

CYTEC INDUSTRIES INC/DE/  
Form 10-Q  
October 31, 2013  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2013  
Commission file number 1-12372

---

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

---

|   |   |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 22-3268660<br>(I.R.S. Employer<br>Identification No). |
|---|---|

---

|   |                     |
|---|---------------------|
| Five Garret Mountain Plaza<br>Woodland Park, New Jersey<br>(Address of principal executive offices) | 07424<br>(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 35,462,141 shares of common stock outstanding at October 18, 2013.

---

Table of Contents

CYTEC INDUSTRIES INC. AND SUBSIDIARIES

10-Q Table of Contents

|   | Page      |
|---|-----------|
| <u>Part I – Financial Information</u>   |           |
| Item 1. <u>Consolidated Financial Statements</u>  | <u>3</u>  |
| <u>Consolidated Statements of Income</u>  | <u>3</u>  |
| <u>Consolidated Balance Sheets</u>  | <u>4</u>  |
| <u>Consolidated Statements of Cash Flows</u>  | <u>5</u>  |
| <u>Notes to Consolidated Financial Statements</u>   | <u>6</u>  |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>              | <u>31</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>42</u> |
| Item 4. <u>Controls and Procedures</u>  | <u>43</u> |
| <u>Part II – Other Information</u>  |           |
| Item 1. <u>Legal Proceedings</u>  | <u>43</u> |
| Item 2. <u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u> | <u>43</u> |
| Item 6. <u>Exhibits</u>   | <u>43</u> |
| <u>Signature</u>  | <u>44</u> |
| <u>Exhibit Index</u>  | <u>45</u> |

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. CONSOLIDATED FINANCIAL STATEMENTS

## CYTEC INDUSTRIES INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in millions, except per share amounts)

|  | Three Months Ended |         | Nine Months Ended |           |
|--|--------------------|---------|-------------------|-----------|
|  | September 30,      |         | September 30,     |           |
|  | 2013               | 2012    | 2013              | 2012      |
| Net sales  | \$463.9            | \$455.4 | \$1,455.1         | \$1,237.4 |
| Manufacturing cost of sales  | 313.3              | 316.8   | 978.6             | 850.6     |
| Selling and technical services                                     | 35.3               | 35.6    | 110.7             | 102.3     |
| Research and process development                                   | 12.5               | 13.0    | 36.4              | 38.2      |
| Administrative and general   | 32.3               | 37.2    | 93.4              | 98.6      |
| Amortization of acquisition intangibles                            | 3.6                | 3.4     | 11.1              | 5.1       |
| Asset impairment charge  | 2.7                | —       | 5.6               | —         |
| Earnings from operations   | 64.2               | 49.4    | 219.3             | 142.6     |
| Other expense, net   | 0.3                | 0.3     | 8.5               | 1.3       |
| Loss on early extinguishment of debt                               | —                  | —       | 39.4              | 0.2       |
| Equity in losses of associated company                             | —                  | 0.1     | 0.3               | 0.1       |
| Interest expense, net  | 3.4                | 7.0     | 14.9              | 24.0      |
| Earnings from continuing operations before income taxes            | 60.5               | 42.0    | 156.2             | 117.0     |
| Income tax provision   | 16.1               | 7.3     | 40.4              | 45.3      |
| Earnings from continuing operations                                | 44.4               | 34.7    | 115.8             | 71.7      |
| Earnings from operations of discontinued business, net of tax      | —                  | 39.7    | 31.6              | 93.4      |
| Loss on sales of discontinued operations, net of tax               | (0.6 )             | (15.5 ) | (32.9 )           | (15.5 )   |
| (Loss) earnings from discontinued operations, net of tax           | (0.6 )             | 24.2    | (1.3 )            | 77.9      |
| Net earnings   | 43.8               | 58.9    | 114.5             | 149.6     |
| Less: Net earnings attributable to noncontrolling interests        | —                  | (0.5 )  | (0.4 )            | (1.5 )    |
| Net earnings attributable to Cytec Industries Inc.                 | \$43.8             | \$58.4  | \$114.1           | \$148.1   |
| Comprehensive income   | \$66.5             | \$89.7  | \$52.6            | \$162.4   |
| Less: Comprehensive income attributable to noncontrolling interest | —                  | (0.6 )  | (0.2 )            | (1.3 )    |
| Comprehensive income attributable to Cytec Industries Inc.         | \$66.5             | \$89.1  | \$52.4            | \$161.1   |
| Earnings (loss) per share attributable to Cytec Industries Inc.    |                    |         |                   |           |
| Basic earnings (loss) per common share                             |                    |         |                   |           |
| Continuing operations  | \$1.23             | \$0.75  | \$2.85            | \$1.55    |
| Discontinued operations (net of noncontrolling interests)          | (0.02 )            | 0.51    | (0.04 )           | 1.66      |
|  | \$1.21             | \$1.26  | \$2.81            | \$3.21    |
| Diluted earnings (loss) per common share                           |                    |         |                   |           |
| Continuing operations  | \$1.20             | \$0.74  | \$2.79            | \$1.53    |
| Discontinued operations (net of noncontrolling interests)          | (0.01 )            | 0.50    | (0.04 )           | 1.63      |
|  | \$1.19             | \$1.24  | \$2.75            | \$3.16    |
| Dividends per common share   | \$0.125            | \$0.125 | \$0.375           | \$0.375   |

See accompanying Notes to Consolidated Financial Statements

Table of ContentsCYTEC INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions, except per share amounts)

|  | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current assets   |                       |                      |
| Cash and cash equivalents  | \$176.6               | \$179.3              |
| Trade accounts receivable, less allowance for doubtful accounts of \$5.1 and \$4.7 in 2013 and 2012, respectively                          | 258.6                 | 263.6                |
| Other accounts receivable  | 71.6                  | 39.1                 |
| Inventories  | 281.3                 | 269.8                |
| Deferred income taxes  | 15.7                  | 38.4                 |
| Other current assets   | 18.6                  | 18.9                 |
| Current assets held for sale   | —                     | 409.7                |
| Total current assets   | 822.4                 | 1,218.8              |
| Investment in associated companies   | 1.3                   | 1.7                  |
| Plants, equipment and facilities, at cost  | 1,522.9               | 1,310.4              |
| Less: accumulated depreciation   | (509.2                | ) (475.1             |
| Net plant investment   | 1,013.7               | 835.3                |
| Acquisition intangibles, net of accumulated amortization of \$54.3 and \$43.9 as of September 30, 2013 and December 31, 2012, respectively | 162.8                 | 183.7                |
| Goodwill   | 519.0                 | 525.3                |
| Deferred income taxes  | 47.6                  | 8.9                  |
| Other assets   | 77.5                  | 88.7                 |
| Non-current assets held for sale   | —                     | 1,061.8              |
| Total assets   | \$2,644.3             | \$3,924.2            |
| Liabilities  |                       |                      |
| Current liabilities  |                       |                      |
| Accounts payable   | \$205.8               | \$176.4              |
| Short-term borrowings  | —                     | 3.0                  |
| Current maturities of long-term debt   | 0.2                   | 136.1                |
| Accrued expenses   | 169.1                 | 177.4                |
| Income taxes payable   | 20.1                  | 51.4                 |
| Deferred income taxes  | 0.6                   | 0.6                  |
| Current liabilities held for sale  | —                     | 265.9                |
| Total current liabilities  | 395.8                 | 810.8                |
| Long-term debt   | 716.3                 | 567.4                |
| Pension and other postretirement benefit liabilities   | 188.3                 | 275.5                |
| Other noncurrent liabilities   | 195.2                 | 198.3                |
| Deferred income taxes  | 28.3                  | 70.9                 |
| Non-current liabilities held for sale  | —                     | 198.3                |
| Stockholders' equity   |                       |                      |
| Preferred stock, 20,000,000 shares authorized; none issued and outstanding   | —                     | —                    |
| Common stock, \$.01 par value per share, 150,000,000 shares authorized; issued 49,711,909 in 2013 and 49,618,861 in 2012                   | 0.5                   | 0.5                  |
| Additional paid-in capital   | 466.9                 | 465.6                |
| Retained earnings  | 1,517.9               | 1,419.2              |

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

|   |           |           |
|---|-----------|-----------|
| Accumulated other comprehensive income  | 94.0      | 155.7     |
| Treasury stock, at cost, 14,278,697 shares in 2013 and 4,672,700 shares in 2012 | (958.9    | ) (243.3  |
| Total Cytec Industries Inc. stockholders' equity                                | 1,120.4   | 1,797.7   |
| Noncontrolling interests  | —         | 5.3       |
| Total equity  | 1,120.4   | 1,803.0   |
| Total liabilities and stockholders' equity                                      | \$2,644.3 | \$3,924.2 |
| See accompanying Notes to Consolidated Financial Statements                     |           |           |

-4-

---

Table of ContentsCYTEC INDUSTRIES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in millions)

| Nine months ended September 30,  | 2013    | 2012      |   |
|--|---------|-----------|---|
| Cash flows (used in) provided by operating activities  |         |           |   |
| Net earnings   | \$114.5 | \$149.6   |   |
| (Loss) earnings from discontinued operations, net of tax   | (1.3)   | ) 77.9    |   |
| Net earnings from continuing operations  | 115.8   | 71.7      |   |
| Adjustments to reconcile net income to net cash provided by operating activities of continuing operations: |         |           |   |
| Depreciation   | 42.9    | 43.4      |   |
| Amortization   | 15.4    | 8.8       |   |
| Share-based compensation   | 9.8     | 9.7       |   |
| Deferred income taxes  | (14.8)  | ) (7.3)   | ) |
| Asset impairment charges   | 5.6     | —         |   |
| Loss on early extinguishment of debt   | 39.4    | 0.2       |   |
| Unrealized loss on derivative instruments  | 1.6     | 2.9       |   |
| Other  | 0.4     | —         |   |
| Changes in operating assets and liabilities (excluding effects of acquisitions and divestitures):          |         |           |   |
| Trade accounts receivable  | 4.3     | (18.1)    | ) |
| Other receivables  | 7.0     | 7.3       |   |
| Inventories  | (17.0)  | ) (21.3)  | ) |
| Other assets   | 9.3     | (0.9)     | ) |
| Accounts payable   | 18.4    | (9.2)     | ) |
| Accrued expenses   | (3.7)   | ) 16.2    |   |
| Income taxes payable   | (49.4)  | ) 19.7    |   |
| Other liabilities  | (95.6)  | ) (19.2)  | ) |
| Net cash provided by operating activities of continuing operations   | 89.4    | 103.9     |   |
| Net cash (used in) provided by operating activities of discontinued operations                             | (107.4) | ) 82.1    |   |
| Net cash (used in) provided by operating activities  | (18.0)  | ) 186.0   |   |
| Cash flows (used in) provided by investing activities:   |         |           |   |
| Additions to plants, equipment and facilities  | (217.5) | ) (84.3)  | ) |
| Acquisitions of businesses, net of cash received   | —       | (445.4)   | ) |
| Net cash used in investing activities of continuing operations   | (217.5) | ) (529.7) | ) |
| Net cash provided by investing activities of discontinued operations                                       | 1,002.0 | 97.4      |   |
| Net cash provided by (used in) investing activities  | 784.5   | (432.3)   | ) |
| Cash flows (used in) provided by financing activities:   |         |           |   |
| Proceeds from long-term debt   | 634.0   | 214.2     |   |
| Payments on long-term debt   | (658.2) | ) (202.4) | ) |
| Change in short-term borrowings, net   | 2.2     | 2.9       |   |
| Cash dividends   | (17.1)  | ) (20.2)  | ) |
| Proceeds from the exercise of stock options  | 21.3    | 19.7      |   |
| Purchase of treasury stock   | (750.1) | ) —       | ) |
| Excess tax benefits from share-based payment arrangements  | 4.5     | 4.6       |   |
| Other  | —       | (1.1)     | ) |
| Net cash (used in) provided by financing activities  | (763.4) | ) 17.7    |   |
| Effect of currency rate changes on cash and cash equivalents   | (5.8)   | ) 2.3     |   |

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

|   |         |          |   |
|---|---------|----------|---|
| Decrease in cash and cash equivalents                       | (2.7    | ) (226.3 | ) |
| Cash and cash equivalents, beginning of period              | 179.3   | 415.8    |   |
| Cash and cash equivalents, end of period                    | \$176.6 | \$189.5  |   |
| See accompanying Notes to Consolidated Financial Statements |         |          |   |

-5-

---

Table of Contents

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

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q and accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim reporting. Certain information and footnote disclosures normally included in our annual 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 2012 Annual Report on Form 10-K, as updated by the Current Report on Form 8-K filed with the SEC on April 18, 2013, 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 February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02. This ASU requires us to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. It also requires us to cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP to be reclassified directly to net income in their entirety in the same reporting period). On January 1, 2013, we adopted the provisions of ASU No. 2013-02, which are reflected in these financial statements.

3. CHANGE IN PENSION ACCOUNTING METHOD

We have elected to change our method of accounting for our continuing pension and other postemployment benefit (OPEB) plans to a more preferable method as permitted under U.S. GAAP. The new accounting method, referred to as mark-to-market (MTM), was adopted in the second quarter of 2013, and is retrospectively applied to our financial results for all periods. Our management believes that this change in accounting improves transparency of reporting of its operating results by recognizing the effects of economic and interest rate trends on pension and OPEB plan investments and assumptions in the year these actuarial gains and losses are incurred.

Historically, we have recognized pension and OPEB actuarial gains and losses annually in our Consolidated Balance Sheets as Accumulated Other Comprehensive Income (Loss) as a component of Stockholders' Equity, and then amortized these gains and losses each quarter in our Statements of Income. The expected return on assets component of pension expense has been calculated using a five-year smoothing of asset gains and losses. In addition, the gain or loss component of pension and OPEB expense has historically been based on amortization of actuarial gains and losses that exceed 10 percent of the greater of plan assets or projected benefit obligations over the average future service period of active employees.

Under the new method of accounting, our pension and OPEB costs consist of two elements: 1) ongoing costs recognized quarterly, which are comprised of service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; and 2) MTM gains and losses recognized annually, in the fourth quarter of

each year, resulting from changes in actuarial assumptions and the differences between actual and expected returns on plan assets and discount rates. Any interim remeasurements triggered by a curtailment, settlement, or significant plan changes will be recognized as an MTM adjustment in the quarter in which such remeasurement event occurs. This methodology is preferable under GAAP since it aligns more closely with fair value principles and does not delay the recognition of gains and losses into future periods. The new method has been retrospectively applied to the financial results of all periods presented.

-6-

---

Table of Contents

Our operating segment results follow internal management reporting, which is used for making operating decisions and assessing performance. Historically, total pension and OPEB costs have been allocated to each segment. In conjunction with the change in accounting principle, the service cost, which represents the benefits earned by active employees during the period, and amortization of prior service costs/credits will continue to be allocated to each business segment. Interest costs, expected return on assets, and the MTM adjustment for actuarial gains and losses will be included in the Corporate and Unallocated segment and not allocated to the business segments. We believe this change in expense allocation will better reflect the underlying operating results of each business and is consistent with management's review of the operating results of our segments.

The cumulative effect of the change in accounting for pension and OPEB plans was a decrease in Retained Earnings as of December 31, 2012 (the most recent measurement date prior to the change) of \$222.1, an increase in Accumulated Other Comprehensive Income of \$220.8, for a net decrease of \$1.3 to total stockholders' equity.

Additionally, inventory increased by \$2.6, accrued expenses increased by \$3.4, current deferred tax assets increased by \$0.6, and current assets held for sale decreased by \$1.1. See Note 18 "Employee Benefit Plans".

