Chemtura CORP
Form 10-K
March 09, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2006
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File No. 1-15339

Chemtura Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**52-2183153** (I.R.S. Employer Identification Number)
199 Benson Road Middlebury, Connecticut (Address of principal executive offices)	**06749** (Zip Code)

(203) 573–2000
Registrant s telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed as of June 30, 2006 was $2,232,946,791.

The number of voting shares of Common Stock of the registrant outstanding as of February 6, 2007 was 241,093,784.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of Stockholders on April 25, 2007 .... Part III

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PART I.

ITEM 1. BUSINESS

(a) Overview

Chemtura Corporation, together with its consolidated subsidiaries, is among the largest publicly-traded specialty chemical companies in the United States.

When we use the terms the Corporation, Company, Registrant, we, us and our, unless otherwise indicated or the context otherwise requir are referring to Crompton Corporation and its consolidated subsidiaries (Crompton) prior to the Merger (as defined below) and Chemtura Corporation and its consolidated subsidiaries (Chemtura) after the Merger.

We have approximately 6,200 employees at December 31, 2006.

Certain disclosures included in this Annual Report on Form 10-K constitute forward-looking statements that are subject to risk and uncertainty. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements.

(b) General Development of Business

Chemtura was established by the merger of Crompton and Great Lakes Chemical Corporation (Great Lakes) on July 1, 2005 (the Merger).

Crompton was the successor to Crompton & Knowles Corporation, which was incorporated in Massachusetts in 1900, and engaged in the manufacture and sale of specialty chemicals beginning in 1954. We expanded our specialty chemical business through acquisitions in the United States and Europe, including the 1996 acquisition of Uniroyal Chemical Company, Inc., and the 1999 merger with Witco Corporation (Witco).

Great Lakes was a Delaware corporation incorporated in 1933 and was based in Indiana. Great Lakes primarily produced and distributed a wide variety of specialty chemicals. Among the main applications of such chemicals were: the stabilization of various polymer systems, fire retardancy and fire suppression, purification of industrial and recreational water uses and miscellaneous cleaning, agricultural and drilling uses.

Effective July 1, 2005, the Company and Great Lakes completed an all-stock merger transaction. Under the terms of the agreement, Great Lakes shareholders received 2.2232 shares of our common stock for each share of Great Lakes common stock they held. The Company achieved approximately $94 million of pre-tax merger-related synergy cost savings from July 1, 2005 through December 31, 2006. Merger cost savings in 2006 were offset primarily by lower volume and absorption at the manufacturing plants and other one time charges recorded during the year.

Today, we are a global diversified producer of specialty chemicals and polymer products and are a leading U.S. supplier of home pool and spa chemicals. Our products are used in a wide variety of end-use markets, including automotive, transportation, construction, packaging, agriculture, lubricants, plastics for durable and non-durable goods including electronics, industrial rubber and home pool and spa chemical markets. Most of our chemical products are sold to industrial manufacturing customers for use as additives, ingredients, or intermediates that add value to their end products. Our pool and spa chemicals are sold to dealers, distributors and major retailers. We are a market leader in many of our key product lines. We manufacture and sell more than 3,500 products and formulations in more than 100 countries. Of our $3.7 billion net sales in 2006, approximately 53% were to customers in the United States and Canada, 27% to Europe and Africa, 15% to Asia/Pacific, and 5% to Latin America.

The Company s strategy is to strengthen its business portfolio and continue to reduce operating costs. To achieve these goals, the Company is focusing its resources on its core businesses by divesting non-core businesses and assets, and acquiring businesses and assets that will enhance its business portfolio.

Divestitures and Acquisitions

On February 3, 2007, the Company signed an asset purchase agreement to sell its EPDM business and portions of its Rubber Chemical business to an affiliate of Lion Chemical Capital, LLC. The transaction is expected to close in the first half of 2007 and is subject to certain conditions, including regulatory approvals, financing and a financial audit.

On January 31, 2007, the Company announced that it had completed the acquisition of the stock of Kaufman Holdings Corporation Kaufman in an all-cash transaction. The Kaufman acquisition complements the Company s existing Petroleum Additives segment in that it offers related products in key customer areas, providing the opportunity to strengthen alliances with major suppliers and may offer potential distribution synergies.

