	3,305,399	\$ 42.71		
Granted	470,809	50.33		
Exercised	(479,756)	32.48		
Forfeited	(30,076)	41.91		
<b>Outstanding at March 31, 2012</b>	<b>3,266,376</b>	<b>\$ 45.33</b>	<b>6.2</b>	<b>\$ 50.5</b>
Exercisable at March 31, 2012	2,398,829	\$ 44.19	5.1	\$ 39.8

During the three months ended March 31, 2012, we granted 470,809 stock options. The weighted-average grant-date fair value of the stock options granted during the three months ended March 31, 2012 and 2011 was \$19.91 and \$20.83 per share, respectively. Total pre-tax compensation cost related to stock option and stock-settled SARS was \$2.1 and \$1.9 during the three months ended March 31, 2012 and 2011, respectively. The total intrinsic value of stock options and stock-settled SARS exercised during the three months ended March 31, 2012 and 2011 was \$12.1 and \$3.0, 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 three months ended March 31, 2012 and 2011 was \$6.5 and \$6.6, respectively.

As of March 31, 2012, there was \$13.5 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.

Total tax benefits realized from share-based awards was \$3.0 and \$1.1, for the three months ended March 31, 2012 and 2011, respectively. Cash received from stock options exercised was \$13.4 and \$3.3 for the three months ended March 31, 2012 and 2011, 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 three months ended March 31, 2012 and 2011 was \$0.2 and less than \$0.1, respectively. The total amount of pre-tax expense (income) recognized for cash-settled SARS was \$0.9 and \$(0.3) for the three months ended March 31, 2012 and 2011, respectively. The liability related to our cash-settled SARS was \$2.0 at March 31, 2012 and \$1.3 at December 31, 2011.

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

As provided under the 1993 Plan, we have also issued non-vested stock, non-vested stock units and performance stock. Non-vested stock and stock units are subject to certain restrictions on ownership and transferability that lapse upon vesting. Performance stock payouts are based on the attainment of certain financial performance objectives and may vary depending on the degree to which the performance objectives are met. We did not grant any performance stock in 2012 and 2011. During 2008, we granted performance stock awards for 47,927 shares (assuming par payout) to nine employees, which related to the 2010 performance period. Of these awards, 8,092 vested for which we recorded an expense of \$0.4 in 2010. The shares were distributed in January 2011.

A summary of non-vested stock and non-vested stock units for the three months ended March 31, 2012 is presented below:

**Non-vested Stock and Stock Units:**

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

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Nonvested at January 1, 2012	180,930	\$ 40.40
Granted	67,139	48.82
Vested	0	0.00
Forfeited	(1,628)	46.75
Nonvested at March 31, 2012	246,441	\$ 42.66

During the three months ended March 31, 2012, we granted 67,139 non-vested stock units to employees, which generally vest on the third anniversary of the date of grant. The weighted average fair value of the non-vested stock and non-vested stock units on the date

**Table of Contents**

of grant was \$48.82 per share which was equal to the closing market price of our stock on the date of the grant. The total amount of share-based compensation expense recognized for non-vested stock, non-vested stock units and performance stock was \$0.9 and \$0.6 for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, there was \$5.3 of total unrecognized compensation cost related to non-vested stock and stock units. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Compensation cost related to all share-based compensation arrangements capitalized in inventory as of March 31, 2012 and December 31, 2011 was approximately \$0.5 and \$0.3, respectively.

As of March 31, 2012 and December 31, 2011, our additional paid-in capital pool ( APIC Pool ), which represents excess tax benefits available to absorb potential future tax deficiencies, was \$74.0 and \$71.7, respectively.

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

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

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2012 and 2011 (in thousands, except net earnings in millions and per share amounts):

<b>Three months ended March 31:</b>	<b>2012</b>	<b>2011</b>
<b>Numerator:</b>		
Earnings from continuing operations	\$ 53.1	\$ 39.6
Earnings from discontinued operations, net of tax	0.0	43.6
Net earnings attributable to Cytec Industries Inc.	\$ 53.1	\$ 83.2
<b>Denominator:</b>		
Weighted average shares outstanding	45,961	49,622
<b>Effect of dilutive shares:</b>		
Options and stock-settled SARS	548	562
Non-vested shares and units	121	76
Diluted average shares outstanding	46,630	50,260
<b>Basic earnings per common share:</b>		
Earnings from continuing operations	\$ 1.16	\$ 0.80
Earnings from discontinued operations	0.00	0.88
Net earnings per common share attributable to Cytec Industries Inc.	\$ 1.16	\$ 1.68
<b>Diluted earnings per common share:</b>		
Earnings from continuing operations	\$ 1.14	\$ 0.79
Earnings from discontinued operations	0.00	0.87
Net earnings per common share attributable to Cytec Industries Inc.	\$ 1.14	\$ 1.66



**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):

Three months ended March 31,	2012	2011
Options	549	433
Stock-settled SARS	367	421
Non-vested shares/units	0	0
<b>Total</b>	<b>916</b>	<b>854</b>

**9. INVENTORIES**

Inventories consisted of the following:

	March 31, 2012	December 31, 2011
Finished goods	\$ 276.4	\$ 242.7
Work in progress	34.8	32.8
Raw materials and supplies	116.4	98.8
<b>Total inventories</b>	<b>\$ 427.6</b>	<b>\$ 374.3</b>

**10. DEBT**

Long-term debt consisted of the following:

	March 31, 2012		December 31, 2011	
	Face	Carrying Value	Face	Carrying Value
Five-Year Revolving Credit Line Due June 2016	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
4.6% Notes Due July 1, 2013	135.2	135.4	135.2	135.4
6.0% Notes Due October 1, 2015	250.0	249.8	250.0	249.8
8.95% Notes Due July 1, 2017	250.0	249.5	250.0	249.5
Other	3.2	3.2	1.2	1.2
Long-term Debt, Total	\$ 638.4	\$ 637.9	\$ 636.4	\$ 635.9

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 2011, we repurchased portions of our 4.6% notes due July 1, 2013 with a total carrying value of \$1.6 for a total purchase price of \$1.7 including accrued interest, resulting in a loss of \$0.1. Net loss from our debt repurchases is included in net loss on early extinguishment of debt in the accompanying statement of income.

There were no borrowings outstanding under the \$400.0 unsecured five-year revolving credit facility at March 31, 2012. We continue to be required to comply with certain customary financial covenants under the Agreement: (i) the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ), and (ii) the ratio of consolidated EBITDA to consolidated interest expense. We are in compliance with these covenants and expect to be in compliance for the foreseeable future.



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

At March 31, 2012 and December 31, 2011, the fair value of our long-term debt was \$733.8 and \$715.4, respectively. The fair value of our debt is based on Level 2 inputs, as defined in Note 17. 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.