## Unaudited Consolidated Statements of Income

|  | Three Months Ended September 30, 2013 |                   |          |   |
|--|---------------------------------------|-------------------|----------|---|
|  | Previous                              | Effect of         | As       |   |
|  | Accounting Method                     | Accounting Change | Reported |   |
| Manufacturing cost of sales                                | \$319.6                               | \$(6.3            | )\$313.3 |   |
| Selling and technical services                             | 37.0                                  | (1.7              | )35.3    |   |
| Research and process development                           | 13.4                                  | (0.9              | )12.5    |   |
| Administrative and general                                 | 33.6                                  | (1.3              | )32.3    |   |
| Earnings from operations                                   | 54.0                                  | 10.2              | 64.2     |   |
| Earnings from continuing operations before income taxes    | 50.3                                  | 10.2              | 60.5     |   |
| Income tax provision                                       | 12.6                                  | 3.5               | 16.1     |   |
| Earnings from continuing operations                        | 37.7                                  | 6.7               | 44.4     |   |
| Loss from discontinued operations, net of tax              | (0.7                                  | )0.1              | (0.6     | ) |
| Net earnings   | 37.0                                  | 6.8               | 43.8     |   |
| Net earnings attributable to Cytec Industries Inc.         | 37.0                                  | 6.8               | 43.8     |   |
| Comprehensive income                                       | \$65.8                                | \$0.7             | \$66.5   |   |
| Comprehensive income attributable to Cytec Industries Inc. | 65.8                                  | 0.7               | 66.5     |   |
| Basic earnings (loss) per common share                     |                                       |                   |          |   |
| Continuing operations                                      | \$1.04                                | \$0.19            | \$1.23   |   |
| Discontinued operations (net of noncontrolling interests)  | (0.02                                 | )—                | (0.02    | ) |
|  | \$1.02                                | \$0.19            | \$1.21   |   |
| Diluted earnings (loss) per common share                   |                                       |                   |          |   |
| Continuing operations                                      | \$1.02                                | \$0.18            | \$1.20   |   |
| Discontinued operations (net of noncontrolling interests)  | (0.01                                 | )—                | (0.01    | ) |
|  | \$1.01                                | \$0.18            | \$1.19   |   |

Table of Contents

## Unaudited Consolidated Statements of Income

|  | Three Months Ended September 30, 2012 |                                |          |
|--|---------------------------------------|--------------------------------|----------|
|  | As Previously<br>Reported             | Effect of<br>Accounting Change | Revised  |
| Manufacturing cost of sales                                | \$320.8                               | \$(4.0)                        | )\$316.8 |
| Selling and technical services                             | 36.5                                  | (0.9)                          | )35.6    |
| Research and process development                           | 13.4                                  | (0.4)                          | )13.0    |
| Administrative and general                                 | 37.9                                  | (0.7)                          | )37.2    |
| Earnings from operations                                   | 43.4                                  | 6.0                            | 49.4     |
| Earnings from continuing operations before income taxes    | 36.0                                  | 6.0                            | 42.0     |
| Income tax provision                                       | 5.0                                   | 2.3                            | 7.3      |
| Earnings from continuing operations                        | 31.0                                  | 3.7                            | 34.7     |
| Earnings from discontinued operations, net of tax          | 22.8                                  | 1.4                            | 24.2     |
| Net earnings   | 53.8                                  | 5.1                            | 58.9     |
| Net earnings attributable to Cytec Industries Inc.         | 53.3                                  | 5.1                            | 58.4     |
| <br>   |                                       |                                |          |
| Comprehensive income                                       | \$89.8                                | \$(0.1)                        | )\$89.7  |
| Comprehensive income attributable to Cytec Industries Inc. | 89.2                                  | (0.1)                          | )89.1    |
| <br>   |                                       |                                |          |
| Basic earnings per common share                            |                                       |                                |          |
| Continuing operations                                      | \$0.67                                | 0.08                           | 0.75     |
| Discontinued operations (net of noncontrolling interests)  | 0.48                                  | 0.03                           | 0.51     |
|  | \$1.15                                | \$0.11                         | \$1.26   |
| <br>   |                                       |                                |          |
| Diluted earnings per common share                          |                                       |                                |          |
| Continuing operations                                      | \$0.66                                | 0.08                           | 0.74     |
| Discontinued operations (net of noncontrolling interests)  | 0.47                                  | 0.03                           | 0.50     |
|  | \$1.13                                | \$0.11                         | \$1.24   |

Table of Contents

## Unaudited Consolidated Statements of Income

|  | Nine Months Ended September 30, 2013 |                                |                |
|--|--------------------------------------|--------------------------------|----------------|
|  | Previous<br>Accounting Method        | Effect of<br>Accounting Change | As<br>Reported |
| Manufacturing cost of sales                                | \$996.9                              | \$(18.3)                       | )\$978.6       |
| Selling and technical services                             | 115.5                                | (4.8)                          | )110.7         |
| Research and process development                           | 38.8                                 | (2.4)                          | )36.4          |
| Administrative and general                                 | 97.0                                 | (3.6)                          | )93.4          |
| Earnings from operations                                   | 190.2                                | 29.1                           | 219.3          |
| Earnings from continuing operations before income taxes    | 127.1                                | 29.1                           | 156.2          |
| Income tax provision                                       | 29.9                                 | 10.5                           | 40.4           |
| Earnings from continuing operations                        | 97.2                                 | 18.6                           | 115.8          |
| Earnings (loss) from discontinued operations, net of tax   | (6.8)                                | )5.5                           | (1.3)          |
| Net earnings   | 90.4                                 | 24.1                           | 114.5          |
| Net earnings attributable to Cytec Industries Inc.         | 90.0                                 | 24.1                           | 114.1          |
| <br>   |                                      |                                |                |
| Comprehensive income                                       | \$49.1                               | \$3.5                          | \$52.6         |
| Comprehensive income attributable to Cytec Industries Inc. | 48.9                                 | 3.5                            | 52.4           |
| <br>   |                                      |                                |                |
| Basic earnings (loss) per common share                     |                                      |                                |                |
| Continuing operations                                      | \$2.39                               | \$0.46                         | \$2.85         |
| Discontinued operations (net of noncontrolling interests)  | (0.18)                               | )0.14                          | (0.04)         |
|  | \$2.21                               | \$0.60                         | \$2.81         |
| <br>   |                                      |                                |                |
| Diluted earnings (loss) per common share                   |                                      |                                |                |
| Continuing operations                                      | \$2.35                               | \$0.44                         | \$2.79         |
| Discontinued operations (net of noncontrolling interests)  | (0.18)                               | )0.14                          | (0.04)         |
|  | \$2.17                               | \$0.58                         | \$2.75         |

Earnings from operations for the nine months ended September 30, 2013, includes a net \$1.9 benefit for pension MTM adjustments, consisting of the portion deferred from the fourth quarter 2012 MTM and the remeasurement of two of our U.S. plans triggered by the curtailment of the plans resulting from the Coatings business divestiture on April 3, 2013.

Table of Contents

## Unaudited Consolidated Statements of Income

|  | Nine Months Ended September 30, 2012 |                                |          |
|--|--------------------------------------|--------------------------------|----------|
|  | As Previously<br>Reported            | Effect of<br>Accounting Change | Revised  |
| Manufacturing cost of sales                                | \$847.3                              | \$3.3                          | \$850.6  |
| Selling and technical services                             | 105.0                                | (2.7)                          | )102.3   |
| Research and process development                           | 39.5                                 | (1.3)                          | )38.2    |
| Administrative and general                                 | 100.8                                | (2.2)                          | )98.6    |
| Earnings from operations                                   | 139.7                                | 2.9                            | 142.6    |
| Earnings from continuing operations before income taxes    | 114.1                                | 2.9                            | 117.0    |
| Income tax provision                                       | 44.2                                 | 1.1                            | 45.3     |
| Earnings from continuing operations                        | 69.9                                 | 1.8                            | 71.7     |
| Earnings from discontinued operations, net of tax          | 73.7                                 | 4.2                            | 77.9     |
| Net earnings   | 143.6                                | 6.0                            | 149.6    |
| Net earnings attributable to Cytec Industries Inc.         | 142.1                                | 6.0                            | 148.1    |
| <br>   |                                      |                                |          |
| Comprehensive income                                       | \$172.3                              | \$(9.9)                        | )\$162.4 |
| Comprehensive income attributable to Cytec Industries Inc. | 171.0                                | (9.9)                          | )161.1   |
| <br>   |                                      |                                |          |
| Basic earnings per common share                            |                                      |                                |          |
| Continuing operations                                      | \$1.52                               | \$0.03                         | \$1.55   |
| Discontinued operations (net of noncontrolling interests)  | 1.56                                 | 0.10                           | 1.66     |
|  | \$3.08                               | \$0.13                         | \$3.21   |
| <br>   |                                      |                                |          |
| Diluted earnings per common share                          |                                      |                                |          |
| Continuing operations                                      | \$1.49                               | \$0.04                         | \$1.53   |
| Discontinued operations (net of noncontrolling interests)  | 1.54                                 | 0.09                           | 1.63     |
|  | \$3.03                               | \$0.13                         | \$3.16   |

Earnings from operations for the nine months ended September 30, 2012, includes a \$13.9 charge for a pension MTM adjustment, which consists of the portion of the fourth quarter 2011 MTM adjustment that was deferred in inventory at the end of 2011.

## 4. ACQUISITIONS

## Acquisition of Umeco plc

On July 20, 2012, we completed the acquisition of all of the outstanding shares of Umeco plc (“Umeco”), an international provider of composite and process materials, in an all-cash transaction at a cost of approximately \$423.8. To fund the transaction, we used approximately \$170.0 from the draw-down of our existing \$400.0 revolving credit facility (the “Revolving Credit Facility”) with the balance funded by cash on hand. The acquisition is intended to strengthen our position as a leading manufacturer of composite materials, while offering significant opportunities for growth and value creation, particularly in industrial composites and process materials. The acquired Umeco business is being reported partly in the Aerospace Materials segment, but mostly in the Industrial Materials segment. The acquisition is accounted for under the acquisition method of accounting in accordance with the FASB’s Accounting Standards Codification (“ASC”) Topic 805, Business Combinations. As such, the Umeco assets acquired and liabilities assumed are recorded at their acquisition-date fair values. Acquisition-related transaction costs are not included as a component of consideration transferred, but are accounted for as an expense in the period in which the costs are incurred. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities

assumed is allocated to goodwill.

-10-

---

Table of Contents

The following table summarizes the final assigned fair values of the assets acquired and liabilities assumed at the acquisition date.

|  |         |   |
|--|---------|---|
| Cash                                       | \$3.0   |   |
| Trade receivables                          | 65.2    |   |
| Inventories                                | 58.2    |   |
| Other current assets                       | 25.5    |   |
| Plants, equipment and facilities           | 67.9    |   |
| Amortizable intangible assets              | 175.2   |   |
| Goodwill                                   | 186.7   |   |
| Deferred tax assets                        | 1.2     |   |
| Other non-current assets                   | 5.3     |   |
| Deferred tax liabilities                   | (52.1   | ) |
| Other current and non-current liabilities  | (112.3  | ) |
| Total acquisition consideration allocation | \$423.8 |   |

Goodwill recorded in connection with this acquisition was approximately \$186.7, which represents the significant opportunities for growth and value creation by expanding our presence in the industrial composites sector, as well as the expected synergies from combining the acquired business with our existing business. Goodwill was assigned in part to the Aerospace Materials and Industrial Materials segments. The estimated amount of goodwill deductible for tax purposes over a 5 year period is \$7.1. The estimated goodwill non-deductible for tax purposes is approximately \$179.6.

The following information provides details about the estimated step-up in fair value and/or the estimated fair value at the acquisition date for some key balance sheet items.

Inventories

As of the effective date of the acquisition, inventory is required to be measured at fair value. Raw materials and work in process are valued at book value which is assumed to be a reasonable proxy for fair value. The fair values for finished goods inventory were determined based on estimated selling prices less the sum of (a) costs of selling and (b) a reasonable profit allowance for the selling effort. The net step-up in fair value for finished goods was \$5.6.

Deferred taxes

In connection with the acquisition of Umeco, we acquired the stock of Umeco and therefore inherited the historical tax basis of its assets and liabilities, as well as its other tax attributes. As a result, we established deferred tax assets and liabilities with respect to the step-up to fair value of assets and liabilities for book purposes. We also inherited various tax uncertainties and valuation allowances, which were adjusted to reflect our judgments and estimates regarding the ultimate resolution of the items and consideration of the combined company activities.

Property and equipment

As of the effective date of the acquisition, property and equipment are required to be measured at fair value. It is assumed that all property and equipment will be used in a manner that represents the highest and best use of those assets. The fair value of land assets was primarily determined through use of the market approach, while the fair value of land improvements and personal property (machinery and equipment and fixed assets – other) was primarily determined through use of the cost approach and corroborated with an income approach when appropriate. Our fair value adjustment to property and equipment has been made by obtaining an understanding of the nature, amount and type of Umeco property and equipment as of July 20, 2012. The step-up in fair value for property and equipment was \$4.9.

Intangible assets include the following:

|  | Estimated Fair Value | Remaining Useful Lives (Years) |
|--|----------------------|--------------------------------|
| Customer relationships                                 | \$141.9              | 16                             |
| Technology - Structural Materials: Aerospace & Defense | \$14.3               | 21                             |
| Technology - Structural Materials: Other industries    | \$9.2                | 6                              |

Trademarks and trade names

\$9.8

8

-11-

---

Table of Contents

It is assumed that all intangible assets will be used in a manner that represents the highest and best use of those assets. The fair value of intangible assets was determined primarily using income approaches. This included the multi-period excess earnings valuation method for customer relationships and the relief-from-royalty valuation method for trademarks and trade names, and technology assets. Some of the more significant assumptions used in the development of intangible asset values, as applicable, include the amount and timing of projected future cash flows (including net sales, cost of sales, marketing, administrative and development expenses and working capital); the discount rate selected to measure the risks inherent in the future cash flows; the assessment of the asset's life cycle and the competitive trends impacting the asset; and royalty rates.

The fair value of the assets acquired includes trade receivables of \$65.2, substantially all of which has been collected. The assets and liabilities arising from contingencies recognized as of the acquisition date are not significant to the consolidated financial statements.

**Pro Forma Financial Information**

The results of operations of Umeco have been included in the consolidated statements of operations since the acquisition date of July 20, 2012. The following table reflects the unaudited pro forma consolidated results of operations as if the acquisition had taken place on January 1, 2011:

|   | Three Months Ended<br>September 30,<br>2012 | Nine Months Ended<br>September 30,<br>2012 |
|---|---|--|
| Net revenue   | \$473.8                                     | \$1,425.5                                  |
| Net income attributable to Cytec from continuing operations | \$46.4                                      | \$90.8                                     |
| Diluted earnings per share from continuing operations       | \$0.98                                      | \$1.94                                     |

These amounts have been calculated after applying Cytec's accounting policies and adjusting the results of Umeco to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2011 with the consequential tax effects.

For the three and nine months ended September 30, 2012, material non-recurring pro forma adjustments include the removal of costs related to the acquisition of Umeco of \$14.9 and \$19.0, respectively (including \$10.6 and \$11.8 of acquisition costs included in legacy Umeco's consolidated statement of operations for the three and nine months ended September 30, 2012, respectively).

The unaudited pro forma information does not include any adjustments for any restructuring activities, operating efficiencies or cost savings.

**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. We are in the process of completing and upgrading the capabilities of the acquired plant to meet appropriate safety and operating standards. Our expectation is that this work will be completed and we will begin production of our mining chemical products in mid-2014. The results of operations of the acquired business have been included in our In Process Separation segment since April 1, 2012. The acquisition was funded from our cash on hand and has been accounted for as an acquisition of a business.

The following table summarizes the final assigned fair values of the assets acquired and liabilities assumed as of March 30, 2012.

|                                |         |
|--------------------------------|---------|
| Inventories                    | \$ 1.1  |
| Other current assets           | 0.4     |
| Plants, equipment and facility | 6.5     |
| Identifiable intangibles       | 1.2     |
| Goodwill                       | 20.8    |
| Other, net                     | 0.2     |
| Total purchase price           | \$ 30.2 |



Table of Contents

The goodwill recorded in connection with this acquisition 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.

The 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 material revenues or earnings related to SOIL included in our consolidated statements of income for the three and nine months ended September 30, 2012.

## 5. DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

### Discontinued operations

#### Coating Resins

On April 3, 2013, we completed the divestiture of our remaining Coating Resins business to Advent International, a global private equity firm for \$1,015.0 plus assumed liabilities of \$118.0, bringing the total value to \$1,133.0. As a result, in the second quarter of 2013, we recorded an after-tax loss on the sale of \$15.5. In the first quarter of 2013, we recorded a preliminary charge of \$4.3 to adjust our carrying value of the disposal group to its fair value less cost to sell, based on the terms of the agreement. For the three months ended September 30, 2013, we recorded after-tax losses of approximately \$0.6, which primarily relate to certain tax liabilities related to taxable periods (or portions thereof) ending on or before April 3, 2013. The after-tax losses and the adjustment to carrying value are included in loss on sale of discontinued operations, net of tax in the consolidated statements of income. The final price paid and loss on sale is subject to final working capital and other customary adjustments.

Previously, on July 31, 2012, we completed the sale of the pressure sensitive adhesives (“PSA”) product line of the former Coating Resins segment to Henkel AG & Co. for approximately \$105.0, including working capital of approximately \$15.0. For both the three and nine months ended September 30, 2012, we recorded an after-tax gain on the sale of PSA of \$8.3, which is included in Loss on sale of discontinued operations, net of tax in the consolidated statements of income. We also recorded an after-tax charge of \$23.8 in the third quarter of 2012 to adjust our carrying value of the Coatings disposal group to its fair value less cost to sell, based on the terms of the definitive agreement with Advent at that time. The charge is included in Loss on sale of discontinued operations, net of tax in the consolidated statements of income for the three and nine months ended September 30, 2012.

