

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

CYTEC INDUSTRIES INC/DE/
Form 10-K/A
July 29, 2002

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

FORM 10-K/A
(Amendment No.1)

(Mark One)

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

For the fiscal year ended December 31, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 1-12372

CYTEC INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Delaware

22-3268660

(State or other jurisdiction of
incorporation or organization)

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

Five Garret Mountain Plaza
West Paterson, New Jersey

07424

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (973) 357-3100

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

Title of Each Class -----	Name of each exchange on which registered -----
Common Stock, par value \$.01 per share	New York Stock Exchange

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

None

(Title of Class)

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 .

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

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. |_|

EXPLANATORY NOTE

Cytec Industries Inc. is filing this amendment to Item 8 of its Annual Report on Form 10-K, for the fiscal year ended December 31, 2001, to correct the "pro forma" disclosure contained in Note 14 of the Consolidated Financial Statements. The Note sets forth the Company's net earnings and earnings per share presented both "as reported" and "pro forma," as if compensation costs had been determined consistent with the fair value provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation." The Company is correcting the "pro forma" disclosure as originally presented for a computational error primarily involving the amortization of stock option expense. No other changes to the Consolidated Financial Statements are being made by means of this filing.

-1-

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets

(Dollars in millions, except share and per share amounts)

2001

Assets

Current Assets

Cash and cash equivalents	\$	83.6
Accounts receivable, less allowance for doubtful accounts of \$7.8 and \$8.8 in 2001 and 2000, respectively		211.6
Inventories		147.3
Deferred income taxes		22.1
Other current assets		45.3

Total current assets		509.9
----------------------	--	-------

Investment in associated companies		92.6
Plants, equipment and facilities, at cost		1,344.5
Less: accumulated depreciation		(746.5)

Net plant investment		598.0
----------------------	--	-------

Acquisition intangibles, net of accumulated amortization of \$55.4 and \$42.7 in 2001 and 2000, respectively		376.1
Deferred income taxes		48.4
Other assets		25.4

Total assets		\$1 ,650.4
--------------	--	------------

Liabilities and Stockholders' Equity

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Current Liabilities	
Accounts payable	\$ 75.8
Accrued expenses	157.8
Income taxes payable	48.4

Total current liabilities	282.0

Long-term debt	314.7
Other noncurrent liabilities	416.8
Contingent Liabilities and Commitments (Notes 4 and 9)	
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
Common stock, \$.01 par value per share, 150,000,000 shares authorized; issued 48,132,640 shares	0.5
Additional paid-in capital	136.7
Retained earnings	826.2
Unearned compensation	(4.0)
Additional minimum pension liability	(5.4)
Accumulated translation adjustments	(46.5)
Treasury stock, at cost, 8,511,532 shares in 2001, and 7,966,229 shares in 2000	(270.7)

Total stockholders' equity	636.9

Total liabilities and stockholders' equity	\$1,650.4

See accompanying Notes to Consolidated Financial Statements

-2-

Consolidated Statements of Income

(Dollars in millions, except per share amounts)	Years ended Dec	
	2001	2000
Net sales	\$1,387.1	\$1,492
Manufacturing cost of sales	1,068.8	1,078
Selling and technical services	115.6	138
Research and process development	32.4	38
Administrative and general	44.8	47
Amortization of acquisition intangibles	12.8	12

Earnings from operations	112.7	176
Other income, net	7.9	104
Equity in earnings of associated companies	0.1	15
Interest expense, net	19.6	25

Earnings before income taxes and extraordinary item	101.1	271
Income tax provision	34.9	93

Earnings before extraordinary item	66.2	177
Extraordinary gain, net of taxes of \$2.6	4.9	-

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Net earnings	\$ 71.1	\$ 177
Earnings before extraordinary item per common share		
Basic	\$ 1.65	\$ 4.
Diluted	\$ 1.59	\$ 4.
Extraordinary item per common share		
Basic	\$ 0.12	\$
Diluted	\$ 0.12	\$
Earnings per common share		
Basic	\$ 1.77	\$ 4.
Diluted	\$ 1.71	\$ 4.

See accompanying Notes to Consolidated Financial Statements

-3-

Consolidated Statements of Cash Flows

(Dollars in millions)	2001	Years ended D 2000
Cash flows provided by (used for) operating activities		
Net earnings	\$ 71.1	\$ 177
Noncash items included in net earnings:		
Dividends from associated companies greater (less) than earnings	2.3	(10)
Depreciation	78.4	80
Amortization	11.9	16
Deferred income taxes	9.6	32
Gain on sale of assets	(2.5)	(62)
Extraordinary gain, net of tax	(4.9)	-
Other	(4.6)	(0)
Changes in operating assets and liabilities:		
Accounts receivable	53.5	(28)
Inventories	24.7	(30)
Accounts payable	(28.3)	(1)
Accrued expenses	(17.7)	(11)
Income taxes payable	(12.7)	(5)
Other assets	(15.4)	(10)
Other liabilities	(23.1)	(37)
Net cash flows provided by operating activities	142.3	107
Cash flows provided by (used for) investing activities		
Additions to plants, equipment and facilities	(63.9)	(76)
Proceeds received on sale of assets	2.9	177
Acquisition of businesses, net of cash received	(9.0)	(1)
Investment in unconsolidated affiliates	(1.0)	(2)
Change in other assets	-	-
Net cash flows provided by (used for) investing activities	(71.0)	97

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Cash flows provided by (used for) financing activities		
Proceeds from the exercise of stock options and warrants	9.5	6
Purchase of treasury stock	(52.3)	(63)
Change in short-term borrowings	-	-
Change in long-term debt	-	(102)
Proceeds received on sale of put options	0.6	0
Net cash flows used for financing activities	(42.2)	(158)
Effect of exchange rate changes on cash and cash equivalents	(2.3)	(1)
Increase in cash and cash equivalents	26.8	44
Cash and cash equivalents, beginning of period	56.8	12
Cash and cash equivalents, end of period	\$ 83.6	\$ 56

See accompanying Notes to Consolidated Financial Statements

-4-

Consolidated Statements of Stockholders' Equity
Years ended December 31, 2001, 2000 and 1999

(Dollars in millions)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Minimum Pension Liability
Balance at December 31, 1998	\$0.1	\$0.5	\$162.4	\$456.2	\$(1.7)	\$ -
Net earnings	-	-	-	121.3	-	-
Other comprehensive income:						
Translation adjustments	-	-	-	-	-	-
Comprehensive income						
Award of, and changes in, performance & restricted stock	-	-	(0.7)	-	(1.6)	-
Amortization of performance & restricted stock	-	-	-	-	1.4	-
Compensation costs on variable stock option award	-	-	0.7	-	-	-
Purchase of treasury stock	-	-	-	-	-	-
Issuance pursuant to acquisition	-	-	0.6	-	-	-
Exercise of stock options and warrants	-	-	(4.5)	-	-	-
Premiums received on sale of put options	-	-	1.2	-	-	-
Tax benefit on stock options	-	-	0.1	-	-	-
Balance At December 31, 1999	\$0.1	\$0.5	\$159.8	\$577.5	\$(1.9)	\$ -
Net earnings	-	-	-	177.6	-	-
Other comprehensive income:						
Minimum pension liability adjustment, net of (\$1.0)						

