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

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended <u>September</u> 30, 2003

OR

o 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)

Delaware 22-3268660

(State (I.R.S. Employer or Identification No.)

other jurisdiction of incorporation or or organization)

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

973-357-3100

(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 b No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

Therewere 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.

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 Diluted	\$0.56 \$0.55	\$0.80 \$0.78	\$1.95 \$1.89	\$1.51 \$1.47	
Cumulative effect of a change in accounting principle, net of tax, per common share Basic Diluted	-	- -	\$(0.35) \$(0.34)	- -	
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Earnings per common share	*A = -	**	**	4 .	
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)

ASSETS Current assets Carbon assets Ca		September 30,		December 31, 2002	
Current assets \$ 234.4 \$ 210.0 Accounting receivable, less allowance for doubtful accounts of \$8.2 and \$8.8 in 2003 and 2002, respectively 322.8 199.7 Other accounts receivable 38.7 39.3 Inventories 172.3 131.3 Deferred income taxes 10.8 17.3 Other current assets 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 Other assets 73.0 333.3 Total assets \$ 1,995.7 \$ 1,751.5 Elabelitities \$ 1,995.7 \$ 1,751.5 Accounts payable 106.2 99.5 Accounts payable 106.2 99.5 Accounts payable 106.2 99.5 Current maturities of long-term debt	ASSETS		2003		
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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)			(98.0)		(98.0)
Treasury stock, at cost, 9,128,585 shares in 2003 and 9,332,671 shares in 2002 (285.3) (290.7)					-
9,128,585 shares in 2003 and 9,332,671 shares in 2002 (285.3) (290.7)	Accumulated translation adjustments		11.9		(18.8)
Total stockholders' equity 715.4 622.9			(285.3)		(290.7)
	Total stockholders' equity	-	715.4		622.9

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)