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

The following table displays summarized activity in our consolidated statements of income for discontinued operations during the three and nine months ended September 30, 2013 and 2012, related to our former Coatings Resins segment.

|   | Three Months<br>Ended September<br>30, |         | Nine Months Ended<br>September 30, |           |
|---|--|---------|------------------------------------|-----------|
|   | 2013                                   | 2012    | 2013                               | 2012      |
| Net sales <sup>(1)</sup>  | \$—                                    | \$364.3 | \$368.0                            | \$1,163.3 |
| Earnings from operations of discontinued businesses before income taxes | \$—                                    | \$56.4  | \$48.1                             | \$146.5   |
| Income tax expense on operations  | —                                      | (16.7 ) | (16.5 )                            | (53.1 )   |
| Gain (loss) on sale of discontinued operations                          | (0.8 )                                 | 21.4    | 16.7                               | 21.4      |
| Income tax (expense) benefit on gain (loss) on sale                     | 0.2                                    | (13.1 ) | (37.1 )                            | (13.1 )   |
| Adjust to fair value, less cost to sell                                 | —                                      | (25.4 ) | —                                  | (25.4 )   |
| Income tax benefit on adjustment  | —                                      | 1.6     | —                                  | 1.6       |
| (Loss) earnings from discontinued operations, net of tax                | \$(0.6 )                               | \$24.2  | \$11.2                             | \$77.9    |

(1) Net sales for the nine months ended September 30, 2013 include sales from January 1, 2013 through April 2, 2013.



Table of Contents

## Assets and liabilities held for sale

The following table displays a summary of the assets and liabilities held for sale as of December 31, 2012.

|   | December 31, 2012 |
|---|-------------------|
| Assets                                    |                   |
| Trade accounts receivable, net            | \$ 192.5          |
| Inventories, net                          | 195.0             |
| Other current assets                      | 22.2              |
| Plants, equipment and facilities, net     | 432.7             |
| Acquisition intangibles, net              | 252.9             |
| Goodwill, net                             | 323.1             |
| Other assets                              | 53.1              |
|   | \$1,471.5         |
| Liabilities                               |                   |
| Accounts payable                          | \$ 164.5          |
| Accrued liabilities                       | 100.8             |
| Pension and other postretirement benefits | 88.0              |
| Deferred income taxes                     | 51.8              |
| Other liabilities                         | 59.1              |
|   | \$464.2           |
| Net assets held for sale                  | \$1,007.3         |

In connection with the sale of the business to Advent, we agreed to retain certain liabilities, including liabilities for U.S. pension and other postretirement benefits and certain tax liabilities related to taxable periods (or portions thereof) ending on or before April 3, 2013.

## Sale of Distribution business

On July 12, 2013, we sold the Industrial Materials' distribution business, which we acquired from Umeco in July 2012, to Cathay Investments for \$8.6, subject to final working capital and other customary adjustments. In the second quarter of 2013, we recorded an after-tax charge of \$12.5 to adjust our carrying value of the disposal group to its fair value less cost to sell, based on the terms of the agreement. The charge is included in loss on sale of discontinued operations, net of tax in the consolidated statements of income.

The results of operations of the former distribution business prior to its divestiture remain in continuing operations for all periods presented, as the results of operations for the business and assets and liabilities sold were not material to disclose as discontinued operations or assets held for sale.

**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:

|                                  | Three Months Ended |       | Nine Months Ended |        |
|----------------------------------|--------------------|-------|-------------------|--------|
|                                  | September 30,      |       | September 30,     |        |
|                                  | 2013               | 2012  | 2013              | 2012   |
| Manufacturing cost of sales      | \$0.2              | \$0.8 | \$(0.2)           | \$3.1  |
| Selling and technical services   | —                  | 0.3   | 0.2               | 0.8    |
| Research and process development | —                  | —     | —                 | 0.5    |
| Administrative and general       | 1.7                | 3.5   | 2.6               | 11.6   |
| Asset impairment charge          | 2.6                | —     | 2.6               | —      |
| Total                            | \$4.5              | \$4.6 | \$5.2             | \$16.0 |



Table of Contents

Details of our 2013 restructuring initiatives are as follows:

In the third quarter of 2013, we launched cost reduction initiatives in our Industrial Materials segment to address the current market conditions and better position ourselves for profitable growth. The plan includes headcount reductions of approximately 55 people, through modification of shift patterns within various operations, centralization of logistics and planning activities, and closure of a small site in Beelitz, Germany. The plan resulted in a pre-tax restructuring charge in the third quarter of 2013 of approximately \$4.2 related mainly to severance costs and the closure of a manufacturing facility. The initiative is expected to be completed by 2015.

In the second quarter of 2013, we launched initiatives in our Aerospace Materials segment to move all production operations from the Costa Mesa, Adelanto, and Huntington Beach, California sites into the Winona, Minnesota, Tulsa, Oklahoma, and Anaheim, California locations. Approximately 120 employees will be impacted by this move. These plans resulted in a restructuring charge of \$1.1 during the first nine months of 2013, primarily for severance, retention costs and accelerated depreciation. The initiatives are expected to be completed in waves by the first quarter of 2015 and paid for by mid-2015.

The remaining reserve relating to the 2013 restructuring initiatives at September 30, 2013 is \$1.6.

Details of our 2012 restructuring initiatives are as follows:

In the third quarter of 2012, we approved plans to realign the supporting structure of our Aerospace Materials and Industrial Materials segments as we take advantage of synergies from the acquisition of Umeco. These plans resulted in a restructuring charge of \$6.6 related to the severance of 31 positions. The initiatives are expected to be substantially completed in 2013 and paid for by the end of 2015.

In the second quarter of 2012, we launched initiatives in our corporate functions across sales, marketing, manufacturing, supply chain, research and development, and administrative functions to mitigate continuing costs following the anticipated sale of Coating Resins. These initiatives resulted in charges related to severance and employee benefits of \$14.7 associated with the elimination of 176 positions. These initiatives are expected to be substantially completed and paid for by the end of 2014.

During the first nine months of 2013, we recorded a net credit adjustment of \$0.1 to these initiatives.

The remaining reserve relating to the 2012 restructuring initiatives at September 30, 2013 is \$4.5.

| Restructuring Initiatives:       | 2012   | 2013   | Total  |   |
|----------------------------------|--------|--------|--------|---|
| Balance December 31, 2011        | \$—    | \$—    | \$—    |   |
| 2012 charges                     | 21.3   | —      | 21.3   |   |
| Non-cash items                   | (0.1   | ) —    | (0.1   | ) |
| Cash payments                    | (8.3   | ) —    | (8.3   | ) |
| Currency translation adjustments | 0.3    | —      | 0.3    |   |
| Balance December 31, 2012        | \$13.2 | \$—    | \$13.2 |   |
| First quarter charges            | 0.3    | —      | 0.3    |   |
| Non-cash items                   | —      | —      | —      |   |
| Cash payments                    | (3.1   | ) —    | (3.1   | ) |
| Currency translation adjustments | (0.1   | ) —    | (0.1   | ) |
| Balance March 31, 2013           | \$10.3 | \$—    | \$10.3 |   |
| Second quarter charges (credits) | (0.4   | ) 0.8  | 0.4    |   |
| Non-cash items                   | —      | —      | —      |   |
| Cash payments                    | (4.0   | ) —    | (4.0   | ) |
| Currency translation adjustments | —      | —      | —      |   |
| Balance June 30, 2013            | \$5.9  | \$0.8  | \$6.7  |   |
| Third quarter charges            | —      | 4.5    | 4.5    |   |
| Non-cash items <sup>(1)</sup>    | —      | (2.8   | ) (2.8 | ) |
| Cash payments                    | (1.4   | ) (1.0 | ) (2.4 | ) |
| Currency translation adjustments | —      | 0.1    | 0.1    |   |
| Balance September 30, 2013       | \$4.5  | \$1.6  | \$6.1  |   |



Table of Contents

(1) Includes a \$2.6 charge for the write-off of plant assets at our manufacturing facility in Beelitz, Germany, and accelerated depreciation of plant assets at our California sites.

**7. SHARE-BASED COMPENSATION**

The fair value of each option or stock-settled share appreciation right (“SARS”) award is estimated on the grant date using a binomial-lattice option valuation model. Stock-settled SARS are economically valued the same as stock options. The binomial-lattice model takes into account variables such as volatility, dividend yield, and risk-free interest rate. In addition, the binomial-lattice model considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option. The weighted average assumptions for nine months ended September 30, 2013 and 2012 are noted in the following table:

| Nine Months Ended September 30,        | 2013    | 2012    |
|--|---------|---------|
| Expected life (years)                  | 6.2     | 6.2     |
| Expected volatility                    | 36.2%   | 41.9%   |
| Expected dividend yield                | 0.78%   | 1.01%   |
| Risk-free interest rate                | 1.86%   | 2.11%   |
| Weighted-average fair value per option | \$26.56 | \$19.91 |

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**

The 1993 Stock Award and Incentive Plan (the “1993 Plan”) provides for grants of a variety of awards, such as stock options (including incentive stock options and nonqualified stock options), non-vested stock (including performance stock), SARS (including those settled with common shares) and deferred stock awards and dividend equivalents. At September 30, 2013 there were approximately 5,000,000 shares reserved for issuance under the 1993 Plan, inclusive of 2,300,000 shares reserved for issuance for all outstanding share-based compensation grants.

**Stock options and stock-settled SARS**

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

A summary of stock options and stock-settled SARS activity for the nine months ended September 30, 2013 is presented below:

| Options and Stock-Settled SARS Activity: | Number of Units | Weighted Average Exercise Price Per Unit | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|--|-----------------|--|---|---------------------------|
| Outstanding at January 1, 2013           | 2,672,730       | \$46.22                                  |   |                           |
| Granted                                  | 287,845         | 73.07                                    |   |                           |
| Exercised                                | (818,281)       | 46.22                                    |   |                           |
| Forfeited                                | (113,354)       | 51.28                                    |   |                           |
| Outstanding at September 30, 2013        | 2,028,940       | \$49.75                                  | 6.0   | \$64.3                    |
| Exercisable at September 30, 2013        | 1,428,106       | \$44.98                                  | 4.9   | \$52.0                    |

During the nine months ended September 30, 2013, we granted 287,845 stock options. The weighted-average grant-date fair value of the stock options granted during the nine months ended September 30, 2013 and 2012 was

\$26.56 and \$19.91 per share, respectively. Total pre-tax compensation cost related to stock option and stock-settled SARS was \$2.4 and \$1.7 for the

-16-

---

Table of Contents

three months ended September 30, 2013 and 2012, respectively, and \$6.9 and \$6.3 during the nine months ended September 30, 2013 and 2012, respectively. The total intrinsic value of stock options and stock-settled SARS exercised during the nine months ended September 30, 2013 and 2012 was \$24.2 and \$17.6, respectively. Treasury shares and newly issued shares have been utilized for stock option and stock-settled SARS exercises. The total fair value of stock options and stock-settled SARS vested during the nine months ended September 30, 2013 and 2012 was \$7.7 and \$6.5, respectively.

As of September 30, 2013, there was \$5.9 of total unrecognized compensation cost related to stock options and stock-settled SARS. That cost is expected to be recognized over a weighted-average period of 1.3 years as the majority of our awards vest over 3 years.

Total tax benefits realized from share-based awards was \$8.5 and \$5.6 for the nine months ended September 30, 2013 and 2012, respectively. Cash received from stock options exercised was \$21.3 and \$19.7 for the nine months ended September 30, 2013 and 2012, 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 September 30, 2013 and 2012 was \$0.4 for both periods. The total amount of pre-tax expense recognized for cash-settled SARS was \$0.5 and \$1.0 for the nine months ended September 30, 2013 and 2012, respectively. The liability related to our cash-settled SARS was \$1.1 at September 30, 2013 and \$1.7 at December 31, 2012.

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

The 1993 Plan provides for the issuance of 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 2013 and 2012, and there were no outstanding performance stock awards as of September 30, 2013.

A summary of non-vested stock and non-vested stock units for the nine months ended September 30, 2013 is presented below:

| Non-vested Stock and Stock Units: | Number of<br>Units | Weighted Average<br>Grant Date<br>Fair Value<br>Per Unit |
|-----------------------------------|--------------------|--|
| Nonvested at January 1, 2013      | 203,857            | \$ 47.75   |
| Granted                           | 47,894             | 71.48  |
| Vested                            | (51,201            | ) 37.61  |
| Forfeited                         | (28,124            | ) 50.44  |
| Nonvested at September 30, 2013   | 172,426            | \$ 56.86   |

During the nine months ended September 30, 2013, we granted 37,499 non-vested stock units to employees and 10,395 shares of non-vested stock to nine directors, which generally vest on the third anniversary of the grant date. The weighted average fair value of the non-vested stock and non-vested stock units on the grant date was \$71.48 per share. The total amount of share-based compensation expense recognized for non-vested stock and non-vested stock units was \$1.0 and \$1.1 for the three months ended September 30, 2013 and 2012, respectively, and \$2.7 and \$3.2 for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was \$3.1 of total unrecognized compensation cost related to non-vested stock and stock units. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Compensation cost related to all share-based compensation arrangements capitalized in inventory as of September 30, 2013 and December 31, 2012 was approximately \$0.6 and \$0.4, respectively.

As of September 30, 2013 and December 31, 2012, our additional paid-in capital pool ("APIC Pool"), which represents excess tax benefits available to absorb potential future tax deficiencies, was \$81.1 and \$77.2, respectively.

In the second quarter of 2012, in an effort to retain key employees of the Coatings Resins business who could be impacted by the potential sale of Coating Resins, we agreed that if any such individual's employment with Cytec were terminated as a result of a sale of Coating Resins, we would pay such employee an amount equal to the intrinsic value of any unvested options and restricted stock units based on the closing price of Cytec stock on the date of the sale. As of June 30, 2012, when we concluded that we had met all the criteria for discontinued operations, we determined that these certain unvested stock options and restricted stock units that had been accounted for as equity awards should be reclassified to be accounted for as liability awards.

-17-

---

Table of Contents

Accordingly, we recorded a liability of \$2.9 for these awards at June 30, 2012 by reclassifying \$1.7 of previously recognized expense out of Additional paid-in capital and recognized \$1.2 of additional expense. In the second half of 2012, an additional \$3.7 of expense was recognized related to these awards of which \$1.7 was recognized in the three months ended September 30, 2012. During the fourth quarter new facts and circumstances regarding the timing of the close of the Coating Resins sale indicated that a portion of the awards previously reclassified to liability awards would vest prior to closing and were reclassified back to equity awards. Accordingly, we reclassified \$2.3 from the liability to additional paid-in capital. During the first nine months of 2013, due to the change in the fair market value of Cytec's stock, we recognized an additional expense of \$0.9 related to these awards. The expense recorded for these liability awards was recognized in Earnings from operations of discontinued business, net of tax on the Consolidated Statement of Income.

The divestiture of Coating Resins was completed on April 3, 2013, and the liability for all unvested options and restricted stock units held by former Coatings employees was settled for cash in the second quarter. There were restricted stock units settled as liability awards which are reflected as forfeitures in the tables above. At September 30, 2013, there is no remaining liability related to these awards.