On October 30, 2006, the Company sold its interest in Davis-Standard LLC for aggregate proceeds of $68.8 million, of which $60.4 million was received as of December 31, 2006. The Company recognized a pretax gain of $5.7 million on the transaction, which is included in other expense, net in its consolidated statement of operations for the year ended December 31, 2006. Davis-Standard LLC was established on April 29, 2005 when the Company combined our Polymer Processing Equipment business with Hamilton Robinson s Black Clawson Converting Machinery Company which resulted in our acquisition of a 61.24 percent non-controlling interest in the combined equity of the entity.

On May 12, 2006, the Company sold its Industrial Water Additives (IWA) business, which was acquired in the Merger, to BWA Water Additives (BWA), a subsidiary of Close Brothers Private Equity located in the United Kingdom. The Company received adjusted cash proceeds of $74.8 million. The Company recognized a pre-tax loss of $12.4 million on the transaction, which is included in (gain) loss on sale of businesses, net in the accompanying consolidated statement of operations for the year ended December 31, 2006.

Strategic Initiatives

In addition to focusing on its core businesses, the Company is investigating strategic cost savings initiatives that could result in cost reductions at some manufacturing facilities.

As a result of planned divestitures of its non-core businesses and strategic cost saving initiatives, the Company has accelerated the depreciation and the recognition of the asset retirement obligations related to certain assets at several of its global facilities for which it is probable that there will be a change in the estimated useful lives of those facilities. In addition, the Company has estimated that it will incur severance and related costs due to employee reductions. As a result of these initiatives, the Company recorded pre-tax charges for accelerated depreciation of $17.8 million, accretion of asset retirement obligations of $8.8 million, and severance and related costs of $6.0 million in operating profit on its consolidated statement of operations for the year ended December 31, 2006. These costs represent the estimated costs based on the facts and circumstances that existed as of December 31, 2006. As divestiture agreements and cost savings plans are formalized, such costs will be revised as necessary to reflect final plans.

(c) Financial Information About Industry Segments

Information as to the sales, operating profit, depreciation and amortization, assets, capital expenditures and earnings on investments carried on the equity method attributable to each of our business segments during each of our last three fiscal years is set forth in Note - 23 the Business Segment Data footnote included in the Notes to Consolidated Financial Statements.

Our businesses are grouped into six reporting segments: Plastic Additives (non-flame retardant plastic additives and flame retardant plastic additives), Polymers (EPDM and urethanes), Specialty Additives (petroleum additives and rubber chemicals), Crop Protection, Consumer Products, and Other (Optical Monomers, Industrial Water Additives, Fluorine Chemicals and Polymer Processing Equipment). Details on the various types of products and services provided by each segment are summarized in the Narrative Description of the Business section below.

(d) Narrative Description of Business

Products and Services

We manufacture and market a wide variety of polymer and specialty chemical products. Most of our products are sold to industrial customers for use as additives, ingredients or intermediates that impart particular characteristics to the customers end products. Our consumer products are sold to dealers, distributors and to major national retailers. We manufacture and sell more than 3,500 products and formulations in more than 100 countries and serve a wide variety of end-use markets including automotive, transportation, construction, packaging, agriculture, lubricants, plastics for durable and non-durable goods, including electronics, industrial rubber, and home pool and spa chemical markets.

Our principal products and services offered are described below.

Plastic Additives

We are a global leader in supplying a broad line of additives to the plastics industry. Our plastic additives allow our customers to achieve stability, flexibility, durability, and fire prevention in their formulated polymer systems. Our products contribute to improved customer manufacturing productivity and superior end-use product performance. We believe the functionality and relatively small component cost of many of our additives give them a very high value-in-use. Many of our products are especially developed and formulated in collaboration with customers to meet their specific manufacturing processes and we target applications and customers that have particularly demanding end-use performance requirements. Our products are sold to formulators, compounders and fabricators of vinyl, olefins and styrenics and are ultimately used in the transportation, packaging, construction, durable and non-durable goods, and telecom industries. The Plastic Additives segment had net sales of $1,604.1 million for 2006 compared with $1,156.6 million for 2005 and $856.5 million for 2004. The increase in 2006 net sales is primarily due to the inclusion of a full year of sales from the Great Lakes polymer stabilizers and flame retardants businesses as compared with six months of such sales in 2005, and no such sales in 2004.

Plastic Additives are sold through a specialized sales force, including technical service professionals who address customer inquiries and issues. The technical service professionals generally have degrees in chemistry and/or chemical engineering and are knowledgeable in specific product application fields. The sales and technical service professionals identify and focus on customers growth opportunities, working not only with the customers headquarters staff, but also with their research and development and manufacturing personnel on a worldwide basis.