The weighted-average interest rate on all of our debt was 6.83% and 6.86% as of March 31, 2012 and 2011, respectively. The weighted-average interest rate on short-term borrowings outstanding as of March 31, 2012 and 2011 was 0.78% and 1.10%, respectively.

### **11. 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.

**Table of Contents**

As of March 31, 2012 and December 31, 2011, the aggregate environmental related accruals were \$104.5 and \$102.3, respectively, of which \$10.0 is included in accrued expenses, with the remainder included in other noncurrent liabilities. Environmental remediation spending for the three months ended March 31, 2012 and 2011 was \$0.9 and \$1.2, respectively.

Our process is to review our environmental remediation accruals quarterly and based on new information, we may from time to time adjust our environmental related accruals. During the three months ended March 31, 2012, based on additional information generated by site evaluations, we increased our environmental related accruals by \$2.2, primarily related to an active site in the U.S., to revise projected remediation costs based on updated information.

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 2011 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 March 31, 2012 and December 31, 2011, the aggregate self-insured and insured contingent liability was \$52.5 and \$53.7, respectively, and the related insurance recovery receivable for the liability as well as claims for past payments was \$22.1 at March 31, 2012 and \$22.1 at December 31, 2011. The asbestos liability included in the above amounts at March 31, 2012 and December 31, 2011 was \$41.9 and \$42.4, respectively, and the insurance receivable related to the liability as well as claims for past payments was \$21.7 at March 31, 2012 and \$21.8 at December 31, 2011. We anticipate receiving a net tax benefit for payment of those claims for which full insurance recovery is not realized.

*Asbestos*

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

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

	Three months ended March 31, 2012	Year ended December 31, 2011
Number of claimants at beginning of period	8,000	8,000
Number of claimants associated with claims closed during period	0	(100)
Number of claimants associated with claims opened during period	0	100
Number of claimants at end of period	8,000	8,000

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

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

Our asbestos related contingent liabilities and related insurance receivables are based on an actuarial study performed by a third party. This study is based on, among other things, the incidence and nature of historical claims data, 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 is updated every three years. Our last study was prepared during the third quarter of 2009, based on experience through June 30, 2009. We expect the next study will be prepared during the third quarter of 2012.

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.

---

## **Table of Contents**

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

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

### *Lead Pigment*

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 architectural paint. Eight 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 consists of 164 claimants, each alleging personal injury as a result of the ingestion of white lead carbonate in paint. The remaining seven cases consist of less than 10 total plaintiffs. We believe that the eight personal injury suits against us are without merit. The eight personal injury cases are currently stayed pending a decision by the United States Court of Appeals for the Seventh Circuit regarding whether the application of the risk contribution doctrine for lead ingestion cases in Wisconsin violates the defendants', including the Company's, constitutional rights.

In July 2005, in a case in which we were one of several defendants, the Supreme Court of Wisconsin held that Wisconsin's risk contribution doctrine applies to bodily injury cases against manufacturers of white lead pigment. Under this doctrine, manufacturers of white lead pigment may be liable for injuries caused by white lead pigment based on their past market shares, unless they can prove they are not responsible for the white lead pigment which caused the injury in question. Seven of the eight personal injury cases, including the personal injury case consisting of 164 plaintiffs, were filed before January 2011, when the Wisconsin legislature passed legislation that will make it substantially more difficult to bring lead suits in the future. In July 2009, the Wisconsin Supreme Court, in the case styled *Ruben Godoy et al v. E.I. DuPont de Nemours et al.*, upheld a lower court's decision dismissing the plaintiff's strict liability and negligent defect causes of action for white lead carbonate. The decision in this case, together with our non-existent or diminutive market share, reinforces our belief that we have no liability in any of the eight Wisconsin cases, and accordingly, we have not recorded a loss contingency.

### *Other*

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

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

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

A further discussion of other contingencies can be found in Note 11 of Notes to Consolidated Financial Statements contained in our 2011 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

**Table of Contents**

business is not substantially dependent on any single contract or any series of related contracts. Descriptions of our significant sales contracts at December 31, 2011 are set forth in Note 11 of Notes to Consolidated Financial Statements contained in our 2011 Annual Report on Form 10-K.

**12. COMPREHENSIVE INCOME**

The components of comprehensive income, which represents the change in equity from non-owner sources, for the three months ended March 31, 2012 and 2011 are as follows:

	Three months ended March 31,	
	2012	2011
Net earnings	\$ 53.6	\$ 83.9
Other comprehensive income:		
Accumulated pension liability, net of tax	4.5	7.7
Unrealized gains on cash flow hedges, net of tax	0.1	0.6
Foreign currency translation adjustments	30.3	45.3
Comprehensive income	\$ 88.5	\$ 137.5
Less: Comprehensive income attributable to noncontrolling interest	(0.2)	(0.7)
Comprehensive income attributable to Cytec Industries Inc.	\$ 88.3	\$ 136.8

**13. INCOME TAXES**

The effective tax rate for the three months ended March 31, 2012 was a tax provision of 32.4% (\$25.7) compared to 27.1% (\$15.0) for the three months ended March 31, 2011. For the three months ended March 31, 2011, the rate was favorably impacted by discrete tax benefits of \$2.3 attributable to several international tax matters.

As of March 31, 2012, the amount of gross unrecognized tax benefits is \$37.8 (excluding interest) of which \$21.7 would impact our effective tax rate, if recognized. The amount of gross unrecognized tax benefits at December 31, 2011 was \$35.5 (excluding interest) of which \$19.6 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), of approximately \$6.7 as of December 31, 2011, which increased an additional \$0.2 due to current year tax accruals and the impact of foreign exchange, thus resulting in a liability for the payment of interest of \$6.9 as of March 31, 2012.

**14. OTHER FINANCIAL INFORMATION***Dividends*

On January 31, 2012, our Board of Directors declared a \$0.125 per common share cash dividend, payable on February 24, 2012 to stockholders of record as of February 10, 2012. Cash dividends paid in the first quarter of 2012 and 2011 were \$8.7 and \$9.0, respectively. Dividends paid in the first three months of 2012 and 2011 include \$3.0 and \$2.8, respectively, paid by a majority owned subsidiary to its minority shareholder. On April 19, 2012, the Board of Directors declared a \$0.125 per common share cash dividend, payable on May 25, 2012 to shareholders of record as of May 10, 2012.

*Income taxes paid*

Income taxes paid for the three months ended March 31, 2012 and 2011 were \$16.6 and \$14.9, respectively.

*Interest*

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

Interest paid for the three months ended March 31, 2012 and 2011 was \$14.3 and \$14.5, respectively. Interest income for the three months ended March 31, 2012 and 2011 was \$1.2 and \$0.4, respectively.

### *Stock repurchases*

In the first quarter of 2011, we repurchased 440,000 shares of our common stock at a total cost of \$23.8. There were no repurchases in the first quarter of 2012. Approximately \$197.9 remained authorized under our stock buyback program as of March 31, 2012. We anticipate repurchases will be made from time-to-time on the open market or in private transactions and will be utilized for share-

**Table of Contents**

based compensation plans and other corporate purposes.