**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 and nine months ended September 30, 2013 and 2012 (in thousands, except net earnings in millions and per share amounts):

|   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|--------|------------------------------------|---------|
|   | 2013                                | 2012   | 2013                               | 2012    |
| Numerator:  |                                     |        |                                    |         |
| Earnings from continuing operations                                 | \$44.4                              | \$34.7 | \$115.8                            | \$71.7  |
| Earnings (loss) from discontinued operations, net of tax            | (0.6                                | ) 23.7 | (1.7                               | ) 76.4  |
| Net earnings attributable to Cytec Industries Inc.                  | \$43.8                              | \$58.4 | \$114.1                            | \$148.1 |
| Denominator:  |                                     |        |                                    |         |
| Weighted average shares outstanding                                 | 36,232                              | 46,359 | 40,660                             | 46,190  |
| Effect of dilutive shares:  |                                     |        |                                    |         |
| Options and stock-settled SARS                                      | 605                                 | 669    | 659                                | 599     |
| Non-vested shares and units   | 111                                 | 125    | 108                                | 127     |
| Diluted average shares outstanding                                  | 36,948                              | 47,153 | 41,427                             | 46,916  |
| Basic earnings (loss) per common share:                             |                                     |        |                                    |         |
| Earnings from continuing operations                                 | \$1.23                              | \$0.75 | \$2.85                             | \$1.55  |
| Earnings (loss) from discontinued operations                        | (0.02                               | ) 0.51 | (0.04                              | ) 1.66  |
| Net earnings per common share attributable to Cytec Industries Inc. | \$1.21                              | \$1.26 | \$2.81                             | \$3.21  |
| Diluted earnings (loss) per common share:                           |                                     |        |                                    |         |
| Earnings from continuing operations                                 | \$1.20                              | \$0.74 | \$2.79                             | \$1.53  |

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

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Earnings (loss) from discontinued operations                        | (0.01  | ) 0.50 | (0.04  | ) 1.63 |
| Net earnings per common share attributable to Cytec Industries Inc. | \$1.19 | \$1.24 | \$2.75 | \$3.16 |

-18-

---

Table of Contents

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

|                                 |      |      |
|---------------------------------|------|------|
| Nine months ended September 30, | 2013 | 2012 |
| Options                         | 120  | 295  |
| Stock-settled SARS              | —    | —    |
| Non-vested shares/units         | —    | —    |
| Total                           | 120  | 295  |

## 9. INVENTORIES

Inventories consisted of the following:

|                            |                    |                   |
|----------------------------|--------------------|-------------------|
|                            | September 30, 2013 | December 31, 2012 |
| Finished goods             | \$183.1            | \$178.0           |
| Work in progress           | 11.2               | 12.0              |
| Raw materials and supplies | 87.0               | 79.8              |
| Total inventories          | \$281.3            | \$269.8           |

## 10. DEBT

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

|   |                    |                |                   |                |
|---|--------------------|----------------|-------------------|----------------|
|   | September 30, 2013 |                | December 31, 2012 |                |
|   | Face               | Carrying Value | Face              | Carrying Value |
| Five-Year Revolving Credit Line Due June 2018 | \$0.0              | \$0.0          | \$62.0            | \$62.0         |
| 4.6% Notes Due July 1, 2013                   | 0.0                | 0.0            | 135.2             | 135.3          |
| 6.0% Notes Due October 1, 2015                | 141.8              | 141.7          | 249.6             | 249.4          |
| 8.95% Notes Due July 1, 2017                  | 164.3              | 164.1          | 249.4             | 249.0          |
| 3.5% Notes Due April 1, 2023                  | 400.0              | 397.3          | —                 | —              |
| Other   | 19.0               | 13.4           | 8.9               | 7.8            |
| Total debt                                    | \$725.1            | \$716.5        | \$705.1           | \$703.5        |
| Less: current maturities                      | (0.2)              | (0.2)          | (136.0)           | (136.1)        |
| Long-term debt                                | \$724.9            | \$716.3        | \$569.1           | \$567.4        |

On March 12, 2013, we issued \$400.0 aggregate principal amount of 3.5% senior unsecured notes due April 1, 2023 ("3.5% notes"), which resulted in \$394.6 in net proceeds after original issue discount and underwriting fees. In addition, on February 26, 2013, we called for the redemption of our 4.6% notes due July 1, 2013 ("4.6% notes"), and commenced offers to purchase our 6.0% notes due October 1, 2015 ("6.0% notes") and our 8.95% notes due July 1, 2017 ("8.95% notes"). In March 2013, we applied the net proceeds from the issuance of the 3.5% notes as follows: (1) to redeem all \$135.2 principal amount of our 4.6% notes for a purchase price of \$136.8 plus accrued interest of \$1.5, (2) to repurchase \$107.8 principal amount of our 6.0% notes for a purchase price of \$121.1 plus accrued interest of \$3.1 and (3) to repurchase \$85.1 principal amount of our 8.95% notes for a purchase price of \$108.3 plus accrued interest of \$1.8. The redemption of the 4.6% notes and repurchase of the 6.0% and 8.95% notes resulted in a loss of \$39.4 including transaction costs, which is included in loss on early extinguishment of debt in the accompanying statement of income.

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.

On June 28, 2013, we amended and restated our existing Five Year Credit Agreement (the "Agreement"). The material terms and conditions of the Agreement remain substantially similar to the prior agreement except as set forth below. As the result of the amendment and restatement, the maximum amount we may borrow under the Agreement continues to be \$400.0, with a \$25.0 swingline, and the term of the Agreement was extended to June 28, 2018. Subject to the consent of the lenders, we have the ability under certain circumstances to extend the term of the Agreement through June 28, 2021, and to increase the maximum amount we may borrow under the Agreement up to \$500.0.



## Table of Contents

In the second quarter of 2012, we had a net draw down of \$170.0 from our Revolving Credit Facility for the purposes of funding the Umeco transaction. In April 2013, upon receiving proceeds from the close of the sale of Coating Resins, we repaid the outstanding portion of the Revolving Credit Facility. There was no outstanding balance on the facility as of September 30, 2013. At September 30, 2013, \$400.0 was available for borrowing under the Revolving Credit Facility. We are required to comply with certain customary financial covenants under the facility: (i) the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”), and (ii) the ratio of consolidated EBITDA to consolidated interest expense. We are in compliance with these covenants and expect to be in compliance for the foreseeable future.

At September 30, 2013 and December 31, 2012, the fair value of our debt was \$731.9 and \$787.9, 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 5.33% and 6.19%, as of September 30, 2013 and 2012, respectively. The weighted-average interest rate on short-term borrowings outstanding as of September 30, 2013 and 2012 was nil and 0.78%, 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.

As of September 30, 2013 and December 31, 2012, the aggregate environmental related accruals were \$66.6 and \$68.1, respectively, of which \$9.7 was included in accrued expenses for both periods, with the remainder of \$56.9 and \$58.4 included in other noncurrent liabilities as of September 30, 2013, and December 31, 2012, respectively.

Environmental remediation spending for the three months ended September 30, 2013 and 2012 was \$1.2 and \$0.9, respectively, and for the nine months ended September 30, 2013 and 2012 was \$4.9 and \$2.5, 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 nine months ended September 30, 2013, our adjustments resulted in a net increase of \$3.9 in our environmental related accruals, of which \$2.2 related primarily to an inactive Canadian site to revise its projected remediation costs based on a change in policy by that country's Ministry of the Environment, and the remaining \$1.7 related to several other sites.

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

A further discussion of environmental matters can be found in Note 12 of the Notes to the Consolidated Financial Statements contained in our 2012 Annual Report on Form 10-K.

#### Other Contingencies

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

As of September 30, 2013 and December 31, 2012, the aggregate self-insured and insured contingent liability was \$46.2 and \$49.8, respectively, and the related insurance recovery receivable for the liability as well as claims for past payments was \$20.3 at September 30, 2013 and \$20.7 at December 31, 2012. The asbestos liability included in the above amounts at September 30, 2013 and December 31, 2012 was \$38.0 and \$39.3, respectively, and the insurance receivable related to the liability as well as claims for past payments was \$20.0 and \$20.4, respectively. We anticipate receiving a net tax benefit for payment of those claims for which full insurance recovery is not realized.



Table of Contents

## Asbestos

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

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

|   | Nine months ended<br>September 30, 2013 | Year ended<br>December 31, 2012 |
|---|---|---------------------------------|
| Number of claimants at beginning of period                      | 8,000                                   | 8,000                           |
| Number of claimants associated with claims closed during period | (100                                    | ) (100                          |
| Number of claimants associated with claims opened during period | 100                                     | 100                             |
| Number of claimants at end of period                            | 8,000                                   | 8,000                           |

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

Our asbestos related contingent liabilities and related insurance receivables are based on an actuarial study performed by a third party, which is updated every three years. During the third quarter of 2012, we completed an actuarial study of our asbestos related contingent liabilities and related insurance receivables, which updated our last study prepared in the third quarter of 2009. The study is based on, among other things, the incidence and nature of historical claims data through June 30, 2012, the incidence of malignancy claims, the severity of indemnity payments for malignancy and non-malignancy claims, dismissal rates by claim type, estimated future claim frequency, settlement values and reserves, and expected average insurance recovery rates by claim type. The study assumes liabilities through 2049. In 2012, as a result of our findings, we recorded a decrease of \$2.1 to our self-insured and insured contingent liabilities for indemnity costs for pending and anticipated probable future claims and recorded a decrease of \$1.0 related to receivables for probable insurance recoveries for these pending and future claims. The reserve decrease was attributable to lower projected claim filings offset by more severe malignancy rates and settlement value projections. The decrease in the receivable was a result of the lower gross liability and a shift in the types of future claims expected. Overall, we expect to recover approximately 48.0% of our future indemnity costs. We have completed coverage in place agreements with most of our larger insurance carriers.

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

## Lead Pigment

Over the past 20 years we have been named as defendants in more than fifty cases in the U.S. in which plaintiffs assert claims for personal injury, property damage, and other claims for relief relating to one or more kinds of lead pigment that were used as an ingredient decades ago in architectural paint. Eight lead ingestion personal injury cases remain outstanding. The different suits were brought by government entities and/or individual plaintiffs, on behalf of themselves and others. The suits variously sought compensatory and punitive damages and/or injunctive relief, including funds for the cost of monitoring, detecting and removing lead based paint from buildings and for medical monitoring; for personal injuries allegedly caused by ingestion of lead based paint; and plaintiffs' attorneys' fees. We settled one of these cases in 2005 for an immaterial amount in order to avoid litigation costs. In all of the others, we prevailed in court or were dismissed as a defendant.

We currently are one of several defendants in eight personal injury lead ingestion cases, consisting of 172 plaintiffs venued in federal and state courts in Milwaukee, Wisconsin. One of the eight cases consists of 164 claimants, each

alleging personal injury as a result of the ingestion of white lead carbonate in paint. The remaining seven cases consist of less than 10 total plaintiffs. We believe that the eight personal injury cases against us are without merit. In July 2005, in a case in which we were one of several defendants, the Supreme Court of Wisconsin held that Wisconsin's risk contribution doctrine applies to bodily

-21-

---

Table of Contents

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, including a 25 year statute of repose. In June 2013, the Governor of Wisconsin signed into law the biennial budget which contained within it a provision that retroactively applies the 2011 law to all call claims of lead poisoning whether filed or accrued. Also, 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, the new statutory law in Wisconsin, and our non-existent or diminutive market share, reinforces our belief that we have no liability in any of the eight Wisconsin cases, and accordingly, we have not recorded a loss contingency. The majority of the eight personal injury cases currently are fully or partially 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 and, if addressed by the court, whether the new Wisconsin law may be applied retroactively.

**Other**

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

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

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

A further discussion of other contingencies can be found in Note 12 of Notes to Consolidated Financial Statements contained in our 2012 Annual Report on Form 10-K.

**Commitments**

We frequently enter into long-term contracts with customers with terms that vary depending on specific industry practices. Our business is not substantially dependent on any single contract or any series of related contracts. Descriptions of our significant sales contracts at December 31, 2012 are set forth in Note 12 of Notes to Consolidated Financial Statements contained in our 2012 Annual Report on Form 10-K.

**12. COMPREHENSIVE INCOME**

As discussed in Note 3, in the second quarter of 2013, we elected to change our method of accounting for actuarial gains and losses for our continuing pension and OPEB plans. This accounting change has been applied retrospectively to all periods presented.

Table of Contents

The components of comprehensive income, which represents the change in equity from non-owner sources, for the three and nine months ended September 30, 2013 and 2012 are as follows:

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|--------|------------------------------------|---------|
|  | 2013                                | 2012   | 2013                               | 2012    |
| Net earnings   | \$43.8                              | \$58.9 | \$114.5                            | \$149.6 |
| Other comprehensive income:  |                                     |        |                                    |         |
| Accumulated pension liability, net of tax                          | (0.5                                | ) 2.1  | 16.8                               | 0.4     |
| Foreign currency translation adjustments                           | 23.2                                | 28.7   | (78.7                              | ) 12.4  |
| Comprehensive income   | \$66.5                              | \$89.7 | \$52.6                             | \$162.4 |
| Less: Comprehensive income attributable to noncontrolling interest | —                                   | (0.6   | ) (0.2                             | ) (1.3  |
| Comprehensive income attributable to Cytec Industries Inc.         | \$66.5                              | \$89.1 | \$52.4                             | \$161.1 |

The following table presents changes in accumulated other comprehensive income (AOCI) by component for the three and nine months ended September 30, 2013:

|   | Three Months Ended September 30,<br>2013 |                                    |        | Nine Months Ended September 30, 2013 |                                    |         |
|---|--|------------------------------------|--------|--------------------------------------|------------------------------------|---------|
|   | Accumulated Pension Liabilities          | Cumulative Translation Adjustments | Total  | Accumulated Pension Liabilities      | Cumulative Translation Adjustments | Total   |
| Balance, beginning of period                        | \$9.5                                    | \$61.7                             | \$71.2 | \$(7.8                               | ) \$163.5                          | \$155.7 |
| Other comprehensive income before reclassifications | —  | 22.1                               | 22.1   | —                                    | (21.8                              | ) (21.8 |
| Amounts reclassified from AOCI                      | (0.5                                     | ) 1.2                              | 0.7    | 16.8                                 | (56.7                              | ) (39.9 |
| Net current period OCI                              | (0.5                                     | ) 23.3                             | 22.8   | 16.8                                 | (78.5                              | ) (61.7 |
| Balance, end of period                              | \$9.0                                    | \$85.0                             | \$94.0 | \$9.0                                | \$85.0                             | \$94.0  |

The following table presents a summary of reclassification adjustments out of AOCI for the three and nine months ended September 30, 2013:

| Details of AOCI components                    | Amount Reclassified from AOCI               |  | Affected line item in the statement where net income is presented |
|---|---|--|---|
|   | Three Months Ended<br>September 30,<br>2013 | Nine Months Ended<br>September 30,<br>2013 |   |
| Amortization of defined benefit pension items |   |  |   |
| Prior service costs                           | \$(0.8                                      | ) \$(2.4                                   | ) <sup>(1)</sup>  |
|   | (0.8  | ) (2.4                                     | ) Total before tax  |
|   | 0.3   | 1.0  | Tax expense   |
|   | \$(0.5                                      | ) \$(1.4                                   | ) Net of tax  |
| Impact from sale of Coating Resins            | —   | 18.2                                       | Loss on sales of discontinued operations, net of tax              |
| Total pension related                         | \$(0.5                                      | ) \$16.8                                   |   |
| Cumulative translation adjustments            | \$1.2                                       | \$(56.7                                    | )   |

Impact from sale of Coating Resins and  
distribution business

---

Loss on sales of discontinued  
operations, net of tax

-23-

---

## Table of Contents

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost, and allocated to various line items on the consolidated statements of income, primarily manufacturing cost of sales. See Note 18 - Employee Benefit Plans for additional information on net periodic pension cost.

### 13. INCOME TAXES

The effective tax rate for continuing operations for the three and nine months ended September 30, 2013 was a tax provision of 26.6%, or \$16.1, and 25.9%, or \$40.4, respectively, compared to a tax provision of 17.4%, or \$7.3, and 38.7%, or \$45.3, respectively, for the three and nine months ended September 30, 2012. The effective tax rate for the three months ended September 30, 2013 was favorably impacted by a tax benefit of \$3.7 primarily related to a change in tax rate with respect to the deferred tax assets and liabilities associated with an international jurisdiction and a net benefit related to the resolution of an international tax audit. In addition to the \$3.7 benefit noted, the effective tax rate for the year to date period was primarily impacted by a tax benefit of \$2.7 attributable to the U.S. reinstatement of 2012 business tax incentives during the first quarter of 2013, a \$14.7 benefit related to the loss on early extinguishment of debt, and a net tax benefit of \$0.7 related to a revision of our previously accrued estimated income tax liability on the unrepatriated earnings of certain foreign subsidiaries as a result of the sale of our Coating Resins business.

As of September 30, 2013, the amount of gross unrecognized tax benefits for continuing operations is \$16.9 (excluding interest) of which \$13.6 would impact our effective tax rate, if recognized. The amount of gross unrecognized tax benefits at December 31, 2012 for continuing operations was \$19.7 (excluding interest) of which \$16.5 would impact our effective tax rate, if recognized.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of income. We had recorded a liability for the payment of interest and penalties (gross) for continuing operations, of approximately \$2.0 as of December 31, 2012. Activity for the nine months ended September 30, 2013 included a \$0.2 increase for additional accruals which was offset by \$0.2 due to settlements and foreign exchange, thus resulting in a liability for the payment of interest of \$2.0 as of September 30, 2013.

### 14. OTHER FINANCIAL INFORMATION

#### Dividends

On July 18, 2013, the Board of Directors declared a \$0.125 per common share cash dividend, payable on August 26, 2013 to shareholders of record as of August 9, 2013. Cash dividends paid in the third quarter of 2013 and 2012 were \$4.5 and \$5.7, respectively, and for the nine months ended September 30, 2013 and 2012 were \$17.1 and \$20.2, respectively. Dividends paid in the first nine months of 2013 and 2012 include \$1.8 and \$3.0, respectively, paid by a majority owned subsidiary to its minority shareholder. On October 17, 2013, the Board of Directors declared a \$0.125 per common share cash dividend, payable on November 25, 2013 to shareholders of record as of November 11, 2013.

#### Income taxes paid

Income taxes paid for the nine months ended September 30, 2013 and 2012 were \$151.6 and \$70.8, respectively. Included in 2013 is approximately \$44.0 paid in the third quarter related to the tax gain in the disposal of the Coating Resins business. It also includes a \$21.0 corporate income tax payment primarily related to the divestiture of the PSA product line, which was statutorily due on December 17, 2012, but was deferred to February 1, 2013 as the Internal Revenue Service provided special tax relief for taxpayers in the federally-declared disaster areas struck by Hurricane Sandy.

#### Interest

Interest paid for the nine months ended September 30, 2013 and 2012 was \$32.6 and \$35.8, respectively. Interest income for the nine months ended September 30, 2013 and 2012 was \$1.3 and \$3.0, respectively.

#### Stock repurchases

During the three and nine months ended September 30, 2013, we repurchased 1,397,579 and 10,174,755 shares of our common stock at a total cost of \$108.1 and \$750.1, respectively. There are no amounts remaining under the buyback program as of September 30, 2013. There were no repurchases in the first nine months of 2012.