<u>Non-Flame Retardant Plastic Additives</u>

Our polyvinyl chloride (PVC) additives consist primarily of heat stabilizers that are essential to the processing of heat sensitive resins. Without the inclusion of such specialty additives, scorching of the resin during fabrication could result, compromising the functionality and appearance of the finished product. High-value end-use applications with such demanding aesthetic standards include vinyl exterior siding, synthetic flooring and window profiles. Other large volume construction-related uses include plumbing and drainage pipe, electrical conduit and wire and cable coatings. As the trend to reduce the use of traditional heavy metal stabilizers (lead and cadmium) continues, Chemtura is well positioned with a family of commercially proven organic heat stabilizers.

Our antioxidant business consists of a wide range of additives that inhibit the degradation of polymers caused by oxidation and light. Incorporating such additives into resin systems improves the durability and longevity of plastics used in food packaging, consumer durables, automotive components and electrical components. We are proficient in blending a variety of these materials into specialized formulations uniquely tailored to customer specific end-use requirements.

Our other plastic additives include various surfactants and polymerization additives. Surfactants help to homogenize multi-component resin systems and to facilitate lubricity in the processing and fabrication of such resins. Catalysts and inhibitors are chemicals used to initiate and terminate the polymerization reactions that transform monomers into polymers. Polymer modifiers are materials incorporated into resins to improve tensile strength and impact resistance or to modulate density and impart elasticity.

Net sales of non-flame retardant plastic additives during 2006, 2005 and 2004 were 27.6%, 30.2% and 37.5% of the Company s net sales, respectively.

Flame Retardant Plastic Additives

Our flame retardant business holds a leading global position with a comprehensive offering of bromine, phosphorus and antimony-based flame retardants. With increasing regulatory and performance demands, the use of these products continues to grow in electrical components, construction materials, automotive and furniture / furnishing applications. We are back integrated to a primary source of bromine and have a well developed business in supplying other types of brominated performance products to a variety of industries including agricultural, fine chemicals, pharma, electronics and oil well drilling. On December 18, 2006, the Company entered into several long-term supply and purchase agreements with TETRA Technologies, Inc., primarily to sell bromine to TETRA on an exclusive basis over a 23 year period and to purchase sodium chloride over a period of 20 years.

Net sales of flame retardants during 2006 were 15.5% of the Company s net sales. The flame retardants business was acquired as a result of the Merger in July of 2005**.**

Polymers

The Polymers reporting segment had net sales of $492.0 million for 2006, $517.5 million for 2005 and $469.5 million for 2004, relating to two operating segments: EPDM and urethanes.

EPDM

Ethylene propylene diene monomer rubber (EPDM), commonly known as crackless rubber, is a material that is able to retain elasticity despite exposure to elements such as sunlight and ozone. Over 40% of our Royalene® EPDM rubber is used in new and replacement automotive parts, including tires, hoses, belts, weather stripping, brake components, and seals and gaskets. Other applications range from high density, long-lasting commercial roofing membranes to low density, liquefied viscosity modifiers for better performing lubricants.

Consistent with the Company s strategy to divest non-core businesses in order to focus its resources on core businesses, the Company signed an asset purchase agreement on February 3, 2007 for the sale of its EPDM business to an affiliate of Lion Chemical Capital, LLC. The transaction is expected to close in the first half of 2007. The EPDM business had sales of $174.2 million in 2006.

Net sales of EPDM during 2006, 2005 and 2004 were 4.7%, 6.8% and 7.6% of the Company s total net sales, respectively.

Urethanes

We are a leading supplier of high-performance castable urethane polymers, with more than 200 variations in our product offering. Our urethanes offer high abrasion resistance and durability in industrial and performance-specific applications. These characteristics allow us to market our urethanes to niche manufacturers where such qualities are imperative, including for industrial and printing rolls, mining machinery and equipment, mechanical goods, solid industrial tires and wheels, and sporting and recreational goods, including golf ball covers and skate wheels.

Adiprene®/Vibrathane® urethane prepolymers are sold directly by a dedicated sales force in the United States, Canada and Australia and through direct sales distributorships in Europe, Latin America and the Far East. Customers are serviced worldwide by a dedicated technical staff whose support is a critical component of the product offering. We believe the relatively low capital requirements of this business provide us with the ability to operate very cost effectively. Our development capabilities allow us to differentiate ourselves in these markets by tailoring our products to the specialized needs of each customer application, which sets us apart from our competitors.