**15. SEGMENT INFORMATION***Segment Realignment*

In the first quarter of 2012, we announced that we had retained an advisor to help us explore the potential separation of our Coating Resins Segment, along with the pressure sensitive adhesives ( PSA ) product line and certain Methyl Acrylamide ( NMA ) product groups. In light of this potential separation, we realigned our segment reporting (internal and external) and management structure accordingly. PSA and NMA, which previously were included in our Engineered Materials and Additive Technologies segments, respectively, became part of our Coating Resins segment. Concurrently, to align the segments with our revised management structure and operating model, we also moved the formulated resins business out of the Engineered Materials segment into the Additive Technologies segment. We believe our new strategy, which realigned our reportable segments, will enable us to develop a more sustainable portfolio in the future that will drive earnings growth and a better return on our assets.

As discussed in Note 4, the former Building Block Chemicals segment is reported as discontinued operations for all periods presented. Summarized segment information for our four segments for the three months ended March 31 is as follows:

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net Sales:		
Engineered Materials	\$ 218.7	\$ 187.1
In Process Separation	91.6	78.4
Additive Technologies		
Sales to external customers	67.7	70.3
Intersegment sales	0.2	0.3
Coating Resins	405.3	430.2
Net sales from segments	783.5	766.3
Elimination of intersegment revenue	(0.2)	(0.3)
Total consolidated net sales	\$ 783.3	\$ 766.0

	<b>Three months ended March 31,</b>			
	<b>2012</b>	<b>% of Sales</b>	<b>2011</b>	<b>% of Sales</b>
Earnings from operations:				
Engineered Materials	\$ 45.0	21%	\$ 25.1	13%
In Process Separation	22.9	25%	16.4	21%
Additive Technologies	6.4	9%	8.4	12%
Coating Resins	28.8	7%	20.0	5%
Earnings from segments	103.1	13%	69.9	9%
Corporate and unallocated, net (1)	(16.8)		(1.9)	
Total earnings from operations	\$ 86.3	11%	\$ 68.0	9%

- (1) For the three months ended March 31, 2012, corporate and unallocated includes net pre-tax charges of \$6.2 related to costs incurred for our evaluation of separating the Coatings Resins segment operations, restructuring charges of \$3.3 related to our Coating Resins segment, and



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

accelerated depreciation of \$0.7 for the sale of our Stamford facility treated as a financing transaction. For the three months ended March 31, 2011, corporate and unallocated includes a net pre-tax credit of \$0.7 related to a net favorable adjustment of previously recorded restructuring liabilities and a gain on the sale of assets of a certain Latin American subsidiary for \$3.3. Corporate and unallocated also included costs previously allocated to the operations of our discontinued Building Block Chemicals segment of \$1.0 for three months ended March 31, 2011.

-17-

**Table of Contents****16. GOODWILL AND OTHER ACQUISITION INTANGIBLES**

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

	Engineered Materials	In-Process Separation	Additive Technologies	Coating Resins	Total
<b>Balance, December 31, 2011:</b>					
Goodwill	234.0	52.7	27.8	726.0	1,040.5
Accumulated impairment charges	0.0	0.0	0.0	(364.8)	(364.8)
	<b>234.0</b>	<b>52.7</b>	<b>27.8</b>	<b>361.2</b>	<b>675.7</b>
2012 Acquisition	0.0	26.8	0.0	0.0	26.8
Currency exchange:					
Goodwill	0.2	1.1	0.0	14.1	15.4
Accumulated impairment charges	0.0	0.0	0.0	(7.1)	(7.1)
	0.2	27.9	0.0	7.0	35.1
<b>Balance, March 31, 2012:</b>					
Goodwill	234.2	80.6	27.8	740.1	1,082.7
Accumulated impairment charges	0.0	0.0	0.0	(371.9)	(371.9)
	<b>234.2</b>	<b>80.6</b>	<b>27.8</b>	<b>368.2</b>	<b>710.8</b>

In conjunction with our segment realignment discussed in Note 15, we completed our goodwill impairment test in the first quarter of 2012 and concluded that there was no impairment.

Other acquisition intangibles consisted of the following major classes:

	Weighted Average Useful Life (years)	Gross Carrying Value		Accumulated Amortization		Net Carrying Value	
		March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
		2012	2011	2012	2011	2012	2011
Technology-based	16.2	\$ 55.8	\$ 54.7	\$ (40.7)	\$ (39.0)	\$ 15.1	\$ 15.7
Marketing-related	< 2.0	1.9	1.9	(1.9)	(1.9)	0.0	0.0
Marketing-related	15.3	65.1	63.0	(34.9)	(33.2)	30.2	29.8
Marketing-related	40	44.3	43.0	(6.4)	(5.9)	37.9	37.1
Customer-related	15	427.0	419.6	(209.3)	(198.8)	217.7	220.8
Total		\$ 594.1	\$ 582.2	\$ (293.2)	\$ (278.8)	\$ 300.9	\$ 303.4

Amortization of acquisition intangibles for the three months ended March 31, 2012 and 2011 was \$9.4 and \$9.5, respectively.

Assuming no change in the gross carrying amount of acquisition intangibles and the 2012 average currency exchange rates remain constant, the estimated future amortization expense for the next five years are as follows:

	2012	2013	2014	2015	2016	2017
Intangibles Amortization Expense	\$ 38.5	\$ 37.8	\$ 37.5	\$ 36.9	\$ 31.5	\$ 30.4

**17. 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 March 31, 2012, 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

**Table of Contents**

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 income (expense), net.

At March 31, 2012, net contractual notional amounts of forward contracts outstanding translated into U.S. dollars ( USD ) totals \$271.3. Of this total, \$206.4 was attributed to the exposure in forward selling/purchase of USD. The remaining \$64.9 was attributable to the exposure in forward selling/purchase of Euros, translated into USD equivalent amounts. The net favorable (unfavorable) fair values of currency contracts, based on forward exchange rates at March 31, 2012 and December 31, 2011 were \$1.2 and \$(2.4), respectively.

*Cash Flow Hedges*

In the fourth quarter of 2011, we entered into a contract for the construction of certain manufacturing equipment, the payments of which are denominated in Swiss francs (CHF), and will total approximately 7.3 CHF. These CHF payments expose us to exchange rate fluctuations between CHF and USD. To hedge this risk, we entered into forward contracts to buy CHF and sell USD at agreed upon rates. To protect our consolidated earnings against the risk of foreign currency-related fluctuation associated with the forecasted CHF payments for the equipment, we designated the currency forward to buy CHF and sell USD on the forward s maturity date (the hedging instrument ) as a cash flow hedge of the foreign currency risks associated with our capitalization of the first, previously unhedged, forecasted CHF-denominated invoices.