### 15. SEGMENT INFORMATION

#### Segment changes

In the first quarter of 2013, we reorganized our former Engineered Materials and Umeco segments into two new segments, Aerospace Materials and Industrial Materials. These new segments are managed and reported separately as the markets and distribution channels are distinct. While their manufacturing assets and processes are similar, their supply chains are dissimilar.

-24-

---

Table of Contents

This follows our strategy of focusing on the aerospace and industrial markets separately and reflects how we operate the businesses. We also believe this is more clear and understandable to investors. The segment information presented herein reflects this change in our business segments. For more information on our segment reorganization, see our 2012 Annual Report on Form 10-K, as updated by the Current Report on Form 8-K filed with the SEC on April 18, 2013, related to the Company's changes in reportable segments.

As discussed in Note 3, we have elected to change our method of accounting for actuarial gains and losses for our continuing pension and OPEB plans. The new method recognizes actuarial gains and losses in our operating results in the year in which the gains and losses occur rather than amortizing them over future periods. Historically, total pension and OPEB costs have been allocated to each segment. In conjunction with the change in accounting principle, the service cost, which represents the benefits earned by active employees during the period, and amortization of prior service costs/credits will continue to be allocated to each segment. Interest costs, expected return on assets, and the MTM adjustment for pension and OPEB plans actuarial gains and losses will be included in corporate expense and not allocated to segments. Management believes this change in expense allocation will better reflect the operating results of each business and is consistent with management's review of the operating results of the segments. The following tables reflect for each business segment the retrospective application of this expense allocation change for each period presented.

As discussed in Note 5, the former Coating Resins segment is reported as discontinued operations for all periods presented.

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

|                                     | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |           |
|-------------------------------------|-------------------------------------|---------|------------------------------------|-----------|
|                                     | 2013                                | 2012    | 2013                               | 2012      |
| Net Sales:                          |                                     |         |                                    |           |
| Aerospace Materials <sup>(1)</sup>  |                                     |         |                                    |           |
| Sales to external customers         | \$235.9                             | \$220.8 | \$721.7                            | \$645.1   |
| Intersegment sales                  | 0.1                                 | —       | 0.4                                | —         |
| Industrial Materials <sup>(1)</sup> | 70.9                                | 70.1    | 239.9                              | 94.2      |
| In Process Separation               | 91.2                                | 98.1    | 286.4                              | 289.9     |
| Additive Technologies               |                                     |         |                                    |           |
| Sales to external customers         | 65.9                                | 66.4    | 207.1                              | 208.2     |
| Intersegment sales                  | —                                   | 0.2     | 0.3                                | 0.6       |
| Net sales from segments             | 464.0                               | 455.6   | 1,455.8                            | 1,238.0   |
| Elimination of intersegment revenue | (0.1 )                              | (0.2 )  | (0.7 )                             | (0.6 )    |
| Total consolidated net sales        | \$463.9                             | \$455.4 | \$1,455.1                          | \$1,237.4 |

|   | Three Months Ended September 30, |               |         |               | Nine Months Ended September 30, |               |         |               |
|---|----------------------------------|---------------|---------|---------------|---------------------------------|---------------|---------|---------------|
|   | 2013                             | % of<br>Sales | 2012    | % of<br>Sales | 2013                            | % of<br>Sales | 2012    | % of<br>Sales |
| Earnings from operations:                     |                                  |               |         |               |                                 |               |         |               |
| Aerospace Materials <sup>(1)</sup>            | \$40.7                           | 17 %          | \$40.4  | 18 %          | \$140.4                         | 19 %          | \$126.7 | 20 %          |
| Industrial Materials <sup>(1)</sup>           | 5.1                              | 7 %           | 1.6     | 2 %           | 13.0                            | 5 %           | 5.5     | 6 %           |
| In Process Separation                         | 20.4                             | 22 %          | 25.4    | 26 %          | 66.6                            | 23 %          | 77.0    | 27 %          |
| Additive Technologies                         | 9.0                              | 14 %          | 10.3    | 16 %          | 30.1                            | 15 %          | 31.9    | 15 %          |
| Earnings from segments                        | 75.2                             | 16 %          | 77.7    | 17 %          | 250.1                           | 17 %          | 241.1   | 19 %          |
| Corporate and Unallocated, net <sup>(2)</sup> | (11.0 )                          |               | (28.3 ) |               | (30.8 )                         |               | (98.5 ) |               |
| <sup>(3)</sup>                                |                                  |               |         |               |                                 |               |         |               |
| Total earnings from operations                | \$64.2                           | 14 %          | \$49.4  | 11 %          | \$219.3                         | 15 %          | \$142.6 | 12 %          |

(1) For 2012, net sales and operating earnings for Aerospace Materials and Industrial Materials include amounts from the Umeco businesses from its acquisition on July 20, 2012.

-25-

---

Table of Contents

For the three and nine months ended September 30, 2013, corporate and unallocated includes restructuring charges of \$4.5 and \$5.1, respectively, for 2013 initiatives within Industrial Materials and Aerospace Materials to reduce costs associated with the acquired Umeco business, charges of \$0.1 and \$3.0, respectively, for the write down of certain manufacturing assets in our Nagpur, India facility, and charges of \$0.7 and \$1.2, respectively, for costs to divest the Umeco distribution business. For the nine months ended September 30, 2013, it also includes benefits of \$1.9 for net MTM adjustments of our pension and postretirement benefit plans (including the impact of inventory (2) capitalization). For the three and nine months ended September 30, 2012, corporate and unallocated includes net pre-tax charges of \$4.6 and \$16.0, respectively, for personnel reductions in the Umeco business and across corporate functions to mitigate continuing costs following the anticipated sale of Coating Resins, charges of \$4.3 and \$7.2, respectively, related to costs incurred for the acquisition of Umeco, and accelerated depreciation of \$0.7 and \$2.0, respectively, for the sale-leaseback of our Stamford facility treated as a financing transaction. For the nine months ended September 30, 2012, Corporate and unallocated also included \$13.9 charge for net MTM adjustments of our pension and retirement plans.

Corporate and unallocated also included costs previously allocated to the operations of our discontinued Coating Resins segment of \$12.2 for the nine months ended September 30, 2013, and \$15.7 and \$50.5, respectively, for the (3) three and nine months ended September 30, 2012. Steps have been taken to eliminate or reduce some of these operating costs following the sale of the coatings business. The 2013 amount included in Corporate and unallocated relates to the period prior to the divestiture and, as required, these costs are allocated to the remaining operating segments beginning in the second quarter of 2013, following the sale.

**16. GOODWILL AND OTHER ACQUISITION INTANGIBLES**

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

|  | Aerospace<br>Materials | Industrial<br>Materials | In Process<br>Separation | Additive<br>Technologies | Total   |
|--|------------------------|-------------------------|--------------------------|--------------------------|---------|
| Balance, December 31, 2012:              |                        |                         |                          |                          |         |
| Goodwill                                 | \$237.1                | \$186.8                 | \$73.6                   | \$27.8                   | \$525.3 |
| 2013 Activity                            |                        |                         |                          |                          |         |
| Foreign currency translation adjustments | (1.6 )                 | (1.0 )                  | (2.2 )                   | —                        | (4.8 )  |
| Umeco acquisition adjustments            | 0.3                    | 2.0                     | —                        | —                        | 2.3     |
| Sale of distribution business            | —                      | (3.8 )                  | —                        | —                        | (3.8 )  |
|  | (1.3 )                 | (2.8 )                  | (2.2 )                   | —                        | (6.3 )  |
| Balance, September 30, 2013:             |                        |                         |                          |                          |         |
| Goodwill                                 | \$235.8                | \$184.0                 | \$71.4                   | \$27.8                   | \$519.0 |

In conjunction with our segment realignment discussed in Note 15, we completed a goodwill impairment test in the first quarter of 2013 and concluded that there was no impairment. An additional goodwill impairment test was triggered at the end of the second quarter because of the reduction in the outlook for Industrial Materials' 2013 financial results, resulting from a deterioration in market conditions in Europe and the after-tax charge of \$12.5 related to the sale of the distribution business, which was part of the Industrial Materials segment. See Note 5 for a further discussion of the sale of the distribution business. We again concluded there was no impairment.

Other acquisition intangibles consisted of the following major classes:

|                   | Weighted<br>Average<br>Useful<br>Life<br>(years) | Gross Carrying Value  |                      | Accumulated Amortization |                      | Net Carrying Value    |                      |
|-------------------|--|-----------------------|----------------------|--------------------------|----------------------|-----------------------|----------------------|
|                   |  | September 30,<br>2013 | December 31,<br>2012 | September 30,<br>2013    | December 31,<br>2012 | September 30,<br>2013 | December 31,<br>2012 |
| Technology-based  | 14.5   | \$48.1                | \$48.6               | \$(22.9 )                | \$(20.6 )            | \$25.2                | \$28.0               |
| Marketing-related | 10.2   | 14.2                  | 15.1                 | (6.2 )                   | (5.2 )               | 8.0                   | 9.9                  |
| Customer-related  | 15.8   | 154.8                 | 163.9                | (25.2 )                  | (18.1 )              | 129.6                 | 145.8                |

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

Total                                    \$217.1            \$ 227.6            \$(54.3        ) \$(43.9        ) \$162.8            \$ 183.7  
Amortization of acquisition intangibles for the three months ended September 30, 2013 and 2012 was \$3.6 and \$3.4, respectively, and for the nine months ended September 30, 2013 and 2012 was \$11.1 and \$5.1, respectively.

-26-

---

Table of Contents

Assuming no change in the gross carrying amount of acquisition intangibles and the 2013 average currency exchange rates remain constant, the estimated future amortization expense for the next five years are as follows:

|                                  | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| Intangibles amortization expense | \$15.1 | \$14.8 | \$14.7 | \$14.5 | \$13.5 | \$11.9 |

## 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 September 30, 2013, the principal transactions hedged involved accounts receivable and accounts payable. When hedging currency exposures, our practice is to economically hedge such exposures with forward contracts denominated in the same currency and with similar critical terms as the underlying exposure, and therefore, the instruments are effective at generating offsetting changes in the fair value, cash flows or future earnings of the hedged item or transaction. The fair values of forward contracts are calculated each period. These forward contracts are not defined as hedging instruments and therefore, all changes in fair values are reported in other expense, net.

At September 30, 2013, net contractual notional amounts of forward contracts outstanding translated into U.S. dollars ("USD") totals \$248.8. Of this total, \$174.5 was attributed to the exposure in forward selling/purchase of USD, and \$74.3 was attributable to the exposure in forward selling/purchase of Euros translated into USD equivalent amounts. The net favorable fair values of currency contracts, based on forward exchange rates at September 30, 2013 and December 31, 2012 were \$0.1 and \$1.7, respectively.

## Credit Risk

At September 30, 2013, we did not have derivative instruments that contained credit-related-risk contingent features or provisions that would trigger immediate settlement or require us to post collateral to our counterparties. Also as of September 30, 2013, 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 |            |                   |            |
|--|----------------------|------------|----------------------|------------|-----------------------|------------|-------------------|------------|
|  | September 30, 2013   |            | December 31, 2012    |            | September 30, 2013    |            | December 31, 2012 |            |
|  | Balance Sheet        | Fair Value | Balance Sheet        | Fair Value | Balance Sheet         | Fair Value | Balance Sheet     | Fair Value |
|  | Location             |            | Location             |            | Location              |            | Location          |            |
| Derivatives not designated as hedging instruments: |                      |            |                      |            |                       |            |                   |            |
| Foreign currency forwards                          | Other current assets | 1.3        | Other current assets | 3.2        | Accrued expenses      | 1.2        | Accrued expenses  | 1.5        |
| Total derivatives                                  |                      | \$1.3      |                      | \$3.2      |                       | \$1.2      |                   | \$1.5      |

Table of Contents

The following tables summarize the amounts and locations of our hedging derivatives' gains (losses) recognized for the three and nine months ended September 30, 2013 and 2012:

| Derivatives in Net Investment Hedge Relationships: | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), Net of Tax |                                       | Location of Gain or (Loss) Recognized from Accumulated OCI into Income (Effective Portion) |                                       | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                                       |
|--|--|---------------------------------------|--|---------------------------------------|--|---------------------------------------|
|  | Three Months Ended September 30, 2013  | Three Months Ended September 30, 2012 | Three Months Ended September 30, 2013  | Three Months Ended September 30, 2012 | Three Months Ended September 30, 2013  | Three Months Ended September 30, 2012 |
| Cross currency swaps                               | \$—  | \$3.4                                 | \$—  | \$—                                   | \$—  | \$—                                   |

| Derivatives in Net Investment Hedge Relationships: | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), Net of Tax |                                      | Location of Gain or (Loss) Recognized from Accumulated OCI into Income (Effective Portion) |                                      | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                                      |
|--|--|--------------------------------------|--|--------------------------------------|--|--------------------------------------|
|  | Nine Months Ended September 30, 2013   | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2013   | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2013   | Nine Months Ended September 30, 2012 |
| Cross currency swaps                               | \$—  | \$7.8                                | \$—  | \$—                                  | \$—  | \$—                                  |

The following table summarizes the amount and location of gains recognized in income for our derivatives not designated as hedges for the three and nine months ended September 30, 2013 and 2012:

| Derivatives not Designated as Hedging Instruments: | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |         |                                 |         |
|--|---|---|---------|---------------------------------|---------|
|  |   | Three Months Ended September 30,                            |         | Nine Months Ended September 30, |         |
|  |   | 2013  | 2012    | 2013                            | 2012    |
| Foreign currency forwards                          | Other expense, net  | \$6.3   | \$(2.9) | \$8.0                           | \$(4.7) |
| Total  |   | \$6.3   | \$(2.9) | \$8.0                           | \$(4.7) |

#### Fair Value Measurements

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

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

-28-

---

Table of Contents

A summary of the fair value measurements for each major category of derivatives at September 30, 2013 is outlined in the table below:

| Description       | Significant Other<br>Observable Inputs<br>(Level 2) |
|-------------------|---|
| Currency forwards | \$0.1   |
| Total             | \$0.1   |

As of September 30, 2013, we did not have any non-financial assets and liabilities that are carried at fair value on a recurring basis in the consolidated financial statements or for which a fair value measurement was required for the nine months ended September 30, 2013. Included among our non-financial assets and liabilities that are not required to be measured at fair value on a recurring basis are plant, equipment and facilities, goodwill, acquisition intangibles, and asset retirement obligations. For more information regarding our hedging activities and derivative financial instruments, refer to Note 7 to the Consolidated Financial Statements contained in our 2012 Annual Report on Form 10-K.

**18. EMPLOYEE BENEFIT PLANS**

As discussed in Note 3, in the second quarter of 2013, we elected to change our method of accounting for actuarial gains and losses for our pension and OPEB plans. This accounting change has been applied retrospectively to all periods presented.

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

|                                  | Pension Plans |          | Postretirement Plans |        |
|----------------------------------|---------------|----------|----------------------|--------|
|                                  | 2013          | 2012     | 2013                 | 2012   |
| Three months ended September 30, |               |          |                      |        |
| Service cost                     | \$1.3         | \$1.5    | \$0.2                | \$0.3  |
| Interest cost                    | 9.9           | 10.5     | 1.8                  | 2.1    |
| Expected return on plan assets   | (13.6         | ) (13.0  | ) (0.4               | ) (0.4 |
| Net amortization                 | —             | 0.1      | (0.8                 | ) (1.1 |
| Curtailement gain                | —             | —        | —                    | —      |
| Mark to market adjustment        | —             | —        | —                    | —      |
| Net periodic (benefit) cost      | \$(2.4        | ) \$(0.9 | ) \$0.8              | \$0.9  |

|                                  | Pension Plans |          | Postretirement Plans |         |
|----------------------------------|---------------|----------|----------------------|---------|
|                                  | 2013          | 2012     | 2013                 | 2012    |
| Nine months ended September 30,  |               |          |                      |         |
| Service cost                     | \$3.7         | \$4.4    | \$0.7                | \$0.8   |
| Interest cost                    | 29.7          | 30.8     | 5.2                  | 6.3     |
| Expected return on plan assets   | (40.8         | ) (38.3  | ) (1.2               | ) (1.3  |
| Net amortization                 | 0.1           | 0.2      | (2.5                 | ) (3.3  |
| Curtailement gain <sup>(1)</sup> | (1.7          | ) —      | (6.0                 | ) —     |
| Mark to market adjustment        | (5.3          | ) —      | (3.0                 | ) —     |
| Net periodic (benefit) cost      | \$(14.3       | ) \$(2.9 | ) \$(6.8             | ) \$2.5 |

(1) Curtailement gains relate to the Coatings divestiture, and are included in loss on sale of discontinued operations, net of tax in the consolidated statements of income.