Our urethane additives business provides key products to global polyurethane processors. The urethane additives business is comprised of two product lines: Fomrez® saturated polyester polyols and Witcobond® polyurethane dispersions. Polyester polyols are employed in industrial applications such as flexible foam for seating. Our polyurethane dispersions are sold to a larger and more diverse customer base primarily for coating applications such as flooring, fiberglass sizing, and textiles. The major markets served by our urethane additives business are automotive, construction, leather/textile finishing, and furniture. Sub-markets include coatings, adhesives, sealants, elastomers and insulation.

Baxenden Chemicals Limited, our 53.5% owned consolidated subsidiary, is engaged in the manufacture and marketing of isocyanate derivatives, polyester polyols and specialty polymer systems used in a wide range of applications. The major markets served by Baxenden are transportation, construction, surface coatings, leather and textile finishing. Baxenden is focused on specialty polymer and resin chemistry and novel curing mechanisms for such polymers. The core technology is urethane and acrylic chemistry and also includes novel polyesters and esterification processes.

Net sales of urethanes during 2006, 2005 and 2004 were 8.5%, 10.5% and 13.0% of the Company s net sales, respectively.

Specialty Additives

The Specialty Additives reporting segment, which had net sales of $555.6 million for 2006, $561.1 million for 2005 and $458.7 million for 2004, has two operating segments: petroleum additives and rubber chemicals.

Petroleum Additives

We are a global manufacturer and marketer of high-performance additive components used in transport and industrial lubricant applications. We are the global leader for alkylated diphenylamines antioxidants (ADPAs), which are marketed as Naugalubes® and used predominately in motor oils. These additives play a critical role in meeting rising regulatory standards for engine performance. The component product line also includes overbased and neutral calcium sulfonates used in motor oils and marine lubricants. These sulfonates, marketed as Hybase® and Lobase®, are oil-soluble surfactants whose properties include detergency and corrosion protection to help lubricants keep car, truck, and ship engines clean with minimal wear. Additionally, we manufacture barium and sodium sulfonates, which provide corrosion protection and emulsification in metalworking fluids and antioxidants, which are widely used by our customers in engine oils, gear oils, industrial oils and greases.

We provide a variety of other highly specialized, high value products. Foremost, our high-viscosity polyalphaolefins (PAOs), marketed as Synton®, are used in the production of synthetic lubricants for automotive, aviation, and industrial applications. We are also the world s leader in high performing calcium sulfonate specialty greases and phosphate ester based fluids and additives for power generation fluids and anti-wear.

Net sales of petroleum additives during 2006, 2005 and 2004 were 9.5%, 10.2% and 10.2% of the Company s total net sales, respectively.

Rubber Chemicals

Our rubber chemicals business includes approximately 85 products for use in processing rubber. These products include accelerators, antioxidants, antiozonants, chemical foaming agents, and specialty waxes. Accelerators are used for curing natural and synthetic rubber, have a wide range of activation temperatures and curing ranges, and use forms that give our customers the flexibility to make many different products. Antiozonants protect rubber compounds from flex cracking and ozone, oxygen and heat degradation. Antioxidants provide rubber compounds with protection against oxygen, light, and heat. Foaming agents produce gas by thermal decomposition or via a chemical reaction with other components of a polymer system and are mixed with rubber to produce sponge rubber products. Waxes inhibit static atmospheric ozone cracking in rubber.

We are a global supplier of rubber chemicals, and we believe our customers value our ability to provide high quality, consistent products world-wide to complement their international expansion. Tire manufacturers accounted for approximately 70% of our rubber additives sales in 2006, with the balance consisting of manufacturers of industrial rubber goods, including hoses, belting, sponges, and a wide variety of other engineered rubber products.

On February 3, 2007, the Company signed an asset purchase agreement to sell its EPDM business and all rubber chemicals businesses associated with products produced at our Geismar, Louisiana facility as well as Flexzone antiozonants produced worldwide to an affiliate of Lion Chemical Capital, LLC. The transaction is expected to close in the first half of 2007 and is subject to certain conditions, including regulatory approvals, financing and a financial audit.

Net sales of rubber chemicals during 2006, 2005 and 2004 were 5.5%, 8.5%, and 9.8% of the Company s total net sales, respectively.