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

deferred income taxes	-	-	-	-	-	(1.9)
Translation adjustments	-	-	-	-	-	-
Comprehensive income						
Award of, and changes in, performance & restricted stock	-	-	2.8	-	(5.5)	-
Amortization of performance & restricted stock	-	-	-	-	3.5	-
Compensation costs on variable stock option award	-	-	0.7	-	-	-
Purchase of treasury stock	-	-	-	-	-	-
Exercise of stock options	-	-	(13.7)	-	-	-
Premiums received on sales of put options	-	-	0.6	-	-	-
Tax benefit on stock options	-	-	4.5	-	-	-
Balance at December 31, 2000	\$0.1	\$0.5	\$154.7	\$755.1	\$ (3.9)	\$ (1.9)
Net earnings	-	-	-	71.1	-	-
Other comprehensive income:						
Minimum pension liability adjustment, net of (\$1.8)						
deferred income taxes	-	-	-	-	-	(3.5)
Translation adjustments	-	-	-	-	-	-
Comprehensive income						
Award of, and changes in, performance & restricted stock	-	-	(2.0)	-	0.6	-
Amortization of performance & restricted stock	-	-	-	-	(0.7)	-
Compensation costs on variable stock option award	-	-	(0.1)	-	-	-
Purchase of treasury stock	-	-	-	-	-	-
Exercise of stock options	-	-	(26.4)	-	-	-
Premiums received on sales of put options	-	-	0.6	-	-	-
Tax benefit on stock options	-	-	9.9	-	-	-
Balance at December 31, 2001	\$0.1	\$0.5	\$ 136.7	\$826.2	\$ (4.0)	\$ (5.4)

See accompanying Notes to Consolidated Financial Statements

-5-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION: The financial statements include the accounts of the Company and its subsidiaries on a consolidated basis. All significant intercompany transactions and balances have been eliminated. The equity method of accounting is used for investments in associated companies that the Company does not control, but over whose operating and financial policies the Company has the ability to exercise significant influence. Certain reclassifications have been made to prior years' financial statements in order to conform to the current year's presentation.

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

FOREIGN CURRENCY TRANSLATION: The results of operations for non-U.S. subsidiaries are translated from local currencies into U.S. dollars using the average exchange rate during each period. Assets and liabilities are translated using exchange rates at the end of the period with translation adjustments accumulated in stockholders' equity.

DEPRECIATION AND AMORTIZATION: Depreciation is provided primarily on a straight-line composite method over the estimated useful lives of various classes of assets, with rates periodically reviewed and adjusted if necessary. When such depreciable assets are sold or otherwise retired from service, their costs plus demolition costs less amounts realized on sale or salvage, are charged or credited to the accumulated depreciation account. Expenditures for maintenance and repairs are charged to current operating expenses. Acquisitions, additions and betterments, either to provide necessary capacity, improve the efficiency of production units, modernize or replace older facilities or to install equipment for protection of the environment, are capitalized. Intangibles resulting from business acquisitions are carried at cost and amortized on a straight-line basis over a period of up to 40 years, unless, in the opinion of management, their lives are limited (see "Current and Pending Accounting Changes" below for discussion about recent accounting pronouncements that impact the Company's acquisition intangibles accounting policies). The Company capitalizes interest costs incurred during the period of construction of plant and equipment. The interest costs capitalized in 2001, 2000 and 1999 were immaterial to the consolidated financial statements.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF: Long-lived assets and intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

CASH AND CASH EQUIVALENTS: Securities with maturities of three months or less when purchased are considered to be cash equivalents.

FINANCIAL INSTRUMENTS: Financial instruments reflected in the Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, certain other assets, accounts payable, long-term debt and certain other liabilities. Fair values were determined through a combination of management estimates and information obtained from third parties using the latest available market data.

The Company uses derivative instruments in accordance with Company-established policies to manage exposure to fluctuations in foreign exchange rates, certain commodity (e.g., natural gas) prices and interest rates. Those policies require that derivatives utilized by the Company relate to an underlying exposure whose terms have been identified, have an amount and a maturity date that does not essentially exceed the amount or maturity date of the underlying exposure, be structured as a hedge with a very high degree of correlation and be formally documented at the inception of each derivative transaction and evaluated throughout the term of the derivative. Derivative instruments utilized by the Company include foreign exchange forward contracts, natural gas forward contracts, interest rate swaps, interest rate lock agreements and put options indexed to the Company's stock. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Moreover, the Company enters into financial instrument transactions with either major financial institutions or highly-rated counterparties and makes reasonable attempts to diversify transactions among counterparties,

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

thereby limiting exposure to credit- and performance-related risks.

Foreign exchange forward contracts are utilized by the Company to hedge accounts receivable, accounts payable and inter-company loans that are denominated in a currency other than the functional currency of the business. The Company's practice has been to hedge foreign currency exposures with foreign exchange 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. Foreign exchange forward contracts are reported as either assets or liabilities on the balance sheet with changes in their fair value recorded in other income, net, together with the offsetting gain or loss on the hedged asset or liability. To the extent that the Company's strategy for managing foreign exchange risk changes, including the use of derivative instruments other than forward contracts or hedging other than recognized assets or liabilities, the accounting methods used to record those transactions may differ from the policies described above.

-6-

The Company selectively utilizes natural gas forward contracts to hedge its exposure to price risk associated with the purchase of natural gas primarily for utility purposes. The maturity of these contracts correlate highly to the actual purchases of the commodity and have the effect of securing predetermined prices that the Company pays for the underlying commodity. While these contracts are structured to limit the Company's exposure to increases in commodity prices, they can also limit the potential benefit the Company might have otherwise received from decreases in commodity prices. Because the Company takes actual delivery of the physical commodity, natural gas forward contracts are not required to be recognized on the balance sheet at fair value. Instead, realized gains and losses on these contracts are included in the cost of the commodity upon settlement of the contract. To the extent that the Company's strategy for managing commodity price risk changes, including the use of financially settled derivative instruments, the accounting methods used to record those transactions may differ from the policies described above.

In connection with the Company's stock repurchase program, the Company selectively utilizes freestanding put option contracts that are indexed to the Company's stock and entitle the holder to sell shares of the Company's common stock to the Company at specified exercise prices. In lieu of purchasing the shares from the put option holders, the Company has the right to elect settlement by paying the holders of the put options the excess of the strike price over the then market price of the shares in either cash or shares of the Company's common stock (i.e., net cash or net share settlement). The put option contracts are initially measured at fair value and reported in Stockholders' Equity. Subsequent changes in fair value are not recognized in the financial statements.

The Company may use fixed and floating interest rate swap agreements to synthetically obtain lower cost borrowings and to alter its exposure to the impact of changing interest rates on the consolidated results of operations and future cash flows. Interest rate swap agreements used to convert fixed rate interest obligations to variable rate obligations will generally be reported on the balance sheet with changes in fair value recorded in interest expense, net, together with changes in the fair value of the hedged portion of the obligation. Interest rate swap agreements used to convert variable rate interest obligations to fixed rate obligations will generally be reported on the balance sheet with changes in fair value attributable to the portion of the instrument considered to be effective, recorded in other comprehensive income (loss) on an after-tax basis. Amounts reported in other comprehensive income (loss) will be

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

reclassified into earnings in the period that the hedged exposure impacts earnings.

INVENTORIES: Inventories are carried at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) method for substantially all inventories in the United States with all other inventories determined on the first-in, first-out (FIFO) or average cost method.

ENVIRONMENTAL: It is the Company's policy to accrue and charge against earnings, environmental cleanup costs when it is probable that a liability has been incurred and an amount is reasonably estimable. As assessments and cleanups proceed, these accruals are reviewed periodically and adjusted, if necessary, as additional information becomes available. These accruals can change substantially due to such factors as additional information on the nature or extent of contamination, methods of remediation required and other actions by governmental agencies or private parties. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

INCOME TAXES: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

If repatriation of the undistributed earnings of the Company's foreign subsidiaries and associated companies is anticipated, then income taxes are provided for such earnings.

POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS: The Company sponsors postretirement and postemployment benefit plans. The net periodic costs for postretirement plans are recognized as employees render the services necessary to earn the related benefits. The postemployment costs are recognized when a probable decision of a termination requiring employee severance is made.

REVENUE RECOGNITION: Revenue is generally recognized upon shipment of goods to customers. The Company's revenue-earning activities involve delivering or producing goods, and revenues are considered to be earned when the Company has completed the process by which it is entitled to such revenues. The following criteria are used for revenue recognition: persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed or determinable, collection is reasonably assured.

-7-

EARNINGS PER SHARE: 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 adjusted (i.e., increased) for all additional common shares that would have been outstanding if potentially

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

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.