We disclosed in our 2012 Annual Report on Form 10-K that we expected to contribute \$57.4 and \$10.2 in 2013 to our pension and postretirement plans, respectively. Through September 30, 2013, actual contributions to our continuing pension and postretirement plans were \$70.2 and \$5.2, 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, excluding plans of subsidiaries

primarily dedicated to the discontinued Coating Resins segment, for the three months ended September 30, 2013 and 2012 were \$4.6 and \$5.0, respectively, and \$17.6

-29-

---

Table of Contents

and \$17.3 for the nine months ended September 30, 2013 and 2012, respectively. Certain employees of our discontinued Coating Resins and Building Block Chemicals segments historically participated in our continuing plans.

-30-

---

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 materials and chemicals company focused on developing, manufacturing and selling value-added products. Our products serve a diverse range of end markets including aerospace and industrial materials, 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. Our latest strategic review of our operations resulted in business segment changes that became effective in the first quarter of 2013, as discussed below.

Segment realignment

We regularly review our segment reporting and classifications and may periodically change our reportable segments to align with operational changes. In the first quarter of 2013, we began reporting separately the aerospace and industrial materials businesses out of the former Engineered Materials and former Umeco segments into two new segments, Aerospace Materials and Industrial Materials. They are managed and reported separately as the markets and distribution channels are distinct. While their manufacturing assets and processes are similar, their supply chains are dissimilar. This follows our strategy of focusing on the aerospace and industrial markets separately and reflects how we operate the businesses. We also believe this is more clear and understandable to investors. The segment information presented herein reflects this change in our business segments.

As discussed in Note 5, the former Coating Resins segment was sold on April 3, 2013, and is reported as discontinued operations for all periods presented. As discussed in Note 4, the acquired Umeco business is reported in part in the Aerospace Materials segment, but mostly in the Industrial Materials segment, and includes results of operations since we acquired it on July 20, 2012. As a result, we now have four reportable business segments: Aerospace Materials, Industrial Materials, In Process Separation and Additive Technologies. The Aerospace Materials segment principally includes advanced composites, carbon fiber, and structural film adhesives. The Industrial Materials segment includes structural composite materials (high performance automotive, motorsports, recreation, tooling and other structural materials markets) and process materials (aerospace, wind energy, and other process materials markets). The In Process Separation segment includes mining chemicals and phosphines. The Additive Technologies segment includes polymer additives, specialty additives and formulated resins.

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.

Changes in selling volumes, selling prices, and raw material costs year on year are an important factor in profitability, especially in years of high volatility. Discussion of the year to year impact of these factors is provided in our segment discussion. In addition, higher global demand levels and, occasionally, operating difficulties at suppliers, have limited the availability of certain of our raw materials.

Change in method of accounting for pension and OPEB costs

As previously reported, we have elected to change our method of accounting for actuarial gains and losses for our pension and other postretirement benefit ("OPEB") plans to a more preferable method permitted under GAAP. The new method recognizes actuarial gains and losses in our operating results in the year in which the gains and losses occur rather than amortizing them over future periods. Under the new method of accounting, these gains and losses are now measured annually at December 31 and recorded as a mark-to-market ("MTM") adjustment during the fourth quarter of each year. Any interim remeasurements triggered by a curtailment, settlement, or significant plan changes

are recognized as an MTM adjustment in the quarter in which such remeasurement event occurs. The new method has been retrospectively applied to financial results of all periods presented. For additional information, see Note 3, "Accounting Methodology Change for Pension and Other Postretirement Benefit Plans" to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

-31-

---

## Table of Contents

### Acquisitions

#### Umeco plc

On July 20, 2012, we completed the acquisition of all of the outstanding shares of Umeco plc ('Umeco'), an international provider of composite and process materials, in an all-cash transaction at a cost of approximately \$423.8. Our consolidated financial results included in this MD&A include the results of the Umeco business since the closing date of the acquisition. Approximately 84% of Umeco sales are included in our Industrial Materials segment and 16% in our Aerospace Materials segment in the first quarter of 2013. See Note 4, "Acquisitions," for further details.

#### 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. The results of operations of the acquired business have been included in our In Process Separation segment since April 1, 2012. See Note 4, "Acquisitions," for further details.

### Discontinued operations

#### Coating Resins

On April 3, 2013, we completed the sale of our remaining Coating Resins business to Advent International, a global private equity firm, for a total value of \$1,133.0, including assumed liabilities of approximately \$118.0. As a result, in the second quarter of 2013, we recorded an after-tax loss on the sale of \$15.5, in addition to the charge of \$4.3 that we recorded in the first quarter of 2013 to adjust our carrying value of the disposal group to its fair value less cost to sell, based on the terms of the agreement. For the three months ended September 30, 2013, we recorded after-tax losses of approximately \$0.6, which primarily relate to certain tax liabilities related to taxable periods (or portions thereof) ending on or before April 3, 2013. The after-tax losses and the adjustment to carrying value are included in Loss on sale of discontinued operations, net of tax in the consolidated statements of income. The final price paid is subject to final working capital and other customary adjustments. Previously, on July 31, 2012, we completed the sale of the pressure sensitive adhesives ("PSA") product line of the former Coating Resins segment to Henkel AG & Co. for approximately \$105.0, including working capital of approximately \$15.0.

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

#### Sale of Distribution business

On July 12, 2013, we sold the distribution business of our Industrial Materials segment, which we acquired as part of the Umeco acquisition in July 2012, to Cathay Investments for \$8.6, subject to final working capital and other customary adjustments. As a result, in the second quarter of 2013, we recorded an after-tax charge of \$12.5 to adjust our carrying value of the disposal group to its fair value less cost to sell, based on the terms of the agreement. The charge is included in loss on sale of discontinued operations, net of tax in the consolidated statements of income. The results of operations of the former distribution business remain in continuing operations for all periods presented, as the result of operations for the business and assets and liabilities sold were not material to disclose as discontinued operations or assets held for sale.

### Quarter Ended September 30, 2013, Compared With Quarter Ended September 30, 2012

#### Consolidated Results

Net sales for the third quarter of 2013 increased 2% to \$463.9, compared with \$455.4 for the third quarter of 2012. Lower selling volumes of 1% were more than offset by a 2% increase attributable to the acquisition of the Umeco businesses, acquired in late-July 2012, and price increases that improved sales by 1%. Aerospace and Industrial Materials both had higher sales compared to the third quarter of 2012. Aerospace Materials net sales increased by 7%, of which 3% was due to higher selling prices, 2% was due to new sales from the acquisition of Umeco and 2% was due to increased volumes. Net sales for Industrial Materials segment increased 1%. Sales for In Process Separation and Additive Technologies were lower versus the same period of 2012. In Process Separation sales decreased 7% due to lower volumes of 5% and lower net selling prices of 2%. Additive Technologies net sales decreased 1% due to lower selling prices, while volumes were consistent with 2012.

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

Manufacturing cost of sales was \$313.3, or 67.5% of net sales, in the third quarter of 2013, compared with \$316.8, or 69.6% of net sales, in the third quarter of 2012. Total manufacturing costs decreased by \$3.5, consisting of \$2.7 of lower stranded costs in

-32-

---

Table of Contents

2013 following the divestiture of Coating Resins, \$1.3 of lower costs and freight due to lower sales volumes, favorable fixed cost absorption of \$2.1, lower raw material costs of \$1.3, and lower restructuring costs of \$0.6. These lower costs of sales were partially offset by higher costs of sales of \$3.5 incurred in the third quarter of 2013 related to the Umeco business, which we acquired on July 20, 2012, and higher net period costs of \$1.0 driven mostly by higher Aerospace demand.

Selling and technical service expenses were \$35.3 in the third quarter of 2013 versus \$35.6 in the third quarter of 2012. Research and process development expenses were \$12.5 versus \$13.0 in the prior year. Administrative and general expenses were \$32.3 versus \$37.2 in the prior year. Overall operating expenses decreased \$5.7, from \$85.8 in the third quarter of 2012 to \$80.1 in the third quarter of 2013, primarily due to \$5.9 of lower stranded costs previously allocated to our former Coating Resins business, \$4.3 of lower costs associated with the acquisition of Umeco in 2012, a \$2.1 reduction in restructuring charges in 2013 due to initiatives we took in the second quarter of 2012 in preparation for the sale of Coating Resins, and \$0.7 of accelerated depreciation in the third quarter of 2012 related to the sale-leaseback of our Stamford research laboratory treated as a financing transaction during 2012. The reduction in operating expenses was partly offset by expenses of \$4.3 for costs, including consulting fees, associated with the development and implementation of a single, global ERP system, and \$2.5 of expenses that we incurred in 2013 from the operations of Umeco, which are largely headcount related, higher costs of \$0.7 related to the sale of the distribution business.

Amortization of acquisition intangibles was \$3.6 and \$3.4 in the third quarter of 2013 and 2012, respectively. The slight increase is due to the amortization of intangible assets acquired as part of the Umeco acquisition in the third quarter of 2012.

Asset impairment charges were \$2.7 in the third quarter of 2013, which is primarily for the write-off of plant assets at our manufacturing facility in Beelitz, Germany, under the restructuring initiatives within Industrial Materials to reduce costs associated with the acquired Umeco business.

Other expense, net was \$0.3 in the third quarter of 2013, equal to the third quarter of 2012.

Interest expense, net was \$3.4 in the third quarter of 2013 compared with \$7.0 in the prior year. The decrease of \$3.6 is primarily due to higher capitalized interest of \$2.4 driven by the restart of the carbon fiber expansion project in 2012 and the phosphine plant expansion, lower net interest expense of \$1.8, mostly from the redemption of higher interest debt in the first quarter of 2013 with new debt issued at a lower rate, which was offset by lower interest income of \$0.6.

The effective tax rate for continuing operations for the three months ended September 30, 2013 was a tax provision of 26.6%, or \$16.1, compared to a tax provision of 17.4%, or \$7.3, for the three months ended September 30, 2012. The effective tax rate for the three months ended September 30, 2013 was favorably impacted by a tax benefit of \$3.7 primarily related to a change in tax rate with respect to the deferred tax assets and liabilities associated with an international jurisdiction and a net benefit related to the resolution of an international tax audit.

Net earnings from continuing operations for the third quarter of 2013 was \$44.4 (\$1.20 per diluted share), an increase of \$9.7 from \$34.7 (\$0.74 per diluted share) reported for the same period in 2012. Included in the third quarter of 2013 was an after-tax charge of \$3.9 (\$0.11 per diluted share), which includes severance costs plus the Beelitz, Germany asset impairment charge noted above, related to cost reduction initiatives in our Industrial Materials segment to address the current market conditions and better position ourselves for profitable growth, \$0.7 (\$0.02 per diluted share) of costs to divest the Umeco distribution business, and a \$0.2 income tax expense (\$0.01 per diluted share) related to a revision of our previously accrued estimated income tax liability on the unrepatriated earnings of certain foreign subsidiaries as a result of the sale of our Coating Resins business. Included in the third quarter of 2012 were charges of \$4.3 (\$0.09 per diluted share) related to costs incurred for the acquisition of Umeco, after-tax restructuring charges of \$3.3 (\$0.07 per diluted share) primarily related to plans to realign the supporting structure of our Umeco segment as we take advantage of synergies from the acquisition, after-tax charges of \$3.1 (\$0.7 per diluted share) related to the third quarter expense of Umeco inventory that was written up to fair value as of the acquisition date, foreign exchange losses of \$0.7 after-tax (\$0.01 per diluted share) for the settlement of an intercompany loan we acquired in the Umeco transaction, and accelerated depreciation of \$0.4 after tax (\$0.01 per diluted share) for the sale-leaseback of our Stamford facility treated as a financing transaction. Also included in the third quarter of 2012 is

a tax benefit of \$8.5 (\$0.18 per diluted share) attributable to the reversal of certain tax reserves due the completed U.S. tax audits for the years ended 2004 through 2008. For the three months ended September 30, 2012, net earnings from continuing operations included pre-tax costs previously allocated to the operations of our discontinued Coating Resins segment of \$15.7.

(Loss) earnings from discontinued operations, net of tax, were losses of \$0.6 in the third quarter of 2013 compared with net earnings of \$24.2 in 2012. For 2013, losses from discontinued operations, net of tax consisted of additional expenses for certain tax liabilities related to taxable periods (or portions thereof) ending on or before April 3, 2013. For the third quarter of 2012, discontinued operations consisted of the results of our former Coating Resins segment. The earnings from discontinued operations, net of tax for 2012 reflect the following after-tax amounts: the earnings from operations of our former Coatings segment of \$39.2, the realized gain of \$8.3 on the sale of our PSA product line in the third quarter, which is part of the former

Table of Contents

Coatings segment, and a charge of \$23.8 to adjust to the carrying value of the assets held for sale at September 30, 2012 to their fair value less costs to sell. This charge was based on new information received about the carrying value as determined by our agreement to sell remaining Coatings segment that we entered into in October 2012. In the third quarter of 2012, discontinued operations of our former Coatings segment included the following after-tax items: costs of \$3.0 related to the sale of Coating Resins and restructuring charges of \$0.4.

Net earnings for the third quarter of 2013 were \$43.8 (\$1.19 per diluted share), a decrease of \$14.6 from the net earnings of \$58.4 (\$1.24 per diluted share) in the same period in 2012.

## Segment Results

Year-to-year comparisons and analysis of changes in net sales by segment and region during the quarter are set forth below.

## Aerospace Materials

|                              | 2013    | 2012    | Total <sup>(1)</sup> | % Change Due to |            |          |   |
|------------------------------|---------|---------|----------------------|-----------------|------------|----------|---|
|                              |         |         | % Change             | Price           | Volume/Mix | Currency |   |
| North America                | \$149.7 | \$139.0 | 8                    | % 2             | % 6        | % —      | % |
| Latin America <sup>(1)</sup> | 1.7     | 0.9     | —                    | —               | —          | —        | % |
| Asia/Pacific                 | 16.0    | 14.0    | 14                   | % 5             | % 9        | % —      | % |
| Europe/Middle East/Africa    | 68.5    | 66.9    | 2                    | % 5             | % (3)      | )% —     | % |
| Total                        | \$235.9 | \$220.8 | 7                    | % 3             | % 4        | % —      | % |

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

Net sales increased 7% primarily due to a 4% increase in selling volumes, of which 2% is acquisition-related, and 2% was for existing business. The higher selling volumes for existing business in the third quarter of 2013 were primarily attributable to the continued ramp up of the 787 program and increased build rates for single aisle aircraft. Partially offsetting this growth was lower rotorcraft sales. Selling prices increased 3% and changes in exchange rates did not significantly impact net sales.

Earnings from operations were \$40.7, or 17% of sales in 2013, compared with \$40.4, or 18% of sales in 2012. The \$0.3 increase in earnings consists of increased selling prices of \$7.5, improved marginal income due to higher selling volumes of \$1.8 including earnings from the Umeco acquisition, and favorable fixed cost absorption of \$1.5. These favorable impacts in earnings were partially offset by \$3.2 of higher period costs, including freight and warehousing, due to higher spending to meet increased volume demands, \$2.7 of stranded costs associated with the sale of the coatings resins business earlier this year, higher operating expenses of \$2.1 due to increased investment in research and technical services, \$1.5 related to the planned carbon fiber maintenance turn-around and expenses related to our ongoing capital projects, a \$0.8 unfavorable impact of foreign exchange rate changes, and higher material costs of \$0.2.

## Industrial Materials

|                              | 2013   | 2012   | Total <sup>(1)</sup> | % Change Due to |            |          |   |
|------------------------------|--------|--------|----------------------|-----------------|------------|----------|---|
|                              |        |        | % Change             | Price           | Volume/Mix | Currency |   |
| North America                | \$22.9 | \$22.2 | 3                    | % 1             | % 2        | % —      | % |
| Latin America <sup>(1)</sup> | 1.7    | 5.0    | —                    | % —             | % —        | % —      | % |
| Asia/Pacific <sup>(1)</sup>  | 2.9    | 3.5    | —                    | % —             | % —        | % —      | % |
| Europe/Middle East/Africa    | 43.4   | 39.4   | 10                   | % —             | % 10       | % —      | % |
| Total                        | \$70.9 | \$70.1 | 1                    | % 1             | % —        | % —      | % |

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

Overall, net sales increased 1% compared to the third quarter of 2012 primarily due to selling price increases. Higher sales related to the acquisition of Umeco of \$15.5, which closed in late July 2012, were offset by lower sales volumes of existing products in the high performance automotive and tooling sectors, and also in reduced sales of our process materials to the wind energy market. Sales for the third quarter of 2012 included \$9.0 related to the distribution product line, which we divested on July 12, 2013. Changes in exchange rates did not significantly impact net sales.

Earnings from operations were \$5.1, or 7% of net sales in 2013, compared with \$1.6, or 2% of net sales in 2012. The \$3.5 increase in earnings was driven by earnings from operations of \$4.4 from the acquired Umeco industrial business, reduced

-34-

---

Table of Contents

manufacturing and operating expenses of \$1.8 due to prior year restructuring initiatives, favorable fixed cost absorption of \$0.8, lower raw material costs of \$0.6, selling price increases of \$0.4, and a favorable impact of \$0.1 from changes in exchange rates. These were largely offset by lower marginal income of \$3.7 due to the lower aforementioned sales volumes and \$0.9 million of stranded cost increases related to the coating resins sale. In the third quarter of 2012, as a result of purchase accounting for the acquisition of Umeco, we wrote up our inventory to fair value by \$4.5 and subsequently charged the write up to cost of sales as the inventory was sold in that quarter.