Crop Protection

The Crop Protection segment had net sales for 2006 of $360.1 million compared to $353.6 million for 2005 and $320.6 million for 2004. Increased sales in 2006 included 8.1% of gains primarily related to the Merger and other acquisitions. Our Crop Protection business focuses on specific niches in five major product lines: fungicides, miticides and other insecticides, growth regulants, herbicides and fumigants. We have primarily developed our products for use on high-value cash crops, such as tree and vine fruits, ornamentals, nuts and turf, and secondarily for commodity crops, such as soybeans and corn. Our dedicated sales force works with growers and distributors to coordinate the use of our products throughout a crop s growth cycle and to address selective regional, climate, and growth challenges. Crop Protection products typically are sold pursuant to contracts with extended payment terms in Latin America and Europe. Customary, extended payment periods, which are tied to particular crop growing cycles, make our Crop Protection business susceptible to losses from receivables during economic downturns and may adversely affect our operating results and our cash flows. We expand our presence in worldwide niche markets by developing new crop protection products and obtaining registrations for new uses and geographies, where demand for our products and services has potential for growth. We develop and sell our own products, and we also sell and register products manufactured by others on a licensed basis.

Our seed treatments are used to coat seeds in order to protect the seed during germination and initial growth phases. Seed treatment is an environmentally attractive form of crop protection, involving localized use of agricultural chemicals at much lower use rates than other agrichemical treatments. We anticipate growth in seed treatment resulting from the expanded use of higher value genetically modified seed. On March 24, 2006, the Company acquired the Trace Chemicals business from Bayer CropScience LP. Trace Chemicals is a leader in farmer-applied seed treatments in markets serving the United States. The acquisition will serve to enhance the Company s offerings in the Crop Protection business. The cash paid for this acquisition was $6.7 million and the assets acquired included inventory, property, plant and equipment and intangible assets.

The Crop Protection business works closely with our customers, both distributors and individual growers, as part of an on-the-ground coordinated effort. We develop products in response to ongoing customer demands, drawing upon existing technologies and tailoring them to match immediate needs. For example, a grower s crops may require varying levels of treatment depending on weather conditions and the degree of infestation. Our research and technology is therefore geared towards responding to threats to crops around the world as they emerge under a variety of conditions.

Our Crop Protection business benefits from nearly 50 years of experience in the field, along with product registrations in more than 90 countries. Our experience with registering products is a valuable asset, as registration is a significant barrier to entry, particularly in developed countries. Registration of products is a complex process in which we have developed proficiency over time. The breadth of our distribution network and the depth of our experience enable us to focus on profitable market niches that are less sensitive to competitive pricing pressures than broad commodity segments of the market.

The Crop Protection business sells its products in North America through a distribution network consisting of more than 100 distributors and by selling directly to end use customers. Internationally, the Crop Protection businesses direct sales force services over 1,400 distributors, dealers, cooperatives, seed companies and large growers.

Part of our expertise in bromine-based material is the production and distribution of methyl bromide, a fumigant used to improve crop yields, and protect grain in storage from pest infestation. Such materials are regularly used to treat food processing plants, breweries, warehouses and grain elevators, as well as rail cars, truck trailers and intermodal containers. While the use of methyl bromide has been restricted by regulations, it continues to play an important role in protecting the food chain. Where safe and effective alternatives are not available, our products continue to be employed at cargo ports where agricultural commodities need to be treated quickly and comprehensively to prevent transmission of infestation across international borders and as a preplant treatment to control weeds, diseases, insects and nematodes in high value food crops leading to increased yields and higher fresh produce quality.

Net sales of Crop Protection during 2006, 2005 and 2004 were 9.7%, 11.8% and 14.0% of the Company s total net sales, respectively.

Consumer Products

The Consumer Products reporting segment includes two principal product lines (pool and spa and household cleaners), which were acquired from Great Lakes as a result of the Merger. Net sales of the Consumer Products business in 2006 were $565.7 million and $261.3 million in 2005, representing six months of ownership following the Merger.

Our pool and spa product line produces and distributes sanitizers, algicides, biocides, oxidizers, pH balancers, mineral balancers and other specialty chemicals and accessories. Our primary channels of distribution are pool and spa dealers, wholesale distributors, and mass-market retailers. We believe that we hold the leading position in the North American pool and spa chemical business and we plan to strengthen our position by expanding our dealer channels and our presence with leading mass market retailers.

Through Great Lakes acquisition of Lime-O-Sol and A & M Cleaning Products in 2003, the Consumer Products business entered the specialty and multi-purpose cleaners business with The Works brand of non-abrasive bathroom cleaners, glass and surface cleaners, toilet bowl cleaners, drain openers and rust and calcium removers, as well as the Greased Lightning family of multipurpose cleaners. Our primary channels of distribution are to major national retailers in the do-it-yourself, hardware, mass market, club and discount sectors.