STOCK-BASED COMPENSATION: The Company continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations under which no compensation cost is generally recognized for stock options granted, since the Company grants options at a price equal to the market price of the stock at the date of grant. Compensation cost for restricted stock is recorded based on the market value on the date of grant, and compensation cost for performance stock is recorded based on the quoted market price of the Company's common stock at the end of each period through the date of vesting. The fair value of restricted and performance stock is charged to Stockholders' Equity and amortized to expense over the requisite vesting periods.

CURRENT AND PENDING ACCOUNTING CHANGES: In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses the accounting and reporting requirements for legally unavoidable obligations associated with the retirement of tangible long-lived assets. In general, SFAS 143 requires entities to capitalize asset retirement costs of related long-lived assets in the period in which they meet the definition of a liability and to allocate those costs to expense using a systematic and rational method. SFAS 143 will become effective for the Company beginning January 1, 2003. The Company is reviewing the potential impact of SFAS 143 on its consolidated results of operations and financial position, which is expected to be immaterial.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires business combinations consummated after June 30, 2001, to be accounted for using the purchase method of accounting. It also specifies the criteria that intangible assets must meet to be recognized apart from goodwill. SFAS 142 requires the use of a non-amortization approach to account for purchased goodwill and intangibles with indefinite useful lives. Under this approach, goodwill and intangibles with indefinite useful lives are not amortized, but instead are reviewed for impairments at least annually and written down only in the periods in which it is determined that the recorded value is greater than the fair value. SFAS 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 142 will become effective for the Company beginning January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001, have been amortized through December 31, 2001, in accordance with the appropriate pre-SFAS 141 and 142 accounting literature.

The Company has evaluated its goodwill and intangible assets using the new criteria in SFAS 141, and as a result, certain intangibles that no longer met the criteria for recognition apart from goodwill were reclassified as goodwill effective January 1, 2002 (see Note 13). The Company has also re-evaluated the remaining useful lives and residual values of all intangible assets with determinable useful lives and has made all necessary amortization period adjustments effective January 1, 2002. The change in amortization expense related to the adjustment of remaining useful lives and residual values was

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

immaterial.

In connection with the transitional goodwill impairment test, SFAS 142 requires the Company to assess whether there is any indication that goodwill is impaired as of January 1, 2002. To accomplish this, the Company has defined its business segments as its SFAS 142 reporting units and has determined the carrying value of those reporting units as of January 1, 2002. The Company has until June 30, 2002, to determine the fair value of each reporting unit and compare it to the reporting unit's carrying value. If a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, and the Company must then perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to its assets and liabilities in a manner similar to a purchase price allocation, to its carrying value. This second step, if required, must be completed by December 31, 2002, and any transitional impairment loss will be measured as of January 1, 2002, and recognized as the effect of a change in accounting principle. Although further evaluation is still needed to complete the transitional goodwill impairment test provisions of SFAS 142, the Company does not currently believe that adoption of the new standards will result in a material charge to earnings as of January 1, 2002.

-8-

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). In general under SFAS 133, as amended, all derivative instruments must be recognized on the balance sheet at fair value. SFAS 133 also establishes accounting standards for reporting changes in the fair value of derivative instruments. If a derivative is deemed to be an effective hedge, depending on the nature of the hedge, changes in the fair value of the derivative will be either offset against changes in fair value of the hedged item through earnings or recognized on an after-tax basis in accumulated other comprehensive income within the equity section of the balance sheet until such time that the hedged item is recognized in earnings. Derivatives that do not qualify for hedge accounting, as well as the ineffective portion of hedges, must be adjusted to fair value through earnings. Under certain exceptions, SFAS 133 permits derivative instruments to be accounted for as executory contracts because physical delivery of the underlying commodity is probable. In those circumstances, SFAS 133 does not require derivative instruments to be recognized on the balance sheet at fair value.

As discussed more thoroughly under Financial Instruments and in Note 4, the Company uses foreign exchange forward contracts, natural gas forward contracts, interest rate swap agreements and other derivative instruments. The carrying amounts of the foreign exchange forward contracts and interest rate swap agreements at January 1, 2001, approximated their fair values. SFAS 133, as amended, permits the Company to continue recognizing gains and losses on commodity contracts in the cost of the commodity upon settlement of the contracts. In addition, the Mandatory Par Put Remarketed SecuritiesSM (MOPPRS^(SM)) and written put options that are indexed to the Company's stock are excluded from the scope of SFAS 133. As a result, a cumulative effect of a change in accounting principle was not required to be presented upon adoption of SFAS 133.

The American Institute of Certified Public Accountants has issued a proposed Statement of Position ("SOP"), "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment." If enacted, this SOP would, among other things, require the Company to change its method of

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

depreciation. The Company primarily utilizes the composite method of depreciation in the United States and Canada applied on a straight-line basis over the estimated useful lives of various classes of assets. Under the composite method, depreciation is taken on the class of asset as a whole rather than on an individual asset basis. Depreciation continues until the entire asset class is fully depreciated. Upon disposition or retirement, the cost of such assets plus demolition costs less amounts realized on sale or salvage, is charged or credited to the accumulated depreciation account.

The Company is evaluating the impact of the proposed SOP. If enacted, excluding any cumulative effect of a change in accounting principle, it is expected that depreciation expense will decrease, as depreciation on individual assets will cease as such assets are fully depreciated. On the other hand, upon disposition or retirement of assets, the net book value of such assets plus demolition costs less amounts realized from sale or salvage, will be charged or credited to earnings.

RISKS AND UNCERTAINTIES: The Company is engaged primarily in the manufacture and sale of a highly diversified line of chemical products and materials throughout the world. The Company's revenues are dependent on the continued operation of its various manufacturing facilities. The operation of manufacturing plants involves many risks, including the breakdown, failure or substandard performance of equipment, natural disasters, terrorist acts, and the need to comply with directives of governmental agencies. The occurrence of operational problems, including but not limited to the above events, may have a materially adverse effect on the productivity and profitability of a particular manufacturing facility, or with respect to certain facilities, the Company as a whole during the period of such operational difficulties.

The Company's operations are also subject to various hazards incidental to the production, use and sale of industrial chemicals, including the use, handling, processing, storage and transportation of certain hazardous materials. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, environmental damage and suspension of operations. Claims arising from any future catastrophic occurrence involving the Company may result in the Company being named as a defendant in lawsuits potentially asserting large claims.

The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company is exposed to credit losses in the event of nonperformance by counterparties on risk management instruments. The counterparties to these transactions are major financial institutions, thus the Company considers the risk of default to be minimal. The Company does not require collateral or other security to support the financial instruments with credit risk.

The Company's international operations are subject to various risks which are not present in domestic operations, including political instability, the possibility of expropriation, restrictions on royalties, dividends and currency remittances and instabilities of foreign currencies. The Company does not believe that there is currently any material likelihood of a material adverse effect on the Company in connection with its existing foreign operations.

-9-

USE OF ESTIMATES: Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

liabilities and pro forma compensation expense at the date of the financial statements and revenue and expenses during the period reported. Actual results could differ from those estimates. Estimates are used for, but not limited to: allowance for doubtful accounts, inventory valuations, useful lives of tangible and intangible assets, accrued expenses, environmental liability assumptions, pension and postretirement benefits other than pension assumptions, general liability and workers compensation accruals and income tax valuation allowances. Future events and their effects cannot be estimated with certainty. Accordingly, accounting estimates require the use of judgment, which may change as additional information is obtained.

2. ACQUISITIONS AND DISPOSITIONS

2001 TRANSACTIONS: On August 31, 2001, the Company acquired certain assets of the carbon fiber business of BP plc ("BP"). The BP carbon fiber business had sales for the first half of 2001 of approximately \$17 (unaudited) of which approximately 50% were sales to Cytec Engineered Materials ("CEM"), formerly known as Cytec Fiberite. CEM uses carbon fiber to reinforce engineered resin matrices and produce composites for a diverse range of commercial and military aerospace applications and other emerging applications. The acquisition enhances CEM's ability to maintain an uninterrupted supply of certain classes of carbon fiber. The acquisition, which includes manufacturing sites in Greenville and Rock Hill, SC, is reported as part of the Company's Specialty Materials segment.

