

CYTEC INDUSTRIES INC/DE/
Form 10-Q
November 03, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO
SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended September
30, 2003

OR

TRANSITION REPORT PURSUANT TO
SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the _____ to _____
Transition _____
period
from

Commission file number 1-12372

CYTEC INDUSTRIES INC.

(Exact name of registrant as specified in its
charter)

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

Five Garret Mountain Plaza
West Paterson, New Jersey 07424
(Address of principal executive offices)

973-357-3100

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(Registrant's telephone number, including
area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 39,032,019 shares of common stock outstanding at October 24, 2003.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CYTEC INDUSTRIES INC.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Millions of dollars, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net sales	\$ 367.7	\$ 332.8	\$ 1,109.9	\$ 1,001.7
Manufacturing cost of sales	284.6	246.7	836.0	758.6
Selling and technical services	31.4	27.9	92.6	89.7
Research and process development	8.3	8.2	25.2	25.3
Administrative and general	11.1	10.2	36.8	36.8
Amortization of acquisition intangibles	1.1	0.8	2.7	2.3
Earnings from operations	31.2	39.0	116.6	89.0
Other income (expense), net	(0.2)	1.5	(3.9)	0.9
Equity in earnings of associated companies	2.3	0.4	5.3	3.7
Interest expense, net	4.8	2.5	11.9	12.5
Earnings before income taxes and cumulative effect of a change in accounting principle	28.5	38.4	106.1	81.1
Income tax provision	6.4	6.8	29.7	21.2
Earnings before cumulative effect of a change in accounting principle	22.1	31.6	76.4	59.9
Cumulative effect of a change in accounting principle, net of taxes of \$7.3	-	-	(13.6)	-
Net earnings	\$ 22.1	\$ 31.6	\$ 62.8	\$ 59.9
Earnings before cumulative effect of a change in accounting principle per common share				
Basic	\$0.56	\$0.80	\$1.95	\$1.51
Diluted	\$0.55	\$0.78	\$1.89	\$1.47
Cumulative effect of a change in accounting principle, net of tax, per common share				
Basic	-	-	\$(0.35)	-
Diluted	-	-	\$(0.34)	-
Earnings per common share				
Basic	\$0.56	\$0.80	\$1.60	\$1.51
Diluted	\$0.55	\$0.78	\$1.55	\$1.47

See accompanying Notes to Consolidated Financial Statements.

CYTEC INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Millions of dollars, except share and per share amounts)

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	September 30, <u>2003</u>	December 31, <u>2002</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 234.4	\$ 210.0
Accounting receivable, less allowance for doubtful accounts of \$8.2 and \$8.8 in 2003 and 2002, respectively	222.8	199.7
Other accounts receivable	38.7	39.3
Inventories	172.3	131.3
Deferred income taxes	10.8	17.3
Other current assets	10.4	7.2
	-----	-----
Total current assets	689.4	604.8
Investment in associated companies	82.2	90.4
Plants, equipment and facilities, at cost	1,508.7	1,383.4
Less: accumulated depreciation	(858.2)	(805.5)
	-----	-----
Net plant investment	650.5	577.9
Acquisition intangibles, net of accumulated amortization	66.1	39.5
Goodwill	349.2	334.0
Deferred income taxes	85.3	71.6
Other assets	73.0	33.3
	-----	-----
Total assets	\$ 1,995.7	\$ 1,751.5
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ 9.7	\$ -
Accounts payable	106.2	99.5
Accrued expense	165.7	175.8
Current maturities of long-term debt	-	99.9
Income taxes payable	60.3	55.6
	-----	-----
Total current liabilities	341.9	430.8
Long-term debt	415.6	216.0
Pension and other postretirement benefit liabilities	346.7	359.3
Other noncurrent liabilities	176.1	122.5
Stockholders' equity		
Preferred stock, 20,000,000 shares authorized, issued and outstanding 4,000 shares, Series C Cumulative \$.01 par value at liquidation value of \$25 per share	0.1	0.1
Common stock, \$.01 par value per share, 150,000,000 shares authorized, issued 48,132,640 shares	0.5	0.5
Additional paid-in capital	124.0	131.1
Retained earnings	968.2	905.5
Unearned compensation	(5.6)	(6.8)
Minimum pension liability adjustment	(98.0)	(98.0)
Unrealized losses on derivative instruments	(0.4)	-
Accumulated translation adjustments	11.9	(18.8)
Treasury stock, at cost, 9,128,585 shares in 2003 and 9,332,671 shares in 2002	(285.3)	(290.7)
	-----	-----
Total stockholders' equity	715.4	622.9

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Total liabilities and stockholders' equity	\$ 1,995.7	\$ 1,751.5
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

CYTEC INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Millions of dollars)