Net sales of Consumer Products during 2006 and 2005 were 15.2% and 8.7% of the Company s total net sales, respectively.

Other

The Other reporting segment, with net sales for 2006, 2005 and 2004 of $145.1 million, $136.6 million and $180.0 million, respectively, consists of four operating segments: Optical Monomers, Industrial Water Additives, and Fluorine Chemicals, which were acquired from Great Lakes as a result of the Merger, and Polymer Processing Equipment.

Optical Monomers produces specialized monomers used in eyewear and for such applications as protection sheets for welding masks, safety shields, photographic filters and lab equipment.

Industrial Water Additives are used in the desalination processes and include antiscalents, corrosion inhibitors, dispersants, antifoams and superior bromine-based non-oxidizing and oxidizing microbiological control products. The IWA business was divested in the second quarter of 2006. The Company continues to manufacture and sell these products to the purchaser of this business under supply agreements.

Fluorine Chemicals are essential to the performance of silicone-based materials under demanding conditions where aggressive solvents or high temperatures may be present. Other fluorine chemicals are used as propellants in medical inhalers and as refrigerants. Fluorine fire suppression systems offer waterless solutions for mission-critical and high-value assets, preventing extensive fire damage and eliminating collateral damage and downtime.

In August 2006, the Company received notification that a significant customer of the Fluorine business was not going to renew their contract after December 31, 2006. As a result of the projected loss of this customer s revenue from future cash flow projections, the Company reviewed the recoverability of the long-lived assets and goodwill of the Fluorine business. Based on this review the Company recorded impairment charges of $51.9 million related to goodwill and $22.7 million related to other long-lived assets, principally intangibles and property, plant and equipment.

Polymer Processing Equipment business was a global leader in the manufacture of integrated polymer processing equipment. Effective in April 2005, the Company contributed its Polymer Processing Equipment business to Hamilton Robinson, LLC to form a venture that was accounted for as an equity investment. On October 30, 2006, the Company sold its majority interest in the Davis Standard LLC venture to Hamilton Robinson LLC, for approximately $60.4 million in cash, plus an additional $8.4 million that is payable upon finalizing certain post-closing determinations.

Sources of Raw Materials

Hydrocarbon-based and inorganic chemicals constitute most of the raw materials required to manufacture our products. These materials are generally available from a number of sources, some of which are foreign. We use significant amounts of ethylene, propylene, benzene, chlorine, caustic, tin, soybean oil, and tallow in many of our chemical manufacturing processes. Large increases in the cost of such key raw materials, as well as natural gas which powers some key production facilities, particularly for sustained periods of time, could adversely affect our operating margins if we are not able to pass the higher costs on to our customers through higher selling prices. While temporary shortages of raw materials we use may occur occasionally, key raw materials are generally available. However, their continuing availability and price are subject to domestic and world market and political conditions and regulations. Major requirements for key raw materials are typically purchased pursuant to multi-year contracts. We are not dependent on any one supplier for a significant amount of our raw material requirements, except for one hydrocarbon supplier which provides us with approximately 10% to 15% of our requirements for diverse raw materials sourced from the supplier s multiple manufacturing and processing locations. However, we have alternative sources of supply for substantially all of the raw materials sourced from this hydrocarbon supplier.

We hold a 50% unconsolidated interest in Rubicon Inc. (Rubicon), a manufacturing joint venture with Huntsman Corporation, located in Geismar, Louisiana, which supplies both Huntsman and us with aniline, and us with diphenylamine (DPA). We believe that our aniline and DPA needs in the foreseeable future will be met by production from Rubicon.

Seasonal Business

With the exception of the Crop Protection business and the pool and spa product line in our Consumer Products segment, no material portion of any segment of our business is significantly seasonal. Our crop business is seasonal in nature and corresponds to agricultural cycles. Sales are weakest in the fourth quarter. In 2007, the Company expects that some sales that in prior years would have been booked in the first quarter will instead occur in the second and third quarters owing to changing buying patterns in the industry. Similarly, the largest portion (80%) of our pool chemicals business serves the U.S. recreational water market and generally accelerates in the first half of any calendar year and declines thereafter.

Customers

No one customer s business accounts for more than ten percent of our consolidated net sales.

Competitive Conditions