As of March 31, 2012 and December 31, 2011, the notional amount of the forward contracts designated as a cash flow hedge was approximately \$2.0 and \$4.2, respectively, and the unrealized loss as of March 31, 2012 and December 31, 2011 was approximately \$0.0 and \$0.1, respectively. The remaining contract will settle in the third quarter of 2012. There was no hedge ineffectiveness for the contracts in 2012.

*Cross Currency Swaps*

We have 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 were originally designated as cash flow hedges of the changes in value of the future Euro interest and principal receipts that resulted from changes in the USD to Euro exchange rates on certain Euro denominated intercompany loans receivable we have with one of our subsidiaries. Since the loans and underlying investment are denominated in Euros, we have foreign exchange exposure to the Euro/USD exchange rate changes. We hedge these foreign exchange exposures by using cross currency swaps with notional amounts of 207.9 (\$250.0), which will settle on October 1, 2015 ( ten year swaps ). At the initial principal exchange, we paid \$250.0 and received 207.9 from counterparties. At the final exchange of the ten year swaps on October 1, 2015, we will pay 207.9 and receive \$250.0. The swaps have fixed interest rates on both legs. 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.

The swaps fixed the USD equivalent cash flows of the Euro loans and eliminated foreign exchange variability, since the notional amounts of the swaps equaled that of the loans, and all cash flow dates and interest rates coincided between the swaps and the loans; therefore no ineffectiveness was expected or occurred.

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 pay 4.52% per annum on the Euro notional amount and 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.

All cross currency swaps are recorded at fair value as either assets or liabilities. 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 occurring during the period.



**Table of Contents**

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 translation adjustments will remain in other comprehensive income (loss) until the complete or substantially complete liquidation of our investment in Cytec Surface Specialties SA/NV. We monitor the counterparty credit risk and the continued probability of the hedged cash flows as to amount and timing.

At March 31, 2012, the unfavorable fair value of the ten year cross currency swaps was \$19.7. At December 31, 2011, the unfavorable fair value of the ten year cross currency swaps was \$13.2.

**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. From time to time and through June 2011, as set forth in Note 6 of Notes to Consolidated Financial Statements contained in our 2011 Annual Report on Form 10-K, we have used natural gas forward purchase contracts to hedge a portion of our utility requirements at certain of our North American manufacturing facilities.

In conjunction with the divestiture of the former Building Block Chemicals segment in the first quarter of 2011, we terminated our natural gas hedge contracts and, since June 2011, we have not held any natural gas forwards.

At March 31, 2012, 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 March 31, 2012, we did not have any significant concentration of credit risk arising from our derivative instruments.

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

	Asset Derivatives				Liability Derivatives			
	March 31, 2012		December 31, 2011		March 31, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments:</b>								
Cross currency swaps (1)	Other current assets	\$ 0.7	Other current assets	\$ 0.3	Other noncurrent liabilities	\$ 20.4	Other noncurrent liabilities	\$ 13.5
Foreign currency forwards							Accrued expenses	0.1
<b>Total derivatives designated as hedging instruments:</b>		<b>\$ 0.7</b>		<b>\$ 0.3</b>		<b>\$ 20.4</b>		<b>\$ 13.6</b>
<b>Derivatives not designated as hedging instruments:</b>								
Foreign currency forwards	Other current assets	2.3	Other current assets	0.3	Accrued expenses	1.1	Accrued expenses	2.7
<b>Total derivatives not designated as hedging instruments:</b>		<b>\$ 2.3</b>		<b>\$ 0.3</b>		<b>\$ 1.1</b>		<b>\$ 2.7</b>
<b>Total derivatives</b>		<b>\$ 3.0</b>		<b>\$ 0.6</b>		<b>\$ 21.5</b>		<b>\$ 16.3</b>

The following tables summarize the amounts and locations of our hedging derivatives gains (losses) recognized for the three months ended March 31, 2012 and 2011:



**Table of Contents**

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), Net of Tax Three Months Ended		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		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	
							March 31, 2012	March 31, 2011
<b>Derivatives in Cash Flow</b>								
<b>Hedging Relationships:</b>								
Natural gas forwards	\$ 0.0	\$ 0.2	Manufacturing cost of sales	\$ 0.0	\$ (1.9)	Other expense, net	\$ 0.0	\$ 0.0
Cross currency swaps (1)	0.0	0.0	Other expense, net	0.0	0.0		0.0	0.0
Foreign currency forwards	0.0	0.0		0.0	0.0		0.0	0.0
<b>Total</b>	<b>\$ 0.0</b>	<b>\$ 0.2</b>		<b>\$ 0.0</b>	<b>\$ (1.9)</b>		<b>\$ 0.0</b>	<b>\$ 0.0</b>

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), Net of Tax Three Months Ended		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		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	
							March 31, 2012	March 31, 2011
<b>Derivatives in Net</b>								
<b>Investment Hedge Relationships:</b>								
Cross currency swaps (1)	\$ (4.0)	\$ (6.4)		\$ 0.0	\$ 0.0		\$ 0.0	\$ 0.0

(1) Ten year swap

The following table summarizes the amount and location of gains (losses) recognized in income for our derivatives not designated as hedges for the three months ended March 31, 2012 and 2011:

Derivatives not Designated as Hedging Instruments:	Location of Gain or (Loss) Recognized		Amount of Gain or (Loss) Recognized in Income on Derivative
	in Income on Derivative		



		Three months ended March 31,	
		2012	2011
Foreign currency forwards	Other expense, net	\$ 5.4	\$ 3.8
<b>Total</b>		<b>\$ 5.4</b>	<b>\$ 3.8</b>

### 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. Our cross currency swaps are valued using an 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

**Table of Contents**

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 March 31, 2012, 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 March 31, 2012 is outlined in the table below:

Description	Significant Other Observable Inputs (Level 2)
Currency forwards	\$ 1.2
Cross currency swaps	(19.7)
<b>Total</b>	<b>\$ (18.5)</b>

As of March 31, 2012, 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 three months ended March 31, 2012. 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 2011 Annual Report on Form 10-K.

**18. EMPLOYEE BENEFIT PLANS**

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

Three months ended March 31,	Pension Plans		Postretirement Plans	
	2012	2011	2012	2011
Service cost	\$ 2.3	\$ 2.4	\$ 0.3	\$ 0.3
Interest cost	11.6	12.3	2.3	2.8
Expected return on plan assets	(13.0)	(13.1)	(0.5)	(0.7)
Net amortization	6.7	5.0	0.5	(1.8)
Curtailement loss (gain) (1)	0.0	0.1	0.0	(1.1)
Net periodic cost	\$ 7.6	\$ 6.7	\$ 2.6	\$ (0.5)

(1) Net curtailment gain of \$1.0 resulted from the sale of the Building Block Chemicals segment in the first quarter of 2011, and is included in gain on sale of discontinued operations, net of tax in the consolidated statements of income.