In accordance with SFAS No. 141, "Business Combinations," after reducing to zero the amounts that would otherwise have been assigned to certain assets acquired, the remaining "negative goodwill" was recognized as an extraordinary gain of \$4.9, net of taxes, which related to the fair value of the inventories acquired less liabilities assumed. Taxes recorded related to the extraordinary gain were \$2.6.

On March 30, 2001, the Company acquired the composite materials business of Minnesota Mining and Manufacturing Company ("3M") for cash consideration of \$8.2. The acquisition resulted in goodwill of \$3.5, which the Company has been amortizing on a straight-line basis over a period of 25 years. The acquired business has been integrated into the Company's Specialty Materials segment.

On March 27, 2001, the Company acquired the remaining 50% interest in the assets of the Avondale Ammonia Company manufacturing joint venture effective as of September 1, 2000, from the Company's partner, LaRoche Industries Inc. ("LaRoche"). The Company paid cash consideration of \$0.8 and released certain claims against LaRoche relating to LaRoche's rejection of the partnership agreements. No goodwill was recognized as a result of this transaction. In the second quarter of 2001, the ammonia manufacturing facility was indefinitely mothballed.

2000 TRANSACTIONS: On November 1, 2000, the Company completed the sale of its paper chemicals sizing and strength business to Bayer Corporation and the direct sales portion of its retention and drainage aids and fixative products business to Ciba Specialty Chemicals Water Treatments, Inc. The Company also agreed to produce paper chemicals for Bayer Corporation under a five year manufacturing agreement to which the Company allocated proceeds of \$11.2, which were recorded as deferred revenue. This deferred revenue will be recognized over the term of the manufacturing agreement. The Company received net cash proceeds of \$115.5 in connection with these transactions and recorded in other income, net, a pre-tax gain of \$88.3. Included in the sale were the sales, marketing, research and development and technical services personnel and the dedicated field and laboratory equipment associated with the respective businesses. The Company retained approximately \$18.1 of paper chemicals' accounts receivable and all of its Water and Industrial Process Chemicals production facilities. Paper

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

chemicals net sales were \$97.9 and \$106.4 in 2000 and 1999, respectively. Taxes of approximately \$26.6 were paid in 2001 related to this divestiture.

On July 10, 2000, the Company completed the sale of two subsidiaries, which owned its 50% interest in Criterion Catalyst Company LP ("Criterion"), to its joint venture partner CRI International, Inc., a company of the Royal Dutch Shell Group, for cash consideration of \$63.0. The consideration received approximated the carrying value of the Company's investment, which was included in investment in associated companies. The sale resulted in taxes paid of approximately \$7.5.

1999 Transactions: On October 29, 1999, the Company acquired the amino coatings resins business of BIP Limited (the "BIP business") for approximately \$37.2 in cash plus future consideration with a value equivalent to approximately \$8.3. The acquisition resulted in goodwill of \$36.7, which the Company has been amortizing on a straight-line basis over a period of 40 years. The acquired business has been integrated into the Company's Performance Products segment. BIP retained its manufacturing plant in Oldbury, United Kingdom, where it will continue to manufacture certain amino coatings resins for Cytec under a long-term agreement.

On September 16, 1999, the Company acquired Inspec Mining Chemicals S.A. ("IMC") from Laporte plc for \$25.1, net of \$0.8 cash received. The acquisition resulted in goodwill of \$20.1, which the Company has been amortizing on a straight-line basis over a period of 40 years. The acquisition, which included two manufacturing operations and a research and development center located in Chile, has been integrated into the Company's Water and Industrial Process Chemicals segment.

-10-

On August 11, 1999, the Company acquired assets of the global phosphine fumigants product line from BOC Group Inc. for \$3.5 plus two additional payments aggregating \$1.0, which were paid during 2000 upon approval of certain fumigant registrations by the U.S. Environmental Protection Agency. The acquisition resulted in goodwill of \$2.2, which the Company has been amortizing on a straight-line basis over a period of 20 years from the original date of acquisition. The terms of the acquisition also provide for additional consideration to be paid if the acquired product line's net sales exceed certain targeted levels, which has not yet occurred. All additional payments are payable in cash and will be recorded as additional goodwill when the contingencies for such payment have been met. The acquired business has been integrated into the Company's Water and Industrial Process Chemicals segment.

On January 25, 1999, the Company acquired assets of the Nottingham Company's industrial minerals product line for \$4.0. The acquisition resulted in goodwill of \$0.3, which the Company has been amortizing on a straight-line basis over a period of 40 years. The acquired business has been integrated into the Company's Water and Industrial Process Chemicals segment.

On January 21, 1999, the Company sold substantially all of the assets of its engineered molding compounds business, excluding land, buildings and one product line, to Rogers Corporation of Manchester, Connecticut, for \$4.3.

All acquisitions have been accounted for under the purchase method of accounting with the purchase prices allocated to the assets acquired and liabilities assumed based on their estimated fair values. The results of operations for the acquired businesses are included from the dates of acquisition in the Consolidated Financial Statements. Amounts recorded as excess of the purchase price over the identifiable assets acquired (i.e., goodwill) are

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

included in Acquisition Intangibles in the Consolidated Balance Sheets. Consolidated results of operations for the years ended 2001, 2000 or 1999 would not have been materially different if any of the acquisitions had occurred on January 1 of the respective preceding years. Accordingly, pro forma sales, net earnings and earnings per share disclosures have not been provided.

3. RESTRUCTURING OF OPERATIONS

In the second quarter of 2001, the Company recorded a restructuring charge of \$5.4 related to the mothballing of the Fortier ammonia plant and the Company's share of the related personnel reduction of 67 positions at the Fortier facility. The restructuring costs were charged to the Consolidated Statement of Income as follows: manufacturing cost of sales, \$4.6; and selling and technical services, \$0.8. The components of the restructuring charge included: employee severance costs, \$4.3; asset write-downs, \$0.9 and other costs of \$0.2. As of December 31, 2001, approximately 53 positions have been eliminated. The remaining personnel reductions are expected to be completed by mid-2002. As of December 31, 2001, cash payments of \$2.9 had been made for these charges. At December 31, 2001, the remaining liability to be paid was \$1.6. In addition, during the second quarter of 2001 the Company recorded charges of \$2.3 in equity in earnings of associated companies for its 50% share of CYRO Industries' restructuring charges, which included \$3.7 related to the shutdown of CYRO's manufacturing facility in Niagara Falls, Ontario, Canada, and \$0.8 related to CYRO's share of the infrastructure restructuring at the Company's Fortier facility.

In the fourth quarter of 2000, the Company recorded a restructuring charge of \$10.8, related to a workforce reduction of approximately 110 employees and the discontinuance of a tolling operation. The restructuring costs were charged to the Consolidated Statement of Income as follows: manufacturing cost of sales, \$3.5; selling and technical services, \$5.3; research and process development, \$1.6 and administrative and general, \$0.4. The components of the restructuring charge included: employee severance costs, \$8.8 and asset write-downs, \$2.0. As of December 31, 2001, approximately 104 positions have been eliminated. As of December 31, 2001, cash payments of \$6.0 had been made for these charges. At December 31, 2001, the remaining liability to be paid was \$2.8, which is expected to be substantially completed during the first quarter of 2002.

In the fourth quarter of 1999 the Company recorded a restructuring charge of \$3.6, primarily related to the consolidation of certain Specialty Materials' manufacturing and research activities, the Fortier methanol plant shutdown and related personnel reduction of 72 positions worldwide. The restructuring costs were charged to the Consolidated Statement of Income as follows: manufacturing cost of sales, \$1.2; selling and technical services, \$0.3; research and process development, \$1.7 and administrative and general, \$0.4. During the fourth quarter of 2000, the Company reduced this restructuring accrual as a result of incurring less cost than originally anticipated. As a result, the Company recognized a restructuring credit of \$0.6 in the Consolidated Statement of Income as follows: manufacturing cost of sales, \$0.2 and research and process development, \$0.4. As of December 31, 2001, payments of \$2.8 had been made for these charges and all personnel reductions requiring severance payments were completed. At December 31, 2001, the remaining liability to be paid was \$0.2, which primarily relates to long-term employee severance payouts.