## In Process Separation

|                           | 2013   | 2012   | Total<br>% Change | % Change Due to |            |          |
|---------------------------|--------|--------|-------------------|-----------------|------------|----------|
|                           |        |        |                   | Price           | Volume/Mix | Currency |
| North America             | \$20.8 | \$26.2 | (21)%             | —%              | (21)%      | —%       |
| Latin America             | 30.8   | 28.2   | 9%                | —%              | 9%         | —%       |
| Asia/Pacific              | 20.2   | 23.2   | (13)%             | (4)%            | (6)%       | (3)%     |
| Europe/Middle East/Africa | 19.4   | 20.5   | (5)%              | (4)%            | (1)%       | —%       |
| Total                     | \$91.2 | \$98.1 | (7)%              | (2)%            | (5)%       | —%       |

Net sales were down 7%, primarily due to lower sales volumes of 5% and price decreases of 2%. The volume decrease is primarily from lower sales of phosphine gas as a result of a product quality issue that reduced sales by approximately \$3.0 and lower phosphine gas demand in certain end markets, especially electronics. There was a decrease in sales in the alumina market, which was more than offset by increased demand for other mining products during the quarter. Selling prices decreased 2% and changes in foreign exchange did not significantly impact sales. Earnings from operations were \$20.4 or 22% of sales in 2013, compared with \$25.4, or 26% of sales in 2012. The \$5.0 decrease in earnings is principally due to decreased marginal income from lower selling volumes of \$4.2, the impact of stranded costs of approximately \$1.9 associated with the sale of the coating resins business earlier this year, price decreases of \$1.6, higher net commercial and other operating expenses of \$0.4 to support expected future growth. The decreases was partially offset by net favorable fixed cost absorption of \$1.1, lower manufacturing costs and freight of \$0.8, lower net overall raw material costs of \$0.9, and the favorable impact from exchange rate changes of \$0.4.

## Additive Technologies

|                           | 2013   | 2012   | Total<br>% Change | % Change Due to |            |          |
|---------------------------|--------|--------|-------------------|-----------------|------------|----------|
|                           |        |        |                   | Price           | Volume/Mix | Currency |
| North America             | \$28.1 | \$29.5 | (5)%              | (1)%            | (4)%       | —%       |
| Latin America             | 6.3    | 5.3    | 19%               | (4)%            | 23%        | —%       |
| Asia/Pacific              | 17.2   | 16.8   | 2%                | (1)%            | 5%         | (2)%     |
| Europe/Middle East/Africa | 14.3   | 14.8   | (3)%              | (1)%            | (7)%       | 5%       |
| Total                     | \$65.9 | \$66.4 | (1)%              | (1)%            | —%         | —%       |

Net sales decreased 1% primarily due to lower selling prices. Selling volumes were flat compared to the third quarter of 2012. The specialty additives product line had lower sales due to planned rationalization of a low margin product, which was mostly offset by higher demand for polymer additive products in Europe and North America and higher sales of formulated resins products. Changes in exchange rates did not significantly affect net sales.

Earnings from operations were \$9.0 or 14% of sales in 2013, compared with \$10.3 or 16% of sales in 2012. The \$1.3 decrease in earnings is due primarily from the impact of stranded costs of approximately \$1.5 associated with the sale of the coating resins business earlier this year, unfavorable fixed cost absorption of \$1.3, net sales price decreases of \$0.8, an unfavorable impact of changes in exchange rates of \$0.2. This was partially offset by an increased marginal income due to a favorable sales product mix of \$1.1 and lower manufacturing costs of \$0.9, and decreased commercial and administration expenses of \$0.5.

## Nine Months Ended September 30, 2013, Compared With Nine Months Ended September 30, 2012

## Consolidated Results

Net sales for the nine months ended September 30, 2013 were \$1,455.1 compared with \$1,237.4 for the nine months ended September 30, 2012. Overall, net sales increased 18% in 2013, of which 16% was attributable to the acquisition of the Umeco businesses, acquired in July 2012. Price increases improved sales by 2%, while overall selling volumes

were consistent with 2012. The impact of exchange rates on sales was minimal. Aerospace Materials net sales increased by 12%, of which 6% was

-35-

---

Table of Contents

due to new sales from the acquisition of Umeco, higher volumes of 3%, and price increases of 3%. Net sales for Industrial Materials segment increased significantly, mostly due to new acquisition-related sales. Net sales for In Process Separation and Additive Technologies each decreased 1%, due to lower volumes.

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

Manufacturing cost of sales was \$978.6, or 67.3% of net sales, in the nine months ended September 30, 2013, compared with \$850.6, or 68.7% of net sales, in the nine months ended September 30, 2012. Total manufacturing costs increased by \$128.0, due mostly to incremental costs of sales of \$142.4 incurred in the first nine months of 2013 related to the Umeco business, which we acquired on July 20, 2012. The increase was also due to higher period costs of \$2.4, including a fixed asset write off of \$1.4 related to a certain technology development program that will no longer proceed and increased manufacturing personnel levels resulting from the anticipated growth of the Aerospace Materials for the remainder of 2013, unfavorable fixed cost absorption of \$6.2 to control inventory levels, and \$4.2 for higher freight and costs from increased sales volumes. The increases were partly offset by \$15.6 favorable pension and OPEB MTM adjustments. Additionally, we had \$7.9 of lower stranded costs in 2013 following the sale of Coating Resins, lower restructuring charges of \$3.3 due to initiatives we took in the second quarter of 2012 in preparation for the sale of Coating Resins, and a \$0.4 favorable impact from changes in exchange rates.

Selling and technical service expenses were \$110.7 in the nine months ended September 30, 2013 versus \$102.3 in the nine months ended September 30, 2012. Research and process development expenses were \$36.4 versus \$38.2 in the prior year. Administrative and general expenses were \$93.4 compared to \$98.6 in the prior year. Overall operating expenses increased \$1.4, from \$239.1 in 2012 to \$240.5 in the first nine months of 2013, primarily due to \$32.5 of incremental expenses that we incurred in 2013 from the acquisition of Umeco, which are largely headcount related. Increases in operating expenses also included \$7.7 for costs, including consulting fees, associated with the development and implementation of a single, global ERP system begun in 2013, and higher costs of \$1.1 related to the sale of the distribution business. These increases were partially offset by \$18.1 of lower stranded costs previously allocated to our former Coating Resins business, lower restructuring charges of \$10.1 due to initiatives we took in the second quarter of 2012, \$7.4 of lower costs associated with the acquisition of Umeco in 2012, \$2.0 of accelerated depreciation in the first nine months of 2012 related to the sale-leaseback of our Stamford research laboratory treated as a financing transaction, and the favorable impact of changes in foreign exchange of \$0.8.

Amortization of acquisition intangibles was \$11.1 and \$5.1 in the first nine months of 2013 and 2012, respectively. The increase is due to the amortization of intangible assets acquired as part of the Umeco acquisition in the third quarter of 2012.

Asset impairment charges were \$5.6 in the first nine months of 2013, which includes a charge of \$3.0 for the write down of certain manufacturing assets acquired in our Nagpur, India facility. It also includes the write-off of \$2.6 of plant assets at our manufacturing facility in Beelitz, Germany, under the restructuring initiatives within Industrial Materials to reduce costs associated with the acquired Umeco business.

Other expense, net was \$8.5 in the first nine months of 2013 compared to \$1.3 in the first nine months of 2012. In 2013, other expense, net included a charge of \$3.2 related to the closing and dissolution of our Process Materials Joint Venture in China that operated under the Industrial Materials business and had been acquired as part of the Umeco acquisition, a charge of \$2.2 for environmental charges related to inactive sites, mainly in Canada, for revised remediation plans, and foreign exchange losses of \$2.7.

Loss on early extinguishment of debt consists of a loss of \$39.4 including transaction costs, incurred on the redemption of \$135.2 principal amount of our 4.6% notes due July 1, 2013, which we called for redemption in February 2013, for a purchase price of \$136.8 plus accrued interest of \$1.5; the repurchase of \$107.8 principal amount of our 6.0% notes due October 1, 2015 for a purchase price of \$121.1 plus accrued interest of \$3.1; and the repurchase of \$85.1 principal amount of our 8.95% notes due July 1, 2017 for a purchase price of \$108.3 plus accrued interest of \$1.8. The repurchase of the 6.0% and 8.95% notes were completed under an offer to repurchase the notes that ended in March 2013.

Interest expense, net was \$14.9 for the nine months ended September 30, 2013 compared with \$24.0 in the prior year. The decrease of \$9.1 is primarily due to higher capitalized interest of \$8.1 due to the restart of the carbon fiber expansion project in 2012, and lower interest expense of \$2.9, mostly from the redemption of higher interest debt in

the first quarter of 2013 with new debt issued at a lower rate, which was offset by lower interest income of \$1.9. The effective tax rate for continuing operations for the nine months ended September 30, 2013 was a tax provision of 25.9%, or \$40.4, compared to a tax provision of 38.7%, or \$45.3, for the nine months ended September 30, 2012. The effective tax rate for the nine months ended September 30, 2013 was favorably impacted by a tax benefit of \$3.7 primarily related to a change in tax rate with respect to the deferred tax assets and liabilities associated with an international jurisdiction and a net benefit related to the resolution of an international tax audit. In addition, the effective tax rate for the year to date period was primarily

-36-

---

Table of Contents

impacted by a tax benefit of \$2.7 attributable to the U.S. reinstatement of 2012 business tax incentives during the first quarter of 2013, a \$14.7 benefit related to the loss on early extinguishment of debt, and a net tax benefit of \$0.7 related to a revision of our previously accrued estimated income tax liability on the unrepatriated earnings of certain foreign subsidiaries as a result of the sale of our Coating Resins business.

Net earnings from continuing operations for the nine months ended September 30, 2013 was \$115.8 (\$2.79 per diluted share), an increase of \$44.1 from \$71.7 (\$1.53 per diluted share) reported for the same period in 2012. Included in the nine months ended September 30, 2013 were the following after-tax charges: \$24.7 (\$0.59 per diluted share) related to the loss on the debt redemption, \$4.4 (\$0.11 per diluted share) related to restructuring activities, including cost reduction initiatives in our Industrial Materials segment to address the current market conditions and better position ourselves for profitable growth, \$3.2 (\$0.08 per diluted share) related to the dissolution of our Process Materials Joint Venture in China, \$2.0 (\$0.05 per diluted share) for the write down of certain manufacturing assets in Nagpur, India, \$1.7 (\$0.04 per diluted share) of environmental charges related to inactive sites, mainly in Canada, for revised remediation plans, and charges of \$1.1 (\$0.02 per diluted share) for costs to divest the Umeco distribution business. Also included in 2013 was a net after-tax benefit of \$1.2 (\$0.03 per diluted share) for pension MTM adjustments, consisting of the portion deferred in inventory from the fourth quarter 2012 MTM and the curtailment of pension plans triggered by the divestiture of the former Coatings business on April 3, 2013, and a \$0.7 net income tax benefit (\$0.02 per diluted share) related to a revision of our previously accrued estimated income tax liability on the unrepatriated earnings of certain foreign subsidiaries as a result of the sale of our Coating Resins business. The revision is primarily due to changes in the tax attributes of certain foreign subsidiaries. Included in continuing operations for the first nine of 2012 were after-tax charges of \$8.7 (\$0.18 per diluted share) for pension MTM adjustments deferred in inventory from the fourth quarter 2011 MTM, after-tax restructuring charges of \$11.0 (\$0.24 per diluted share) across corporate functions to mitigate continuing costs following the anticipated sale of Coating Resins, charges of \$7.2 (\$0.15 per diluted share) related to costs incurred for the acquisition of Umeco, an after-tax foreign exchange loss of \$0.7 (\$0.01 per diluted share) on the settlement of an acquired intercompany loan from the Umeco transaction, and accelerated depreciation of \$1.3 after-tax (\$0.03 per diluted share) for the sale of our Stamford facility treated as a financing transaction. Also included in the first nine months of 2012 was a tax benefit of \$8.5 (\$0.18 per diluted share) attributable to the reversal of certain tax reserves due to the completed U.S. tax audits for the years ended 2004 through 2008, and an income tax provision of \$14.5 (\$0.31 per diluted share) related to the establishment of a liability for unrepatriated earnings of foreign subsidiaries, which we could no longer consider permanently reinvested in those entities, due to the anticipated sale of Coating Resins. Net earnings from continuing operations also included costs previously allocated to the operations of our discontinued Coating Resins segment of \$12.2 for the nine months ended September 30, 2013, and \$50.5 for the nine months ended September 30, 2012. (Loss) earnings from discontinued operations, net of tax, were \$(1.7) in the first nine months of 2013 compared with \$76.4 in 2012. For 2013, earnings from discontinued operations, net of tax consisted of earnings from operations of our former Coating Resins segment of \$31.6 prior to its sale, the loss on the sale of our former Coating Resins segment of \$20.4, and a charge of \$12.5 to adjust the carrying value of the distribution business, based on the terms of the sale to Cathay Investments in July 2013.

Net earnings for the nine months ended September 30, 2013 were \$114.1 (\$2.75 per diluted share), a decrease of \$34.0 from the net earnings of \$148.1 (\$3.16 per diluted share) in the same period in 2012.

**Segment Results**

Year-to-year comparisons and analysis of changes in net sales by segment and region during the quarter are set forth below.

**Aerospace Materials**

|                              | 2013    | 2012    | Total <sup>(1)</sup><br>% Change | % Change Due to |            |          |   |   |
|------------------------------|---------|---------|----------------------------------|-----------------|------------|----------|---|---|
|                              |         |         |                                  | Price           | Volume/Mix | Currency |   |   |
| North America                | \$459.2 | \$401.1 | 14                               | % 2             | % 12       | % —      | % | % |
| Latin America <sup>(1)</sup> | 4.1     | 3.1     | —                                | % —             | % —        | % —      | % | % |
| Asia/Pacific                 | 47.1    | 43.4    | 9                                | % 4             | % 5        | % —      | % | % |
| Europe/Middle East/Africa    | 211.3   | 197.5   | 7                                | % 5             | % 2        | % —      | % | % |

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

|       |         |         |    |     |     |     |   |
|-------|---------|---------|----|-----|-----|-----|---|
| Total | \$721.7 | \$645.1 | 12 | % 3 | % 9 | % — | % |
|-------|---------|---------|----|-----|-----|-----|---|

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

Net sales increased 12% primarily due to a 9% increase in selling volumes, of which 6% are acquisition-related sales increase, and 3% were for existing business. The higher selling volumes for existing business in the year to date September 30, 2013

-37-

---

Table of Contents

were primarily attributable to the continued ramp up of new large commercial transport programs, primarily Boeing's 787 program, and to a lesser extent, increased build rates for single aisle aircraft, and business jets. Partially offsetting the increases were inventory reductions in military segments and certain large commercial transport programs and lower rotorcraft sales. Selling prices increased 3% and changes in exchange rates did not significantly impact net sales.

Earnings from operations were \$140.4, or 19% of sales in 2013, compared with \$126.7, or 20% of sales in 2012. The \$13.7 increase in earnings consisted of higher selling prices of \$20.3, improved marginal income due to higher selling volumes of \$12.4, earnings of \$3.7 related to the Umeco acquisition, and the favorable impact of foreign exchange rate changes of \$0.1. The increases were partially offset by higher manufacturing period costs, including freight and warehousing, of \$6.7, which includes a fixed asset write off of \$1.4 related to a certain technology development program that will no longer proceed and increased personnel spending to meet increased production demands, \$5.1 of stranded costs associated with the sale of coating resins business earlier this year, unfavorable fixed cost absorption of \$4.2 related to inventory builds in 2012, \$3.6 related to the planned carbon fiber maintenance turn-around and expenses related to our ongoing capital projects, \$2.7 of higher raw material costs and higher waste driven by increased production, and higher operating expenses of \$0.3 due to higher selling expenses and increased investment in research and development.

## Industrial Materials

|                           | 2013    | 2012   | Total<br>% Change | % Change Due to |            |          |     |     |   |
|---------------------------|---------|--------|-------------------|-----------------|------------|----------|-----|-----|---|
|                           |         |        |                   | Price           | Volume/Mix | Currency |     |     |   |
| North America             | \$70.0  | \$38.1 | —                 | % —             | % —        | % —      | % — | % — | % |
| Latin America             | 8.4     | 5.1    | —                 | % —             | % —        | % —      | % — | % — | % |
| Asia/Pacific              | 9.0     | 3.8    | —                 | % —             | % —        | % —      | % — | % — | % |
| Europe/Middle East/Africa | 152.5   | 47.2   | —                 | % —             | % —        | % —      | % — | % — | % |
| Total                     | \$239.9 | \$94.2 | —                 | % 1             | % —        | % —      | % — | % — | % |

The Umeco acquisition occurred on July 20, 2012. Due to the low level of existing prior year sales in all (1) geographic regions, the majority of the difference is due to the acquisition and percentage comparisons are not meaningful.