We disclosed in our 2011 Annual Report on Form 10-K that we expected to contribute \$40.7 and \$11.2, respectively, to our pension and postretirement plans in 2012. Through March 31, 2012, \$9.8 and \$3.8 in contributions were made to our pension and postretirement plans, respectively.

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 March 31, 2012 and 2011 were \$8.0 and \$9.1, respectively.

**19. SUBSEQUENT EVENT**

On April 12, 2012, we announced our firm intention to acquire all of the outstanding shares of Umeco plc ( Umeco ), an international provider of advanced composite materials, in an all-cash transaction valued at approximately £274.3 (\$439.0 assuming a 1.60 exchange rate). In April 2012, we drew down \$210.0 from our existing revolving credit facility for the purposes of funding the transaction.

The acquisition is to be effected by way of a scheme of arrangement under UK law which requires the approval of a UK court and approval of a majority of Umeco s shareholders in number present in person or by proxy at the Court meeting representing at least 75% of the votes cast. The scheme is also subject to receipt of certain regulatory approvals and other customary conditions. The transaction is expected to close in the third quarter of 2012.

---

**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**

*Overview*

We are a global specialty chemicals and materials company focused on developing, manufacturing and selling value-added products. Our products serve a diverse range of end markets, including aerospace composites, structural adhesives, automotive and industrial coatings, 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, which is 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.

*Commitment to acquire Umeco plc*

On April 12, 2012, we announced our firm intention to acquire all of the outstanding shares of Umeco plc (Umeco), an international provider of advanced composite materials, in an all-cash transaction valued at approximately £274.3 (\$439.0 based on a 1.60 exchange rate) to enhance our Engineered Materials segment. In April 2012, we drew down \$210.0 from our existing revolving credit facility for the purposes of funding the transaction. The board of directors of Umeco intends to unanimously recommend the transaction to Umeco shareholders. We believe the acquisition of Umeco will allow us to further enhance and leverage our position as a technology leader in advanced composite materials. The transaction will expand our presence in both aerospace and industrial applications, an area where we see excellent opportunities for growth and value creation. The acquisition is to be effected by way of a scheme of arrangement under UK law which requires the approval of a UK court and approval of a majority of Umeco's shareholders in number present in person or by proxy at the Court meeting representing at least 75% of the votes cast. The scheme is also subject to receipt of certain regulatory approvals and other customary conditions. The transaction is expected to close in the third quarter of 2012.

*Discontinued operations*

On February 28, 2011, we completed the sale of substantially all of the assets and certain liabilities of our Building Block Chemicals business (the Business) to Cornerstone Chemical Company, an affiliate of HIG Capital, LLC (the Purchaser), pursuant to an Asset Purchase Agreement (the Agreement) dated January 28, 2011, between the Company and the Purchaser. The total consideration received from the sale was \$175.7, including cash consideration of \$160.7 that we received at closing and a promissory note for \$15.0. A cash payment of \$6.6 was made to the Purchaser in July 2011 as final settlement of the agreed upon working capital transferred, resulting in net realized consideration of \$169.1. Accordingly, the business was treated as discontinued operations and discussion of that segment is no longer included in the discussions that follow.

*Segment Realignment*

We regularly review our segment reporting and classifications and may periodically change our reportable segments to align with operational changes. Our latest strategic review of our operations resulted in business segment changes that became effective January 1, 2012. In the first quarter of 2012, we announced that we had retained an advisor to help us explore the potential separation of our Coating Resins segment, along with the pressure sensitive adhesives (PSA) product line and certain Methyl Acrylamide (NMA) product groups. In light of this potential separation, we realigned our segment reporting (internal and external) and management structure accordingly. PSA and NMA, which were previously included in our Engineered Materials and Additive Technologies segments, respectively, became a part of the Coating Resins segment. Concurrently, to align the segments with our revised management structure and operating model, we moved the formulated resins business out of the Engineered Materials Segment into the Additive Technologies Segment. We believe our new strategy, which realigned our reportable segments, will enable us to develop a more sustainable portfolio in the future that will drive earnings growth and a better return on our assets.

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

We have four reportable business segments: Engineered Materials, In-Process Separation, Additive Technologies, and Coating Resins. The Engineered Materials segment principally includes advanced composites, carbon fiber, and structural film adhesives. The In-Process Separation segment includes mining chemicals and phosphines. The Additive Technologies segment includes polymer additives, specialty additives and formulated resins. The Coating Resins segment includes the following product lines: radiation-cured resins (Radcure resins), liquid resins and additives (including waterborne resins, solventborne resins, and urethane resins), powder coating resins, amino cross linkers and pressure sensitive adhesives.

-23-

**Table of Contents**

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. Higher global demand levels and, occasionally, lack of adequate forecasting by customers, result in a lack of adequate capacity to meet the demand. In addition, occasional operating difficulties at suppliers have limited availability of certain of our raw materials.

**Quarter Ended March 31, 2012, Compared With Quarter Ended March 31, 2011****Consolidated Results**

Net sales for the first quarter of 2012 were \$783.3 compared with \$766.0 for the first quarter of 2011. Overall, net sales increased 2%, which was primarily attributable to price increases of 5%, offset by volume decreases of 2%. The changes in exchange rates negatively impacted net sales by 1%. Engineered Materials net sales increased by 17%, primarily due to increased volumes. In-Process Separation sales also increased 17%, due to higher selling prices and increased volumes. Additive Technologies net sales decreased 4% due to lower volumes, which were partially offset by price increases. Coating Resins net sales decreased 6%, due mostly to lower volumes partially offset by price increases.

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

Manufacturing cost of sales was \$572.7, or 73.1%, of net sales in the first quarter of 2012, compared with \$585.6, or 76.5%, of sales in the first quarter of 2011. Total manufacturing costs decreased by \$12.9 due mostly to \$13.2 of lower costs from lower volumes in the Coating Resins and Additive Technologies segments. The impact of foreign exchange rate changes decreased costs by \$8.5, fixed cost absorption was favorable by \$4.0, and freight costs were lower by \$1.2. These lower costs were partially offset by higher period costs of \$12.3, higher restructuring costs of \$1.3, and increased raw material costs of \$0.4. Approximately \$1.3 of restructuring costs was included in cost of sales in 2012 for our operations performance initiatives in our Coating Resins segment, compared to a \$0.1 credit to previous restructuring charges in the first quarter of 2011.