In connection with its 1997 restructuring plan, the Company reduced the restructuring accrual due to incurring lower than expected costs for the shutdown of the Linden, New Jersey, facility and incurring fewer personnel reductions by filling unanticipated open positions. As a result, the Company recognized restructuring credits in the Consolidated Statement of Income as follows: During the fourth quarter of 1999 the Company recognized a credit of

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

\$2.7 in manufacturing cost of sales and a credit of \$0.3 in administrative and general. During the fourth quarter of 2000 the Company recognized a credit of \$0.1 through various classifications in the Consolidated Statement of Income.

-11-

4. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and certain other assets and liabilities included in the Company's Consolidated Balance Sheets approximated their fair values at December 31, 2001 and 2000.

At December 31, 2001, there were no interest rate swap agreements outstanding. At December 31, 2000, the Company was party to four interest rate swap agreements with an aggregate notional value of \$80.0. Two of the swap agreements matured during 2001 and had virtually offsetting terms. Another swap agreement, which converted \$20.0 of variable rate interest obligations to 6.25% fixed rate obligations, matured on November 1, 2001. The fourth interest rate swap agreement, which converted \$25.0 of the Company's 6.75% fixed rate borrowings due on March 15, 2008, to a floating rate, was terminated during January 2001. Under the terms of the termination agreement, the Company received approximately \$0.5 in cash.

At December 31, 2001, the Company had net foreign exchange contracts to purchase an aggregate of 20.0 Euros, 10.7 British pounds and 1.2 Norwegian krone for U.S. dollars. The Company also had net contracts for the following U.S. dollar equivalent aggregate amounts: contracts to purchase 1.3 Norwegian krone for other European currencies, primarily British pounds; contracts to purchase 18.3 British pounds for Euros; contracts to purchase 10.3 Norwegian krone for Euros and contracts to sell 0.3 of other currencies for Euros. At December 31, 2000, the Company had net foreign exchange contracts to purchase an aggregate of 32.5 of Dutch guilders, German marks and British pounds and to sell an aggregate of 2.6 of French franc and Argentine pesos for U.S. dollars. The Company also had net contracts to sell Dutch guilders with a value equivalent to \$22.2 for British pounds, contracts to purchase Dutch guilders with a value equivalent to \$0.5 for other currencies, contracts to purchase Norwegian krone with a value equivalent to \$2.6 for other European currencies and contracts to sell Euros with a value equivalent to \$1.4 for British pounds. The fair value of foreign exchange contracts, based on forward exchange rates at December 31, 2001 and 2000, exceeded contract values by approximately \$0.6.

At December 31, 2001, the Company had \$6.8 notional value of natural gas forward contracts with January through October 2002 delivery dates outstanding. Based on year-end NYMEX prices, the Company had a net unrealized loss of \$0.7. At December 31, 2000, there were no natural gas forward contracts outstanding.

In connection with the Company's stock repurchase program, during 2001 the Company sold an aggregate of 300,000 put options to an institutional investor in a series of private placements exempt from registration under Section 4(2) of the Securities Act of 1933. The put options entitled the holder to sell an aggregate of 300,000 shares of the Company's common stock to the Company at exercise prices ranging from \$31.35 to \$32.49 per share. The Company received premiums of approximately \$0.6 on the sale of such options. Prior to December 31, 2001, 140,000 of the put options expired unexercised, 100,000 put options were exercised and resulted in the Company buying back 100,000 shares of its common stock at an exercise price of \$32.49 per share and the holder elected to exercise the remaining 60,000 put options, which were settled by the Company purchasing 60,000 shares of its common stock at an exercise price of \$31.347 per

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

share, which was slightly "out of the money" at the time. At December 31, 2001, no put options remained outstanding. During 2000, the Company sold an aggregate of 400,000 put options at exercise prices ranging from \$23.083 to \$24.553 per share. Prior to December 31, 2000, the put options expired unexercised. The Company received premiums of approximately \$0.6 on the sale of such put options. In lieu of purchasing the shares from the put option holder, the Company has the right to elect settlement by paying the holder of the put options the excess of the strike price over the then market price of the shares in either cash or shares of the Company's common stock (i.e., net cash or net share settlement).

5. ASSOCIATED COMPANIES

The Company has a 50% interest in each of three associated companies: CYRO Industries, Mitsui-Cytec and AC Molding Compounds and a one-third interest in the PolymerAdditives.com, LLC joint venture. The Company also had a 50% interest in the former Criterion Catalyst joint venture through July 10, 2000 (see Note 2).

-12-

The aggregate cost of investments in associated companies accounted for under the equity method was \$16.7 and \$15.7 at December 31, 2001 and 2000, respectively. Summarized financial information for the Company's investments in associated companies as of December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999, is as follows:

	2001	2000	1999

Net sales	\$306.9	\$496.3	\$521.4
Gross profit	52.0	99.1	116.4
Net earnings (losses)	(2.2)	23.8	11.4
Company's share of earnings	0.1	15.0	5.6

Current assets	105.8	131.5	
Noncurrent assets	189.4	204.0	
Total assets	295.2	335.5	

Current liabilities	78.9	103.9	
Noncurrent liabilities	29.0	45.7	
Equity	187.3	185.9	
Total liabilities and equity	295.2	335.5	

Company's share of equity	\$ 92.6	\$ 91.9	

The above associated companies' information includes the results of the former Criterion Catalyst joint venture through July 10, 2000.

The Company does not guarantee the debt of its unconsolidated associated companies.

At December 31, 2001 and 2000, the Company's net investment in AC Moldings Compounds was valued at zero, and the Company ceased recognizing its share of the losses of the joint ventures once its investment was reduced to zero. The Company and its joint venture partner were unwilling to invest further in AC Moldings. As a result of AC Moldings' inability to sustain its operations, in November 2001, the joint venture was shut down. Subsequently, AC Moldings filed for bankruptcy under Chapter 11 in December 2001. The Company does not believe that the AC Moldings Compounds bankruptcy filing will have a material

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

impact on the Company's results of operations or financial position as the net investment was already valued at zero.

Fees received from associated companies, primarily CYRO Industries, were \$7.8, \$7.5 and \$7.5 in 2001, 2000 and 1999, respectively. These fees are recorded in manufacturing cost of sales and are related to CYRO's use of the Company's Fortier, Louisiana, manufacturing complex. Approximately 65% of the fees received are scheduled to contractually expire December 31, 2003. However, the Company is in the process of renegotiating these agreements. To the extent that the agreements are not renewed, it will result in a corresponding increase in CYRO's earnings of which the Company's share is 50%.

Sales to associated companies (primarily CYRO Industries) amounted to \$26.9, \$27.2 and \$25.2 in 2001, 2000 and 1999, respectively. Purchases from associated companies were immaterial.

At December 31, 2001, CYRO Industries had \$25.0 of short-term borrowings outstanding, which expires March 31, 2002, and Mitsui-Cytec had \$13.9 of short-term bank obligations, which expires March 31, 2002, and \$3.6 of long-term debt, which expires February 25, 2004.

6. INVENTORIES

At December 31, 2001 and 2000, LIFO inventories comprised approximately 59% and 62% of consolidated inventories, respectively.