September 302 Zool 2002 Cash flows provided by (used for) operating activities Net earnings \$ 62.8 \$ 59.9 Noncash items included in net earnings: Use of the colspan="2">Use		-	Nine Months Ended September 30,		
Net earnings \$ 62.8 \$ 59.9 Noncash items included in net earnings: Uividends 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 - (1.0) 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: 1.9 (11.1) Other receivables 1.9 (11.1) Other receivables 0.6 1.8 Inventories (12.6) 1.2 Accounts payable 1.5 6.9 Accured expenses (14.2) 29.6 Income taxes payable 18.0 11.8 Other liabilities (41.5) (25.7) Net cash flows provided by (used for) investing activities 89.4 <th></th> <th></th> <th></th> <th><u>er 30,</u></th> <th>2002</th>				<u>er 30,</u>	2002
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) - (2.2) Cumulative effect of change in accounting principle, net of tax (3.6) 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 liabilities (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 89.4 137.1 Acquisitions of businesses, net of cash received (103.4) - (10.4) Net cash flows used for investing activities (164.2) (32.6) Cash flows provided by (used for) financing activities (164.2) (32.6) Proceeds from the exercise of stock options 11.8 2.8 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) -	Cash flows provided by (used for) operating activities				
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: 1.9 (11.1) 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 liabilities (2.9) (4.5) Other liabilities (60.9) (38.0) Proceeds frow provided by (used for) investing activities (60.9) (38.0)	Net earnings	\$	62.8	\$	59.9
Depreciation	Noncash items included in net earnings:				
Amortization 5.2 1.8	Dividends from associated companies (less) than earnings		(0.6)		(3.1)
Deferred income taxes	Depreciation		64.2		60.3
Loss on asset write-off	Amortization		5.2		1.8
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 liabilities (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 (60.9) (38.0) Proceeds received on sale of assets 0.1 5.4 Acquisitions of businesses, net of cash received (103.4) - Cash flows provided by (used for) financing activities (164.2) (32.6) Cash flows provided by (used for) financing activities <	Deferred income taxes		(5.0)		1.8
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: 1.9 (11.1) Other receivables 1.9 (11.1) Inventories (12.6) 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 (60.9) (38.0) Proceeds received on sale of assets 0.1 5.4 Acquisitions of businesses, net of cash received (103.4) - Cash flows provided by (used for) financing activities (164.2) (32.6) Cash flows provided by (used for) financing activities (10.0) -	Loss on asset write-off		_		7.2
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 (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 provided by (used for) financing activities (164.2) (32.6) Cash flows provided by (used for) financing activities (19.8) (20.3) Purchase of treasury stock (19.8) (20.3)	Gain on sale of assets		_		(1.0)
Other 0.6 0.2 Changes in operating assets and liabilities: 1.9 (11.1) 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 (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) Net cash flows provided by (used for) financing activities (164.2) (32.6) Proceeds from the exercise of stock options 11.8 2.8 Purchase of treasury stock (19.8) (20.3) Paymen	Gain on recognition of insurance recoveries		(2.2)		-
Changes in operating assets and liabilities: 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 (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 (164.2) (32.6) 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) -	Cumulative effect of change in accounting principle, net of tax		13.6		-
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 (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 (164.2) (32.6) 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) -	Other		0.6		0.2
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 (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 (164.2) (32.6) 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) -	Changes in operating assets and liabilities:				
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) -	Trade accounts receivable		1.9		(11.1)
Accounts payable Accrued expenses (14.2) 29.6 Income taxes payable Income taxes payable Other assets (2.9) (4.5) Other liabilities (41.5) (25.7) Net cash flows provided by operating activities Additions to plants, equipment and facilities Additions to plants, equipment and facilities Acquisitions of businesses, net of cash received (103.4) - Net cash flows used for investing activities (60.9) (38.0) Proceeds received on sale of assets 0.1 5.4 Acquisitions of businesses, net of cash received (103.4) - Cash flows provided by (used for) financing activities Proceeds from the exercise of stock options Purchase of treasury stock (19.8) (20.3) Payments of long-term debt (100.0) -	Other receivables		0.6		1.8
Accrued expenses Income taxes payable Income taxes payable Other assets Other liabilities Other liabil	Inventories		(12.6)		1.2
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) -	Accounts payable		1.5		6.9
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) -	Accrued expenses		(14.2)		29.6
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) -	Income taxes payable		18.0		11.8
Net cash flows provided by operating activities Additions to plants, equipment and facilities Additions of businesses, net of cash received Net cash flows used for investing activities (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) -	Other assets		(2.9)		(4.5)
Net cash flows provided by operating activities Additions to plants, equipment and facilities Adquisitions of businesses, net of cash received Net cash flows used for investing activities (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) -	Other liabilities		(41.5)		(25.7)
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) -					
Cash flows provided by (used for) investing activities Additions to plants, equipment and facilities Proceeds received on sale of assets Acquisitions of businesses, net of cash received Net cash flows used for investing activities Cash flows provided by (used for) financing activities Proceeds from the exercise of stock options Purchase of treasury stock Payments of long-term debt (160.9) (38.0) (38.0) (103.4)	Net cash flows provided by operating activities		89.4		137.1
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) -	Cash flows provided by (used for) investing activities				
Proceeds received on sale of assets Acquisitions of businesses, net of cash received Net cash flows used for investing activities Cash flows provided by (used for) financing activities Proceeds from the exercise of stock options Purchase of treasury stock Payments of long-term debt 0.1 5.4 (103.4) - (32.6) 11.8 2.8 (19.8) (20.3) (20.3)			(60.9)		(38.0)
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) -	* * *		` ′		
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) -					-
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) -	requisitions of businesses, net of easil received		(103.4)		
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)	Net cash flows used for investing 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) -	Cash flows provided by (used for) financing activities				
Purchase of treasury stock (19.8) (20.3) Payments of long-term debt (100.0)			11.8		2.8
Payments of long-term debt (100.0)	_				
	•				-
					_

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				
			30,			
		2003		_	2002	
		Weighted Avg.	Per		Weighted Avg.	Per
	Income	Shares	Share	Income	Shares	Share
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic EPS		39,124,408			39,477,627	

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