Selling and technical services expenses were \$55.4 in the first quarter of 2012 versus \$54.7 in the first quarter of 2011. Research and process development expenses were \$20.0 versus \$19.2 in the prior year. Administrative and general expenses were \$39.5 versus \$32.3 in the prior year. Overall operating expenses increased \$8.7, from \$106.2 in 2011 to \$114.9 in the first quarter of 2012, primarily due to higher consulting fees in 2012 of \$6.2 related to the potential separation of the Coating Resins segment, higher costs for increased personnel to support our growth businesses, accelerated depreciation related to the sale of our Stamford research labs treated as a financing transaction, general wage inflation, and higher restructuring costs. These increases were offset by benefits from the 2011 restructuring activities in Coating Resins and a favorable impact from changes in exchange rates of \$1.3.

In the first quarter of 2011 we completed the sale of a former manufacturing site in Bogota, Colombia and recorded a \$3.3 gain on sale of assets.

Amortization of acquisition intangibles was \$9.4 and \$9.5 in the first quarter of 2012 and 2011, respectively.

Other income (expense), net was income of \$1.5 in the first quarter of 2012 compared with expenses of \$4.0 in the first quarter of 2011. In the first quarter of 2011, we recorded net environmental charges of \$3.6, primarily related to an increase in environmental liability at a specific inactive site related to new remedial design requirements agreed with the relevant authority.

In the first quarter of 2011, we recorded a \$0.1 loss on early extinguishment of debt.

Interest expense, net was \$8.7 in the first quarter of 2012 compared with \$9.2 in the prior year. The decrease of \$0.5 is primarily due to higher interest income.

The effective tax rate for the three months ended March 31, 2012 was a tax provision of 32.4% (\$25.7) compared to 27.1% (\$15.0) for the three months ended March 31, 2011. For the three months ended March 31, 2011, the rate was favorably impacted by discrete tax benefits of \$2.3 attributable to several international tax matters.

Earnings from discontinued operations, net of tax, was \$43.6 in 2011 and reflect the results of our former Building Block Chemicals segment. The results in the first quarter of 2011 include the net after tax gain of \$36.8 resulting from the completion of the sale in the first quarter of 2011. The net after tax gain was later adjusted during 2011 to \$34.6.

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

Net earnings for the first quarter of 2012 was \$53.1 (\$1.14 per diluted share), a \$30.1 decrease from the net earnings of \$83.2 (\$1.66 per diluted share) in the same period in 2011. Included in 2011 is net earnings from discontinued operations of our former Building Block segment of \$43.6, including the after-tax gain from the sale of the segment of \$36.8. First quarter 2012 net earnings from continuing operations increased \$13.5 from the \$39.6 (\$0.79 per diluted share) reported for the same period in 2011. Included in the first quarter of 2012 were after-tax charges of \$3.9 related to costs incurred for our evaluation of separating the Coatings Resins

-24-

**Table of Contents**

Segment operations, restructuring charges of \$2.4 related to our Coating Resins segment, and accelerated depreciation of \$0.4 related to the sale of our Stamford facility treated as a financing transaction. Included in the first quarter of 2011 was \$0.5 of after-tax benefits primarily related to changes to previously recorded restructuring costs, the \$2.0 after-tax impact of the previously discussed change in an inactive site's environment accrual, and the after-tax gain of \$2.0 on the sale of the former manufacturing site in Bogota, Colombia.

**Segment Results**

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

**Engineered Materials**

	2012	2011	Total % Change	% Change Due to		
				Price	Volume/Mix	Currency
North America	\$ 138.8	\$ 119.9	16%	3%	13%	0%
Latin America (1)	0.8	0.5				
Asia/Pacific	14.3	9.1	57%	3%	54%	0%
Europe/Middle East/Africa	64.8	57.6	13%	4%	9%	0%
<b>Total</b>	<b>\$ 218.7</b>	<b>\$ 187.1</b>	<b>17%</b>	<b>3%</b>	<b>14%</b>	<b>0%</b>

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

Net sales increased 17%, primarily due to increased selling volumes of 14%. The higher selling volumes in the first quarter of 2012 were primarily attributable to the continued ramp up of new large commercial transport programs and increased build rates of existing large commercial transport models. In addition, we also experienced higher sales volumes as a result of build rate increases across the military, civil rotorcraft and certain segments within the business and regional jet market. Selling prices increased 3% and changes in exchange rates did not significantly impact net sales.

Earnings from operations were \$45.0, or 21% of sales in 2012, compared with \$25.1, or 13% of sales in 2011. The \$19.9 increase in earnings was generated by increased marginal income due to higher selling volumes of \$14.7, increased selling prices of \$6.4, increased fixed cost absorption of \$5.0 due to increased production levels, and \$2.3 of other cost reductions which include improvements in reducing manufacturing waste. These positive impacts to earnings were partially offset by higher manufacturing and freight costs of \$7.4 due to increased spending to meet increased production demands, and \$1.8 of higher operating expenses due to continued investments in technology in support of new growth programs, wage inflation and increased benefit costs.

**In-Process Separation**

	2012	2011	Total % Change	% Change Due to		
				Price	Volume/Mix	Currency
North America	\$ 25.3	\$ 23.7	7%	14%	-7%	0%
Latin America	30.8	26.1	18%	7%	11%	0%
Asia/Pacific	21.0	17.8	19%	6%	10%	3%
Europe/Middle East/Africa	14.5	10.8	34%	7%	27%	0%
<b>Total</b>	<b>\$ 91.6</b>	<b>\$ 78.4</b>	<b>17%</b>	<b>9%</b>	<b>8%</b>	<b>0%</b>



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

Net sales were up 17%, primarily due to higher selling prices of 9% and higher volumes of 8%. The volume increase reflects strong demand for mining products in the alumina and nickel cobalt markets. Selling prices increased across all product lines to offset higher raw material costs.

Earnings from operations were \$22.9, or 25% of sales in 2012, compared with \$16.4, or 21% of sales in 2011. The \$6.5 increase in earnings is principally due to higher selling prices of \$7.2, higher selling volumes of \$3.5, a favorable impact from changes in exchange rates of \$0.9, and net favorable fixed cost absorption of \$0.7 on higher production levels. This is partially offset by higher operating expenses of \$2.0 due to increased headcount to accelerate growth, higher raw material cost \$1.1, higher freight and warehousing cost \$1.1 on increased volumes, and additional period costs of \$1.5 due to higher plant maintenance activities.

**Table of Contents****Additive Technologies**

	2012	2011	Total % Change	% Change Due to		
				Price	Volume/Mix	Currency
North America	\$ 31.8	\$ 29.0	10%	6%	4%	0%
Latin America	5.4	6.0	-10%	8%	-16%	-2%
Asia/Pacific	15.9	16.1	-2%	2%	-5%	1%
Europe/Middle East/Africa	14.6	19.2	-24%	5%	-26%	-3%
<b>Total</b>	<b>\$ 67.7</b>	<b>\$ 70.3</b>	<b>-4%</b>	<b>5%</b>	<b>-8%</b>	<b>-1%</b>

Net sales decreased 4% due primarily to weaker sales volumes of 8%, partially offset by higher selling prices of 5%. The selling price increases reflect our efforts to recover the higher raw material costs. Selling volumes decreased primarily due to reduced demand for Specialty Additives products in Europe, reflecting a slow economy, and to a lesser extent, lower demand in North America. We experienced lower demand for polymer additive products in all regions outside of North America, which were mostly offset by strong volume increases in North America. The impact of changes in exchange rates lowered sales by 1%.