	2001	2000

Finished goods	\$ 96.0	\$115.0
Work in progress	18.0	15.0
Raw materials and supplies	65.1	67.1

	179.1	197.1
Less reduction to LIFO cost	(31.8)	(34.4)

Total inventories	\$147.3	\$162.7

-13-

7. PLANTS, EQUIPMENT AND FACILITIES

At December 31, 2001 and 2000, plant, equipment and facilities consisted of the following:

	2001	2000

Land and land improvements	\$ 30.5	\$ 30.4
Buildings	172.2	164.0
Machinery and equipment	1,108.2	1,066.7
Construction in progress	33.6	65.2

Plants, equipment and facilities, at cost	\$1,344.5	\$1,326.3

8. LONG-TERM DEBT

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

At December 31, 2001 and 2000, long-term debt consisted of public debt in the amounts of \$314.7 and \$313.4, respectively. The fair value of the Company's long-term debt, based on dealer quoted values, was \$321.9 at December 31, 2001, and \$303.1 at December 31, 2000.

During the third quarter of 2001, the Company reclassified certain deferred financing charges from other noncurrent assets to long-term debt. The reclassification was also made to the prior year's Consolidated Balance Sheet in order to make it conform to the current year's presentation.

The weighted average interest rate on long-term debt for 2001, 2000 and 1999 was 7.15%, 7.08% and 6.77%, respectively.

At December 31, 2001, the Company's Credit Facility provided for unsecured revolving loans ("Revolving Loans") of up to \$200.0. The Revolving Loans are available for the general corporate purposes of the Company and its subsidiaries, including, without limitation, for purposes of making acquisitions permitted under the Credit Facility. There were no borrowings outstanding under the Credit Facility at December 31, 2001 and 2000. The Credit Facility, which is scheduled to mature on July 28, 2002, contains covenants customary for such facilities. The Company was in compliance with all terms, covenants and conditions of the Credit Facility at December 31, 2001, and expects to replace the credit facility on or before its expiration, although there is no guarantee that it will be renewed.

At December 31, 2001 and 2000, \$10.0 was available for short-term use under an uncommitted credit facility and a U.S. dollar equivalent of approximately \$18.4 and \$14.8, respectively, was available under foreign currency denominated overdraft facilities. There were no outstanding borrowings under these facilities at December 31, 2001 and 2000.

During 1998, the Company sold an aggregate of \$320.0 principal amount of senior debt securities in public offerings, consisting of (i) \$100.0 principal amount of 6.50% Notes due March 15, 2003, (ii) \$100.0 principal amount of 6.75% Notes due March 15, 2008 and (iii) \$120.0 principal amount of 6.846% MOPPRS(SM) due May 11, 2025. The securities were offered under the Company's shelf registration statement, which has now been fully utilized. The Company received an aggregate of approximately \$322.0 in proceeds from the sales before deducting expenses associated with the sales.

Except in limited circumstances, the MOPPRS(SM) will be subject to mandatory tender to Merrill Lynch, as Remarketing Dealer, at 100% of the principal amount thereof, for remarketing on May 11, 2005 (the "Remarketing Date"). The interest rate on the MOPPRS(SM) from the Remarketing Date to maturity will be 5.951% plus an applicable spread. If the Remarketing Dealer for any reason does not purchase all tendered MOPPRS(SM) on the Remarketing Date or elects not to remarket the MOPPRS(SM) the Company will be required to repurchase the MOPPRS(SM) from the beneficial owners thereof on the Remarketing Date at 100% of the principal amount thereof plus accrued interest, if any.

Commencing in September 1997, the Company entered into a series of rate lock agreements to hedge against the risk of an increase in treasury rates related to the Company's offering of \$300.0 in long-term debt securities. During 1997 and 1998, the Company made payments aggregating approximately \$11.2 to settle the rate lock agreements, which is being amortized over the life of the 6.50% Notes, 6.75% Notes and 6.846% MOPPRS(SM) as an increase in interest expense of such Notes. The amount of unamortized rate lock agreements included in long-term debt was \$7.3 at December 31, 2001, and \$8.4 at December 31, 2000.

Under the revised terms of the Company's Series C Cumulative Preferred Stock ("Series C Stock"), the Company would have the ability to incur up to an additional \$635.2 in debt at December 31, 2001 (see Note 15).

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

On December 15, 2000, the Company filed with the Securities and Exchange Commission a shelf registration statement covering \$400.0 of debt securities, which may be offered by the Company from time to time. Proceeds of any sale will be used for general corporate purposes, which may include replacement of indebtedness and other liabilities, share repurchases, additions to working capital, capital expenditures and acquisitions. The Company has no immediate plans to offer securities under the registration statement. The registration statement became effective December 22, 2000.

-14-

9. ENVIRONMENTAL MATTERS AND OTHER CONTINGENT LIABILITIES AND COMMITMENTS

The Company is 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. The Company's most significant environmental liabilities relate to remediation and regulatory closure obligations at manufacturing sites now or formerly owned by the Company. The Company is also involved in legal proceedings directed at the cleanup of various other sites, including a number of federal or state Superfund sites. Since the laws pertaining to Superfund sites generally impose retroactive, strict, joint and several liability, a governmental plaintiff could seek to recover all remediation costs at any such site from any of the potentially responsible parties ("PRPs") for such site, including the Company, despite the involvement of other PRPs. In some cases, the Company is one of several hundred identified PRPs, while in others it is the only one or one of only a few. Generally, where there are a number of financially solvent PRPs, liability has been apportioned, or the Company believes, based on its experience with such matters, that liability will be apportioned based on the type and amount of waste disposed by each PRP at such disposal site and the number of financially solvent PRPs. In many cases, the nature of future environmental expenditures cannot be quantified with accuracy. In addition, from time to time in the ordinary course of its business, the Company is informed of, and receives inquiries with respect to, additional sites that may be environmentally impaired and for which the Company may be responsible.

As of December 31, 2001 and 2000, the aggregate environmental related accruals were \$93.9 and \$104.7, respectively, of which \$20.0 was included in accrued expenses as of both dates, with the remainder included in other noncurrent liabilities. Environmental remediation spending for the years ended December 31, 2001, 2000 and 1999 was \$13.7, \$15.3 and \$18.6, respectively. All accruals have been recorded without giving effect to any possible future insurance proceeds.

While it is not feasible to predict the outcome of all pending environmental suits and claims, it is reasonably possible that there will be a necessity for future provisions for environmental costs that, in management's opinion, will not have a material adverse effect on the consolidated financial position of the Company, but could be material to the consolidated results of operations of the Company in any one accounting period. The Company cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts. Moreover, environmental liabilities are paid over an extended period, and the timing of such payments cannot be predicted with any confidence.

The Company is also a party to various other claims and routine litigation arising in the normal course of its business. Based on the advice of counsel, management believes that the resolution of such claims and litigation will not have a material adverse effect on the financial position of the

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Company, but could be material to the results of operations of the Company in any one accounting period.

Rental expense under property and equipment leases was \$10.7 in 2001, \$12.0 in 2000 and \$12.3 in 1999. Estimated future minimum rental expenses under property and equipment leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2001, are:

	Operating Leases
-----	-----
2002	\$ 7.4
2003	5.1
2004	3.9
2005	2.5
2006	1.9
Thereafter	16.5
-----	-----
Total minimum lease payments	\$37.3
-----	-----

At December 31, 2001 and 2000, the Company had \$10.9 and \$11.7, respectively, of letters of credit outstanding for environmental and insurance related matters.

-15-

10. INCOME TAXES

The income tax provision for the years ended December 31, 2001, 2000 and 1999, is based on earnings before income taxes and extraordinary item as follows:

	2001	2000	1999
-----	-----	-----	-----
Domestic	\$ 51.6	\$203.3	\$110.1
Foreign	49.5	67.8	62.9
-----	-----	-----	-----
Total	\$101.1	\$271.1	\$173.0
-----	-----	-----	-----

The components of the income tax provision for the years ended December 31, 2001, 2000 and 1999, are composed of the following:

	2001	2000	1999
Current:			
Federal	\$ (9.5)	\$36.8	\$ 4.8
Foreign	17.2	24.4	21.0
Other, principally state	1.9	1.2	1.0
-----	-----	-----	-----
Total	\$ 9.6	\$62.4	\$26.8
-----	-----	-----	-----
Deferred:			
Federal	\$22.3	\$25.3	\$21.9
Foreign	1.0	(1.1)	(2.3)
Other, principally state	2.0	6.9	5.3
Total	\$25.3	\$31.1	\$24.9
-----	-----	-----	-----
Total income tax provision	\$34.9	\$93.5	\$51.7

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Tax benefits on stock option exercises of \$9.9, \$4.5 and \$0.1 were allocated directly to shareholders' equity for 2001, 2000 and 1999, respectively.