	<u>Nine Months Ended</u>	
	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
Cash flows provided by (used for) operating activities		
Net earnings	\$ 62.8	\$ 59.9
Noncash items included in net earnings:		
Dividends from associated companies (less) than earnings	(0.6)	(3.1)
Depreciation	64.2	60.3
Amortization	5.2	1.8
Deferred income taxes	(5.0)	1.8
Loss on asset write-off	-	7.2
Gain on sale of assets	-	(1.0)
Gain on recognition of insurance recoveries	(2.2)	-
Cumulative effect of change in accounting principle, net of tax	13.6	-
Other	0.6	0.2
Changes in operating assets and liabilities:		
Trade accounts receivable	1.9	(11.1)
Other receivables	0.6	1.8
Inventories	(12.6)	1.2
Accounts payable	1.5	6.9
Accrued expenses	(14.2)	29.6
Income taxes payable	18.0	11.8
Other assets	(2.9)	(4.5)
Other liabilities	(41.5)	(25.7)
	-----	-----
Net cash flows provided by operating activities	89.4	137.1
	-----	-----
Cash flows provided by (used for) investing activities		
Additions to plants, equipment and facilities	(60.9)	(38.0)
Proceeds received on sale of assets	0.1	5.4
Acquisitions of businesses, net of cash received	(103.4)	-
	-----	-----
Net cash flows used for investing activities	(164.2)	(32.6)
	-----	-----
Cash flows provided by (used for) financing activities		
Proceeds from the exercise of stock options	11.8	2.8
Purchase of treasury stock	(19.8)	(20.3)
Payments of long-term debt	(100.0)	-
Proceeds from long-term debt	199.1	-

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Proceeds received on sale of put options	-	0.3
Repayment of seller financed debt	-	(5.4)
	-----	-----
Net cash flows provided by (used for) financing activities	91.1	(22.6)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	8.1	1.0
	-----	-----
Increase in cash and cash equivalents	24.4	82.9
	-----	-----
Cash and cash equivalents, beginning of period	210.0	83.6
	-----	-----
Cash and cash equivalents, end of period	\$ 234.4	\$ 166.5
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Millions of dollars, except per share amounts, unless otherwise indicated)

(1) Basis of Presentation

The 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. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The financial statements should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements contained in the Company's 2002 Annual Report on Form 10-K.

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year's presentation.

(2) Acquisitions

On July 31, 2003, the Company acquired substantially all of the assets and liabilities of the metal extractant products ("MEP") and intermediates & stabilizers ("I&S") businesses of Avecia Investments Limited ("Avecia") for approximately \$97.9 in cash, subject to adjustment for certain working capital and other valuation adjustments that we anticipate will be determined in the fourth quarter of 2003. The MEP business, which had sales in 2002 of approximately \$29.0, broadens the Company's product line for the mining industry with differentiated technology. This is reported as part of the Water and Industrial Process Chemicals segment. The I&S business broadens the Company's customer base and adds new products and manufacturing technologies. Total sales in 2002 were approximately \$36.0. The reporting of the I&S business is split between the Water and Industrial Process Chemicals and Performance Products segments. The custom organo phosphorus product line of the I&S business, which accounted for approximately 20% of the sales in this business in 2002, is included in the Water and Industrial Process Chemical segment. The remainder of the I&S business is included in the Performance Products segment. Results of operations include the results of this acquisition from August 1, 2003.

In conjunction with this acquisition, the Company recorded amortizable acquisition intangibles of \$28.9 million, with estimated lives ranging from 12 to 15 years (See Note 13) and goodwill of \$10.7. This goodwill is recorded as part of

the Water and Industrial Products segment. These amounts may be adjusted in the fourth quarter of 2003 after the preliminary asset and liability valuations have been finalized.

On September 30, 2003, the Company dissolved its joint venture, Mitsui-Cytec Ltd., and acquired 100% of its coatings resins business, including a manufacturing facility in Shimonoseki, Japan, and certain rights associated with the water treating business in most of Asia. The Company paid Mitsui \$5.5 in cash, net of cash acquired, and assumed debt of the joint venture of \$9.7. The transaction resulted in the recognition of \$4.6 of goodwill in the third quarter. This amount may be adjusted in the fourth quarter of 2003 after the preliminary asset and liability valuations are finalized. The joint venture was originally formed in 1976 and total sales in 2002 were approximately \$59.0, of which approximately \$21.0 were attributable to the coatings resins business now 100% owned by the Company and is reported as part of the Performance Products segment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

(Millions of dollars, except per share amounts, unless otherwise indicated)

Consolidated results of operations for the three and nine months ended September 30, 2003 and 2002, would not have been materially different if the above transactions had occurred on January 1, 2002. Accordingly, pro forma sales, net earnings and earnings per share information have not been provided.

(3) Earnings Per Share (EPS)

Basic earnings per common share excludes dilution and is computed by dividing net earnings less preferred stock dividends by the weighted-average number of common shares outstanding (which includes shares outstanding, less performance and restricted 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 less preferred stock dividends by the sum of the weighted-average number of common shares outstanding for the period 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. The proceeds used to repurchase common stock 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

(Millions of dollars, except per share amounts, unless otherwise indicated)

The following represents the reconciliation of the numerators and denominators of the basic and diluted EPS computations:

	Three Months Ended September					
	2003			2002		
	Income (Numerator)	Weighted Avg. Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Avg. Shares (Denominator)	Per Share Amount
<u>Basic EPS</u>		39,124,408			39,477,627	

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Net earnings	\$22.1	\$0.56	\$31.6	\$0.80
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