Earnings from operations were \$6.4, or 9% of sales in 2012, compared with \$8.4, or 12% of sales in 2011. The \$2.0 decrease in earnings is due to reduced marginal income on lower volumes of \$2.0, unfavorable period cost absorption of \$1.4, higher raw material costs of \$0.9, and higher period and operating expenses of \$2.1 primarily caused by salary inflation factors. This was partially offset by \$3.4 of selling price increases and lower freight costs of \$0.9 resulting from the lower sales volume, and net changes in exchange rates that increased earnings by \$0.1.

**Coating Resins**

	2012	2011	Total % Change	% Change Due to		
				Price	Volume/Mix	Currency
North America	\$ 92.9	\$ 90.2	3%	9%	-6%	0%
Latin America	16.6	17.1	-2%	7%	-8%	-1%
Asia/Pacific	83.2	95.3	-13%	0%	-14%	1%
Europe/Middle East/Africa	212.6	227.6	-7%	4%	-7%	-4%
<b>Total</b>	<b>\$ 405.3</b>	<b>\$ 430.2</b>	<b>-6%</b>	<b>5%</b>	<b>-9%</b>	<b>-2%</b>

Net sales were lower by 6%, primarily due to lower volumes of 9% across almost all businesses, reflecting the slow economy, with the exception of stronger demand in the automotive market. Selling price increases improved net sales by 5%, primarily from increases implemented in 2011 to offset higher raw material costs. Changes in exchange rates decreased sales by 2%.

Earnings from operations were \$28.8, or 7% of sales in 2012, compared with earnings from operations of \$20.0, or 5% of sales in 2011. The \$8.8 increase in earnings is principally due to higher selling prices of \$19.7, lower period and operating expenses of \$2.7 reflecting benefits from cost saving initiatives and site closures initiated in 2011, lower freight expense of \$1.4 on lower volumes, and \$0.5 favorable impact from changes in exchange rates. These positive effects are partially offset by reduced marginal income of \$14.4 on lower volumes, higher raw material costs of \$0.7, and unfavorable \$0.4 from sales of higher cost inventory due to lower production levels at the end of 2011.

**LIQUIDITY AND FINANCIAL CONDITION**

At March 31, 2012, our cash balance was \$419.7 compared with \$415.8 at December 31, 2011. At March 31, 2012, approximately 64% of our cash was located outside of the U.S.

*Net cash provided by continuing operations*

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

Net cash provided by operating activities of continuing operations was \$32.3 in 2012 compared with \$21.5 in 2011. Trade accounts receivable increased \$61.3 due to higher sales with average days outstanding of 49 days for the first quarter of 2012, which is the same as the 2011 fourth quarter average days. Inventory increased \$46.3 due to increased demand and higher production volumes in Engineered Materials and In-Process Separation. Inventory average days on hand were at 73 days for the first quarter of 2012, which is up compared to the 2011 fourth quarter average of 68 days. Accounts payable increased by \$74.0 due to higher purchases reflecting

-26-

**Table of Contents**

higher demand levels compared to the fourth quarter of 2011. First quarter 2012 accounts payable average days outstanding were up at 56 days compared to the fourth quarter 2011 average of 51 days. Accrued expenses decreased \$20.6, primarily due to payments related to 2011 incentive compensation. We disclosed in our 2011 Annual Report on Form 10-K that we expected to contribute \$40.7 and \$11.2, respectively, to our pension and postretirement plans in 2012. Through March 31, 2012, \$9.8 and \$3.8 in contributions were made to our pension and postretirement plans, respectively.

Net cash used in investing activities of continuing operations was \$49.5 in 2012 compared to \$23.0 in 2011. In the first quarter of 2012, we used \$28.6 in cash to acquire a business in India to improve our manufacturing capacity in our In-Process Separation segment, as discussed in Note 4 of the Consolidated Financial Statements. In the first quarter of 2012, we received proceeds of \$2.7 from the sale of assets, compared to proceeds totaling \$3.4 from sales of certain real estate and facilities of a former site in 2011. Capital spending for the first three months of 2012 was \$23.6 compared to \$26.4 in 2011. Capital spending in 2012 is primarily attributable to investments for the strategic expansion of our growth businesses within the Engineered Materials and In-Process Separation segments, in addition to maintenance of business capital across the Company. In the first quarter of 2009, we decided to delay the completion of the carbon fiber expansion project due to recession-driven demand reductions. Since then, carbon fiber demands have significantly increased, and we are currently assessing our timing and the cost for this project restart, which is expected in 2012. Our capital spending for 2012 is expected to be approximately \$200.0.

Net cash provided by financing activities in 2012 was \$13.2, compared to cash used in financing activities of \$30.6 in 2011. During the first three months of 2012, we received \$13.4 of proceeds from stock option exercises, had net debt proceeds of \$6.5 from short and long term borrowings and \$2.3 of excess tax benefits related to share-based payments. These proceeds were offset primarily by \$8.7 of cash dividends paid during the quarter.

*Share repurchases*

There were no repurchases of shares of our common stock in the first quarter of 2012. Approximately \$197.9 remained authorized under our stock buyback program as of March 31, 2012. We anticipate repurchases will be made from time-to-time on the open market or in private transactions and will be utilized for share-based compensation plans and other corporate purposes.

*Dividends*

On January 31, 2012, our Board of Directors declared a quarterly cash dividend of \$0.125 per common share, payable on February 24, 2012 to stockholders of record as of February 10, 2012. Cash dividends paid in the first quarter of 2012 and 2011 were \$8.7 and \$9.0, respectively. Dividends paid in the first three months of 2012 and 2011 include \$3.0 and \$2.8, respectively, paid by a majority owned subsidiary to its minority shareholder. On April 19, 2012, the Board of Directors declared a \$0.125 per common share cash dividend, payable on May 25, 2012 to shareholders of record as of May 10, 2012.

*Net cash provided by discontinued operations*

Net cash provided by operating activities of discontinued operations for the first quarter of 2011 was \$5.0. These cash flows consisted primarily of the net earnings from discontinued operations from what was formerly our Building Block Chemicals segment.

Net cash provided by investing activities of discontinued operations was \$156.5 in 2011. In the first quarter 2011, we received cash proceeds of \$158.8, net of transaction costs, related to the sale of our former Building Block Chemicals segment, which were offset by capital spending of \$2.4 for the business prior to the sale. The total consideration received from this sale was \$175.7, including cash consideration of \$160.7 that we received at closing and a promissory note for \$15.0. A cash payment of \$6.6 was made to the Purchaser in July 2011 as final settlement of the agreed upon working capital transferred, resulting in net realized consideration of \$169.1.