In 2001, \$2.6 million of tax expense was allocated to an extraordinary gain.

Domestic and foreign earnings of consolidated companies before income taxes and extraordinary item include all earnings derived from operations in the respective U.S. and foreign geographic areas, whereas provisions (benefits) for income taxes include all income taxes payable to (receivable from) U.S., foreign and other governments as applicable, regardless of the situs in which the taxable income (loss) is generated. The temporary differences that give rise to a significant portion of deferred tax assets and liabilities as of December 31, 2001 and 2000, were as follows:

	2001	2000

Deferred tax assets:		
Allowance for bad debts	\$ 2.2	\$ 2.2
Employee benefit accruals	-	7.8
Insurance accruals	13.6	13.5
Operating accruals	12.6	20.0
Inventory	0.7	4.1
Environmental accruals	34.2	37.7
Postretirement obligations	112.9	115.0
Other	17.5	10.5

Deferred tax assets	193.7	210.8

Deferred tax liabilities:		
Plants, equipment and facilities	(106.3)	(118.4)
Employee benefit accruals	(3.6)	-
Other	(13.3)	(13.0)

Deferred tax liabilities	(123.2)	(131.4)

Net deferred tax assets	\$ 70.5	\$ 79.4

Beginning in 1997, no provision has been made for U.S. or additional foreign taxes on the undistributed earnings of foreign subsidiaries since the Company intends to reinvest these earnings. Foreign tax credits would be available to substantially reduce any amount of additional U.S. tax that might be payable on these earnings in the event of distribution or sale.

-16-

The long-term earnings trend of the Company makes it more likely than not that the Company will generate sufficient taxable income to realize its net deferred tax assets.

In the third quarter of 1999, the Company recognized an \$8.0 reduction in income tax expense related to the utilization of additional prior years' tax credits. Excluding the impact of this nonrecurring item, the Company's effective tax rate for 1999 was 34.5%.

A reconciliation between the Company's effective tax rate and the U.S. federal income tax rate is as follows:

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

	2001	2000	1999
Federal income tax rate	35.0%	35.0%	35.0%
Research and experimental credit	(3.6)	(1.3)	(1.8)
Prior period tax credits	-	-	(4.6)
Income subject to other than the federal income tax rate	(0.7)	(1.4)	(2.6)
State taxes, net of federal benefits	3.5	1.6	2.2
Other charges, net	0.3	0.6	1.7
Effective tax rate	34.5%	34.5%	29.9%

11. RETIREMENT PLANS

The Company has defined benefit pension plans that cover employees in the United States and a number of foreign countries. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	2001	2000
Change in benefit obligation		
Benefit obligation at January 1	\$337.9	\$305.2
Service cost	8.3	8.5
Interest cost	25.2	23.8
Amendments	-	0.2
Translation difference	(1.1)	0.2
Actuarial (gain) loss	14.8	14.2
Employee contributions	0.2	0.2
Benefits paid	(17.2)	(14.4)
Benefit obligation at December 31	\$368.1	\$337.9
Change in plan assets		
Fair value of plan assets at January 1	\$338.7	\$346.8
Actual return (losses) on plan assets	(18.3)	(6.0)
Company contributions	16.9	13.6
Employee contributions	0.2	0.2
Translation difference	(1.1)	(1.5)
Benefits paid	(17.2)	(14.4)
Fair value of plan assets at December 31	\$319.2	\$338.7
Projected benefit obligation over (under) plan assets	48.9	(0.8)
Unrecognized actuarial loss	(73.0)	(9.5)
Unrecognized prior service cost	1.4	1.3
Unrecognized net transition obligation	1.1	1.3
Prepaid pension assets recognized in the consolidated balance sheets	\$ (21.6)	\$ (7.7)

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Assumptions as of December 31:

	2001	2000	1999
Discount rate	7.25%	7.50%	7.75%
Expected return on plan assets	9.25%	9.25%	9.25%
Rate of future compensation increase	3.0-10.0%	3.0-10.0%	4.0-10.0%

Net periodic pension expense includes the following components:

	2001	2000	1999
Service cost	\$ 8.3	\$ 8.5	\$ 10.1
Interest cost on projected benefit obligation	25.2	23.8	21.8
Expected return on plan assets	(31.1)	(28.3)	(24.2)
Net amortization and deferral	0.4	-	1.8
Net periodic pension expense	\$ 2.8	\$ 4.0	\$ 9.5

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$195.6, \$180.1 and \$146.5, respectively, as of December 31, 2001, and \$116.4, \$108.5 and \$92.3, respectively, as of December 31, 2000. The prepaid benefit costs recognized in the consolidated balance sheets as of December 31, 2001 and 2000 were \$39.0 and \$18.0, respectively, and the accrued benefit liability recognized in the consolidated balance sheets as of December 31, 2001 and 2000 was \$17.4 and \$10.3, respectively.

The Company sponsors employee savings and profit sharing plans. Prior to 2001, the savings plan portion generally matched 75% of employee contributions up to 4% of compensation. Profit sharing contributions are based on the Company's performance and are at the discretion of the Board of Directors. Savings plan matching contributions were \$5.7, \$4.3 and \$4.6 for 2001, 2000 and 1999, respectively. Profit sharing contributions were approximately \$0, \$3.4 and \$3.6 in 2001, 2000 and 1999, respectively. Beginning in January 2001, the Company match for the savings plan was increased to 100% of employee contribution up to the first 3% of compensation and 50% on the next 2% of compensation for employees not covered by collective bargaining agreements.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company sponsors postretirement and postemployment benefit plans. The postretirement plans provide medical and life insurance benefits to retirees who meet minimum age and service requirements. The postemployment plans provide salary continuation, disability related benefits, severance pay and continuation of health costs during the period after employment but before retirement.

-18-

The following provides a reconciliation of postretirement benefit obligations, plan assets and funded status of the plans:

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

	2001	2000

Change in benefit obligation		
Benefit obligation at January 1	\$249.1	\$268.1
Service cost	1.4	1.3
Interest cost	18.1	19.8
Amendments	(9.4)	(19.4)
Translation difference	(0.1)	(0.1)
Actuarial loss	11.5	2.8
Employee contributions	1.5	1.0
Benefits paid	(24.4)	(24.4)

Benefit obligation at December 31	\$247.7	\$249.1

Change in plan assets		
Fair value of plan assets at January 1	\$ 72.8	\$ 54.4
Actual return on plan assets	1.9	2.8
Company contributions	21.5	39.0
Employee contributions	1.5	1.0
Benefits paid	(24.4)	(24.4)

Fair value of plan assets at December 31	\$ 73.3	\$ 72.8

Accumulated postretirement benefit obligation over fair value of plan assets	174.4	\$176.3
Unrecognized actuarial gain	30.4	44.3
Unrecognized negative prior service cost	73.1	71.2

Accrued postretirement benefit cost	\$277.9	\$291.8

The accrued postretirement benefit cost recognized in the Company's Consolidated Balance Sheets at December 31, 2001 and 2000, includes \$20.0 in accrued expenses and \$257.9 and \$271.8, respectively, in other noncurrent liabilities.