Overall, net sales increased \$145.7 primarily due to net sales \$212.3 in 2013 from the Umeco business acquired in July 2012. For existing product lines, our selling volumes decreased by \$12.3, or 13%, due to weak demand from the high performance automotive and motor sports markets and tooling applications. Increased selling prices resulted in higher sales of 1%. Changes in exchange rates did not significantly impact net sales. Sales for the first nine months of 2013 and 2012 include \$25.4 and \$9.0, respectively, related to the distribution product line, which we divested on July 12, 2013.

Earnings from operations were \$13.0, or 5% of net sales in 2013, compared with \$5.5, or 6% of net sales in 2012. The \$7.5 increase in earnings was driven by earnings from operations of \$9.6 from the Umeco industrial business, reduced period costs and operating expenses of \$2.3 and \$1.3, respectively, from prior year restructuring initiatives, favorable fixed cost absorption of \$1.2, selling price increases of \$1.0, lower raw material costs of \$0.8, and a favorable impact of changes in exchange rates of \$0.4. These were largely offset by lower marginal income of \$7.5 due to lower sales volumes for existing product lines, and the impact of stranded costs of approximately \$1.6 associated with the sale of the coating resins business earlier this year.

## In Process Separation

|                           | 2013    | 2012    | Total<br>% Change | % Change Due to |            |          |      |      |   |
|---------------------------|---------|---------|-------------------|-----------------|------------|----------|------|------|---|
|                           |         |         |                   | Price           | Volume/Mix | Currency |      |      |   |
| North America             | \$74.1  | \$79.5  | (7)               | )% 2            | % (9)      | )% —     | % —  | % —  | % |
| Latin America             | 84.8    | 84      | 1                 | % —             | % 1        | % —      | % —  | % —  | % |
| Asia/Pacific              | 73.5    | 67.2    | 9                 | % (3)           | )% 13      | % (1)    | )% — | )% — | % |
| Europe/Middle East/Africa | 54.0    | 59.2    | (9)               | )% 1            | % (10)     | )% —     | )% — | )% — | % |
| Total                     | \$286.4 | \$289.9 | (1)               | )% —            | % (1)      | )% —     | )% — | )% — | % |

Net sales were down 1%, primarily due to lower sales volumes. The volume decrease in 2013 is primarily from lower phosphine gas sales of \$7.6, which is related to a quality issue of approximately \$3.0 and weaker demand, particularly in the electronics market, compared to 2012, as well as weaker demand in the alumina market. The decreases are partly offset by higher demand for mining products related to copper and other base metals.

-38-

---

Table of Contents

Earnings from operations were \$66.6 or 23% of sales in 2013, compared with \$77.0, or 27% of sales in 2012. The \$10.4 decrease in earnings is principally due to lower marginal income from lower sales volumes of \$3.5, the impact of stranded costs of approximately \$3.0 associated with the sale of the coating resins business earlier this year, higher net commercial and other operating expenses of \$1.8 to support future growth, higher freight and warehousing costs of \$0.8, higher manufacturing costs of \$0.6 due to higher plant operating costs, \$0.4 for a customer's bad debt, \$0.3 of net unfavorable fixed cost absorption, \$0.2 for higher raw material costs and \$0.1 from decreased selling prices. This decrease in earnings was partially offset by a \$0.3 favorable impact from changes in exchange rates.

## Additive Technologies

|                           | 2013    | 2012    | Total<br>% Change | % Change Due to |            |          |  |   |
|---------------------------|---------|---------|-------------------|-----------------|------------|----------|--|---|
|                           |         |         |                   | Price           | Volume/Mix | Currency |  |   |
| North America             | \$91.8  | \$92.5  | (1)%              | 2%              | (3)%       | —        |  | % |
| Latin America             | 17.8    | 16.3    | 9%                | (2)%            | 11%        | —        |  | % |
| Asia/Pacific              | 50.8    | 52.3    | (3)%              | (4)%            | 3%         | (2)%     |  | % |
| Europe/Middle East/Africa | 46.7    | 47.1    | (1)%              | —               | (3)%       | 2%       |  | % |
| Total                     | \$207.1 | \$208.2 | (1)%              | —               | (1)%       | —        |  | % |

Net sales were lower by 1% compared with 2012 due mostly to slight decreases in selling volumes. Selling volumes growth due to higher demand for polymer additive products in Europe, North America and Latin America were offset by lower sales for specialty additive products due to product rationalization of low margin products. Selling prices and changes in exchange rates did not significantly affect net sales.

Earnings from operations were \$30.1 or 15% of sales in 2013, compared with \$31.9 or 15% of sales in 2012. The \$1.8 decrease in earnings is due primarily from unfavorable fixed cost absorption of \$2.9, the impact of stranded costs of approximately \$2.6 associated with the sale of the coating resins business earlier this year, an unfavorable impact of changes in exchange rates of \$0.9, and sales price decreases of \$0.5. This was partially offset by lower costs for raw materials of \$2.2, lower freight and other manufacturing period costs of \$1.4, increased marginal income due to higher selling volumes of \$1.0, and decreased commercial and administration expenses of \$0.5.

## RESTRUCTURING ACTIVITIES

## 2013 Restructuring Initiatives

In the second quarter of 2013, we launched initiatives in our Aerospace Materials segment to move all production operations from the Costa Mesa, Adelanto, and Huntington Beach, California sites into the Winona, Minnesota, Tulsa, Oklahoma and Anaheim, California locations. Approximately 120 employees will be impacted by this move. The estimated total cost of this initiative is approximately \$27.0 which includes capital and other costs of approximately \$13.0 to move the products into the existing operations and approximately \$3.5 for non-cash accelerated depreciation expense. The remaining costs are for retention and severance plans, certain lease liabilities on impacted facilities and clean-up costs. Product re-sites and re-qualifications will begin immediately with final completion by year end 2014. These plans resulted in a restructuring charge of \$1.1 in the first nine months of 2013, with the majority of the remaining expense amount recorded over the second half of 2013 and full year 2014 as specific events occur to complete this initiative.

## LIQUIDITY AND FINANCIAL CONDITION

At September 30, 2013, our cash balance was \$176.6 compared with \$179.3 at December 31, 2012. At September 30, 2013, approximately 56% of our cash was located outside of the U.S.

## Net cash provided by continuing operations

Net cash provided by operating activities of continuing operations was \$89.4 in 2013 compared with \$103.9 in 2012. Trade accounts receivable decreased \$4.3, as days outstanding of 48 days as of the end of the third quarter of 2013 was down one day from year end 2012. Accounts payable increased by \$18.4, as accounts payable days outstanding at September 30, 2013 increased 3 days to 49 days, up from 46 days at the end of 2012. Inventory increased \$17.0. Inventory days on hand were at 90 days at the end of the third quarter of 2013, which is up 8 day since year end 2012. This was due primarily to increased inventory levels spread across the businesses as a result of sales orders shifted to the fourth quarter and inventory builds for the maintenance shutdowns we had at the end of the third quarter and have planned for the fourth quarter. Accrued expenses decreased by \$3.7, primarily due to payments related to 2012

incentive compensation. Income taxes payable decreased by \$49.4, primarily due to the \$21.0 corporate income tax payment primarily related to the divestiture of the PSA product line in

-39-

---

Table of Contents

2012. This payment, which was statutorily due on December 17, 2012, was deferred to February 1, 2013 as the Internal Revenue Service provided special tax relief for taxpayers in the federally-declared disaster areas struck by Hurricane Sandy. Other liabilities in 2013 decreased by \$95.6, primarily due to contributions to our pension and postretirement plans. We disclosed in our 2012 Annual Report on Form 10-K that we expected to contribute \$57.4 and \$10.2, respectively, to our pension and postretirement plans in 2013. Through September 30, 2013, actual contributions to our pension and postretirement plans were \$70.2 and \$5.2, respectively, which includes a \$65.0 contribution to our U.S. pension plans funded by a portion of the proceeds from the sale of Coating Resins received in April 2013.

Net cash used in investing activities of continuing operations was \$217.5 in 2013 compared to \$529.7 in 2012. Capital spending for the first nine months of 2013 was \$217.5 compared to \$84.3 in 2012. Capital spending in 2013 is primarily attributable to continued investment for the strategic expansion of our growth businesses within the Aerospace Materials and In Process Separation segments, in addition to maintenance of business capital across the Company. In the second quarter of 2012, we restarted the carbon fiber expansion project that had previously been placed on hold to support our growing demand for carbon fiber based composites. The construction phase of the project is expected to be completed in the first quarter of 2014, with aerospace qualified fiber production expected in 2016. We have also commenced production on a new prepreg manufacturing expansion project, with the construction phase expected to be completed in 2014 and commercial production expected to occur in 2015. In 2012, we began expansion of our phosphine plant in Canada for our In-Process Separation segment, with construction expected to be completed by mid-2014. Our total capital spending for 2013 is expected to be approximately \$300.0 for continuing operations. In the first nine months of 2012, we used \$445.4 in cash to acquire Umeco plc and a business in India to increase our manufacturing capacity in our In-Process Separation segment, as discussed in Note 4 of the Consolidated Financial Statements.

Net cash used in financing activities in 2013 was \$763.4, compared to net cash provided of \$17.7 in 2012. During the first nine months of 2013, we made net payments of \$22.0 on our short and long term borrowings. This primarily consisted of net proceeds of \$397.2 from the issuance of new 10 year, 3.5% debt in March 2013, which were used in part to pay \$136.8 to redeem \$135.2 face value of our 4.6% notes that we called for redemption in February 2013, \$121.1 to repurchase \$107.8 face value of our 6.0% notes due in October 2015, and \$108.3 to repurchase \$85.1 face value of our 8.95% notes due in July 2017. These repurchases were done under tender offers that commenced in February 2013. We also made net payments of \$62.0 on our Revolving Credit Facility, and received net proceeds of \$7.6 on debt of a non-U.S. subsidiary. We also received \$21.3 of proceeds from stock option exercises, and had \$4.5 of excess tax benefits related to share-based payments in the first nine months of 2013. We repurchased \$750.1 of treasury stock and paid \$17.1 of cash dividends during the first nine months of 2013.

## Share repurchases

During the three and nine months ended September 30, 2013, we repurchased 1,397,579 and 10,174,755 shares, respectively, of our common stock at a total cost of \$108.1 and \$750.1, respectively. There were no repurchases in the first nine months of 2012. There are no amounts remaining under the buyback program as of September 30, 2013.

## Dividends

On July 18, 2013, the Board of Directors declared a \$0.125 per common share cash dividend, payable on August 26, 2013 to shareholders of record as of August 9, 2013. Cash dividends paid in the third quarter of 2013 and 2012 were \$4.5 and \$5.7, respectively, and for the nine months ended September 30, 2013 and 2012 were \$17.1 and \$20.2, respectively. Dividends paid in the first nine months of 2013 and 2012 include \$1.8 and \$3.0, respectively, paid by a majority owned subsidiary to its minority shareholder. On October 17, 2013, the Board of Directors declared a \$0.125 per common share cash dividend, payable on November 25, 2013 to shareholders of record as of November 11, 2013.

## Net cash (used in) provided by discontinued operations

Net cash used in operating activities of discontinued operations for the first nine months of 2013 was \$107.4, compared to net cash provided of \$82.1 for the first nine months of 2012. For 2013 and 2012, these cash flows consisted primarily of the net earnings from discontinued operations from what was formerly our Coating Resins segment, plus the impact of changes in working capital during the periods. Also included in 2013 is a tax payment of approximately \$44.0 made in the third quarter related to the tax gain on the disposal transaction. Net increases to

working capital reduced cash by approximately \$86.6 in the first nine months of 2013, while net decreases to working capital provided cash of approximately \$13.0 in 2012. Net earnings of discontinued operations in the first nine months of 2012 included the impact of depreciation and amortization of approximately \$42.4, related to the periods prior to the classification of Coating Resins assets as held for sale. In the first nine months of 2013, no depreciation or amortization was taken on these assets.

Net cash provided by investing activities of discontinued operations was \$1,002.0 for the first nine months of 2013, compared to \$97.4 in 2012. In April 2013 we sold our former Coating Resins segment, and received cash proceeds of approximately

-40-

---

## Table of Contents

\$998.9 net of related transaction costs. In the third quarter of 2013, we sold the former distribution business of the Industrial Materials segment for cash proceeds of \$6.4, net of cash balances sold. Capital expenditures related to discontinued operations for the first nine months of 2013 were approximately \$3.2. For 2012, we received net proceeds of \$112.8 from the sale of the PSA product line in the third quarter of 2012 and proceeds of \$4.0 from the sale of assets, which were offset by \$19.4 of capital expenditures in the Coating Resins business.

### 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, from internal cash generation, and, when appropriate, through utilization of our existing credit line. From time to time, based on such factors as local tax regulations, prevailing interest rates and our plans for capital investment or other investments, it may make economic sense to utilize our existing credit lines in order to meet our 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 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 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 September 30, 2013. Our ability to fully utilize our revolving credit agreement can be limited by our actual calculated Debt Covenant Ratio as compared to the maximum Debt Covenant Ratio permitted under the agreement. At September 30, 2013, \$400.0 of the facility was available to us, and we expect that the full amount will continue to be available based on our current forecasts.

### Use of cash

We have generated a significant amount of cash in recent years. Our top priorities for use of cash will continue to be investment in the typical maintenance of business capital spending projects, 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. In addition, if available at a reasonable price, we will buy back our public debt. Finally, we will continue to return excess cash to shareholders through dividends and share repurchases.

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 2012 Annual Report on Form 10-K.

### Contractual Obligations and Commitments

Reference is also made to Note 13 in Notes to Consolidated Financial Statements included herein which describes certain gross liabilities totaling \$16.9 for unrecognized tax benefits for continuing operations that will be resolved at some point over the next several years.

### OTHER

#### 2013 OUTLOOK

In our October 17, 2013 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 2013 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 2012 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 25, 2013, as updated by the Current Report on Form 8-K filed with the SEC on April 18, 2013, related to our changes in reportable segments, and incorporated by reference herein. There were no

changes to our critical accounting policies.

-41-

---

Table of Contents

COMMENTS ON FORWARD-LOOKING STATEMENTS

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.

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 successfully integrate our acquired businesses; 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.

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, 2012, filed with the Securities and Exchange Commission on February 25, 2013, as updated by the Current Report on Form 8-K filed with the SEC on April 18, 2013, related to our changes in reportable segments, and incorporated by reference herein. Other 2013 financial instrument transactions include:

Interest Rate Risk: At September 30, 2013, our outstanding borrowings consisted of \$716.3 of long-term fixed rate debt. Our long-term debt had a carrying and face value of \$716.3 and \$724.9, respectively, and a fair value of approximately \$731.9.

There was no variable rate debt outstanding as of September 30, 2013.

Currency Risk: We periodically enter into currency forward contracts primarily to hedge currency fluctuations of transactions denominated in currencies other than the functional currency of the respective entity. At September 30,

2013, 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.

-42-

---

Table of Contents

At September 30, 2013, the currency and net contractual amounts of forward contracts outstanding translated into U.S. dollar equivalent amounts totaled \$248.8. The favorable fair value of currency contracts, based on forward exchange rates at September 30, 2013, was approximately \$0.1. 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 September 30, 2013 would decrease by approximately \$24.9. 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.

**Item 4. CONTROLS AND PROCEDURES**

We carried out an evaluation, under the supervision and with the participation of the management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the period ended September 30, 2013. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

Information regarding legal proceedings is included in Note 10 to the Consolidated Financial Statements herein, and Item 3 - Legal Proceedings and in Note 12 to the Consolidated Financial Statements contained in our 2012 Annual Report on Form 10-K.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES**

During the three months ended September 30, 2013, we repurchased common stock for \$108.1 under our stock buyback program. There are no amounts remaining under the buyback program as of September 30, 2013.

| Period                                 | Total Number of Shares Purchased | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares That May Yet be Purchased Under the Program |
|--|----------------------------------|-------------------------|--|--|
| July 22, 2013 - July 31, 2013          | 394,087                          | \$76.82                 | 394,087  | \$77.8   |
| August 1, 2013 - August 31, 2013       | 1,003,492                        | \$77.49                 | 1,003,492  | —  |
| September 1, 2013 - September 30, 2013 | —                                | —                       | —  | —  |

**Item 6. EXHIBITS****(a). Exhibits**

See Exhibit Index on page 45 for exhibits filed with this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURE

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

CYTEC INDUSTRIES INC.

By: /s/ David M. Drillock  
David M. Drillock  
Vice President and Chief Financial Officer

October 31, 2013

-44-

---

Table of Contents

Exhibit  
Index

|         |   |
|---------|---|
| 12      | Computation of Ratio of Earnings to Fixed Charges for the three and nine months ended September 30, 2013 and 2012   |
| 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.   |