*Funding of future cash requirements*

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, our plans for capital investment, acquisitions, 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 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 otherwise restrict our financing activities. Our ability to comply with the covenants will depend on our future operating

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

performance. 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

-27-

---

## **Table of Contents**

in compliance with these covenants and expect to be in compliance for the foreseeable future. We have no borrowings outstanding under the agreement as of March 31, 2012. 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 March 31, 2012 the full amount of the facility was available to us.

In connection with our commitment to purchase Umeco plc (the Offer), discussed above, we have effectively restricted the use of the funds required to satisfy the sterling amount of the consideration payable under the Offer (including provisioning for exchange rate movements) until the earlier of the completion or termination of the Offer. We drew down \$210.0 from our existing revolving credit facility in April 2012 for the purposes of funding the Offer, such amount being subject to the aforementioned restrictions. This acquisition is expected to close in the third quarter of 2012. We expect that the remaining amount of the revolver will continue to be available based on our current forecasts.

### *Use of cash*

We have generated a significant amount of cash in recent years. In 2012, our use of cash priority is to invest in the typical maintenance of business capital spending projects and pension contributions. This is followed by expansion/cost reduction capital in our growth product lines and fast payback/margin improvement capital in our cash product lines. We will pursue bolt-on acquisitions for our growth product lines, such as the March 2012 acquisition of the manufacturing assets of a privately held Indian company for \$36.1, which will increase our metal extraction capacity for our In-Process Separation segment, and the announcement in April 2012 of our intention to acquire Umeco plc for approximately \$439.0 to further enhance our Engineered Materials segment. We will continue to look to buyback our debt if available at reasonable prices and return excess cash to shareholders through dividends and share repurchases when it is prudent to do so. We have approximately \$197.9 of buyback authorized as of March 31, 2012. We also will continue to pursue debt reductions when available at a reasonable price.

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 2011 Annual Report on Form 10-K.

## **Contractual Obligations and Commitments**

In conjunction with the completion of the sale of our former Building Block Chemicals segment in the first quarter of 2011, we entered into long-term supply agreements with the Purchaser for the supply of two of our key raw materials. Under the terms of the agreements, we are obligated to purchase a substantial amount of our melamine and acrylonitrile needs from the purchaser of our former Building Block Chemicals segment for periods ranging from 3 to 10 years. The prices for the raw materials under the agreements are market-based.

Reference is also made to Note 13 in Notes to Consolidated Financial Statements included herein which describes certain gross liabilities totaling \$37.8 for unrecognized tax benefits that will be resolved at some point over the next several years.

## **OTHER**

### **2012 OUTLOOK**

In our April 19, 2012 press release, which was also furnished as an exhibit to a Current Report on Form 8-K, we presented our outlook for our full year 2012 results 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 2011 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 24, 2012, as updated by the Current Report on Form 8-K filed with the SEC on April 19, 2012, related to our changes in reportable segments, and incorporated by reference herein. There were no changes to our critical accounting policies, except as related to depreciation, as discussed in Note 3 of the notes to the consolidated financial statement.

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

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

A number of the statements made by us in our Annual Report on Form 10-K, in other documents, including but not limited to the Chairman, President and Chief Executive Officer's and Vice President and Chief Financial Officer's letters to stockholders and stakeholders, respectively, in our press releases and in other 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. All statements in this report, including those made by the management of Cytec, other than historical statements, are forward-looking statements.

-28-

**Table of Contents**

Forward-looking statements include, among others, statements concerning: our or any of our segments outlook for the future, anticipated results of acquisitions and divestitures, selling price and raw material cost trends, anticipated changes in currency rates and their effects, economic forces within the industry we operate, anticipated costs, target completion dates and expenditures for capital projects, expected sales growth, operational excellence strategies and their results, expected annual tax rates, our long-term goals, environmental remediation costs, future legal settlements, claims and judgments, 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 successfully conclude changes to our business portfolio through acquisitions and divestitures; 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 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. Unless indicated otherwise, the terms Cytec, Company, we, us, and our each refer collectively to Cytec Industries Inc. and its subsidiaries.



**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, 2011, filed with the Securities and Exchange Commission on February 24, 2012, as updated by the Current Report on Form 8-K filed with the SEC on April 19, 2012, related to our changes in reportable segments, and incorporated by reference herein. Other 2012 financial instrument transactions include:

**Interest Rate Risk:** At March 31, 2012, our outstanding borrowings consisted of \$8.0 of short-term borrowings and \$637.9 of long-term debt. The long-term debt had a carrying and face value of \$637.9 and \$638.4, respectively, and a fair value of approximately \$733.8.

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 March 31, 2012, 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 March 31, 2012, the principal transactions hedged involved accounts receivable and accounts payable. 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 March 31, 2012, the currency and net contractual amounts of forward contracts outstanding translated into U. S. dollar equivalent amounts totaled \$271.3. The favorable fair value of currency contracts, based on forward exchange rates at March 31, 2012, was approximately \$1.2. Assuming that period-end exchange rates between the underlying currencies of all outstanding contracts and the various hedged currencies was to adversely change by a hypothetical 10%, the fair value of all outstanding contracts at March 31, 2012 would decrease by approximately \$26.5. 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 use cross currency swaps ( ten year swaps ) to hedge 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, which is designated as a net investment hedge. The total notional amount of the ten year swaps is 207.9. We pay 4.52% per annum on the Euro notional amount and receive 6.0% per annum for the original swaps and 5.80% per annum for the replacement swap on the USD notional amount on each April 1 and October 1, through the maturity date of the swap, which is on October 1, 2015. 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 March 31, 2012, the unfavorable fair value of the ten year swaps was \$19.7. 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 17 of Consolidated Financial Statements for additional details on cross currency swaps disclosures

Critical Factors	Change	Approximate Impact On Ten Year Swaps	
		Favorable/(Unfavorable) Fair Value Combined	
Euro interest rate curve	+10%	\$	1.1
Euro interest rate curve	-10%		(1.1)
USD interest rate curve	+10%		(0.9)
USD interest rate curve	-10%		0.9
Euro/USD exchange rate	+10%		(32.6)
Euro/USD exchange rate	-10%		32.6

**Table of Contents**

**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 March 31, 2012. 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 first quarter of 2012 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 11 to the Consolidated Financial Statements herein and in Note 11 to the Consolidated Financial Statements contained in our 2011 Annual Report on Form 10-K.

**Item 6. EXHIBITS**

(a). Exhibits

See Exhibit Index on page 34 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

April 23, 2012

**Table of Contents**

Exhibit Index

12	Computation of Ratio of Earnings to Fixed Charges for the three months ended March 31, 2012 and 2011
18	Preferability Letter Regarding Change in Accounting Policy Relating to Depreciation
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.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.