Net periodic postretirement benefit costs for the years ended December 31, 2001, 2000 and 1999, included the following components:

	2001	2000	1999

Service cost	\$ 1.4	\$ 1.3	\$ 1.4
Interest cost	18.1	19.8	17.3
Expected return on plan assets	(5.2)	(3.8)	(3.2)
Net amortization and deferral	(8.6)	(7.5)	(7.8)

Total cost	\$ 5.7	\$ 9.8	\$ 7.7

Measurement of the accumulated postretirement benefit obligations ("APBO") was based on actuarial assumptions, including a discount rate of 7.25%, 7.50% and 7.75% at December 31, 2001, 2000 and 1999, respectively, and an expected return on plan assets of 7.0% at December 31, 2001, 2000 and 1999. The assumed rate of future increases in the per capita cost of healthcare benefits (healthcare cost trend rate) is 7.0% in 2002, decreasing to ultimate trend of 5.5% in 2005. The healthcare cost trend rate has a significant effect on the reported amounts of APBO and related expense. For example, increasing the healthcare cost trend rate by one percentage point in each year would increase the APBO at December 31, 2001, and the 2001 aggregate service and interest cost

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

by approximately \$22.9 and \$1.8, respectively, and decreasing the healthcare cost trend rate by one percentage point in each year would decrease the APBO at December 31, 2001 and the 2001 aggregate service and interest cost by approximately \$20.8 and \$1.7, respectively.

-19-

13. OTHER FINANCIAL INFORMATION

Accrued expenses at December 31, 2001 and 2000, included the following:

	2001	2000
Pensions and other employee benefits	\$ 7.8	\$ 21.7
Other postretirement employee benefits	20.0	20.0
Salaries and wages	11.1	10.2
Environmental	20.0	20.0
Restructuring	4.6	9.9
Other	94.3	97.8
Total	\$157.8	\$179.6

Cash payments during the years ended December 31, 2001, 2000 and 1999, included interest of \$21.3, \$26.6 and \$27.8, respectively. Income taxes paid in 2001, 2000 and 1999 were \$33.1, \$37.6 and \$28.7, respectively. Income taxes paid include foreign taxes of \$16.8, \$20.8 and \$16.8 in 2001, 2000 and 1999, respectively.

Included in accounts receivable at December 31, 2001 and 2000, are miscellaneous receivables of approximately \$32.3 and \$55.2, respectively.

Included in interest expense, net, for the years ended December 31, 2001, 2000 and 1999, is interest income of \$3.0, \$3.5 and \$2.0, respectively.

Other income, net, was \$7.9, \$104.6 and \$9.3 for the years ended December 31, 2001, 2000 and 1999, respectively. Included in 2001 were gains of \$7.0 related to the sale of reclaimed land in Florida and the favorable settlement of a royalty issue concerning mineral rights associated with a former phosphate rock mining joint venture also in Florida. Included in 2000 was a gain of \$88.3 from the divestiture of the Paper Chemicals business (see also Note 2), a gain of \$13.3, discounted and net of expenses, from an insurance settlement with a group of insurance carriers for an environmental remediation coverage suit and a gain of \$7.1 related to the sale of real estate at a former plant site. Also included in 2000 is a charge of \$4.8 for the write-down of receivables due from the AC Moldings Compounds joint venture. Included in 1999 were pre-tax gains of \$4.5 from the sale of land, \$2.2 from royalty income and \$1.6 from the sale of certain product lines.

Acquisition intangibles, net of accumulated amortization, at December 31, 2001 and 2000, included the following:

	2001	2000
Goodwill	\$376.1	\$374.4
Less: accumulated amortization	(45.5)	(38.2)
Goodwill, net	330.6	336.2
Other intangibles	55.4	55.2

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Less: accumulated amortization	(9.9)	(7.0)

Other intangibles, net	45.5	48.2

Acquisition intangibles, net of accumulated amortization	\$376.1	\$384.4

Amortization expense related to goodwill and intangible assets was \$12.8, \$12.4 and \$11.2 for the years ended December 31, 2001, 2000 and 1999, respectively. On January 1, 2002, the Company adopted SFAS 142 and certain transition provisions of SFAS 141 (see Note 1). Application of these standards required that the Company assess its recorded intangibles, and effective January 1, 2002, reclassify to goodwill those intangibles which no longer meet the criteria for recognition apart from goodwill. The Company's acquisition intangibles, net of accumulated amortization, before and after such reclassifications was as follows:

	GOODWILL	INTANGIBLES	TOTAL

Before reclassifications:			
Water and Industrial			
Process Chemicals	\$ 31.3	\$ 3.8	\$ 35.1
Performance Products	49.1	26.7	75.8
Specialty Materials	250.2	15.0	265.2
Building Block Chemicals	-	-	-

Total	\$330.6	\$45.5	\$376.1

-20-

After reclassifications:			
Water and Industrial			
Process Chemicals	\$ 31.1	\$ 4.0	\$ 35.1
Performance Products	50.1	25.7	75.8
Specialty Materials	252.6	12.6	265.2
Building Block Chemicals	-	-	-

Total	\$333.8	\$42.3	\$376.1

14. COMMON STOCK

The Company is authorized to issue 150 million shares of common stock with a par value of \$.01 per share, of which 39,621,108 shares were outstanding at December 31, 2001. A summary of changes in common stock issued and treasury stock for the years ended December 31, 2001, 2000 and 1999, is presented below.

	Common Stock	Treasury stock

Balance at December 31, 1998	48,142,961	4,952,881
Purchase of treasury stock	-	1,784,045
Issuance pursuant to stock option plan	-	(148,693)
Award of performance stock and restricted stock	-	(84,903)

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Forfeitures and deferrals of stock awards	(10,321)	22,425
Issuance pursuant to warrant exercise	-	(7,745)
Adjustment to shares issued pursuant to acquisition	-	4,957

Balance at December 31, 1999	48,132,640	6,522,967
Purchase of treasury stock	-	2,161,700
Issuance pursuant to stock option plan	-	(636,047)
Award of performance stock and restricted stock	-	(114,272)
Forfeitures and deferrals of stock awards	-	31,881

Balance at December 31, 2000	48,132,640	7,966,229
Purchase of treasury stock	-	1,711,300
Issuance pursuant to stock option plan	-	(1,118,634)
Award of performance stock and restricted stock	-	(81,278)
Forfeitures and deferrals of stock awards	-	33,915

Balance at December 31, 2001	48,132,640	8,511,532

On November 2, 2000, the Company announced an authorization of \$100.0 to repurchase shares of its outstanding common stock. The repurchases will be made from time to time on the open market or in private transactions and will be utilized for stock option plans, benefit plans and other corporate purposes. Through December 31, 2001, the Company had repurchased 1,872,791 shares at a cost of \$57.8 under this authorization. See also Note 15.

STOCK AWARD AND INCENTIVE PLAN: The 1993 Stock Award and Incentive Plan (the "1993 Plan") is administered by a committee of the Board of Directors (the "Committee"). The 1993 Plan provides for grants of a variety of awards, such as stock options (including incentive stock options and nonqualified stock options), stock appreciation rights (including limited stock appreciation rights), restricted stock (including performance shares), restricted stock units, deferred stock awards and dividend equivalents, deferred cash awards and interest equivalents and other stock or cash-based awards, to be made to selected employees and independent contractors of the Company and its subsidiaries and affiliates at the discretion of the Committee. In addition, automatic formula grants of restricted stock and nonqualified stock options are awarded to non-employee directors. At December 31, 2001, the Company had reserved approximately 8,412,213 shares for issuance under the 1993 Plan.

The stock option component of the 1993 Plan provides for the granting of nonqualified stock options to officers, directors and certain key employees at 100% of the market price on the date the option is granted. Options are generally exercisable in cumulative installments of 33 1/3% per year commencing one year after the date of grant and annually thereafter, with contract lives of generally 10 years from the date of grant.

-21-

In the event of a "change of control" (as defined in the 1993 Plan), (i) any award under that Plan carrying a right to exercise that was not previously exercisable and vested will become fully exercisable and vested, (ii) the restrictions, deferral limitations, payment conditions and forfeiture applicable to any other award granted under the 1993 Plan will lapse and such awards will be deemed fully vested and (iii) any performance conditions imposed with respect to awards shall be deemed to be fully achieved.

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

In connection with the acquisition of The American Materials & Technologies Corporation ("AMT") in 1998, outstanding options and warrants to acquire AMT stock were converted into options and warrants to purchase 335,209 shares of the Company's common stock at a weighted average exercise price of \$10.48 per share.

A summary of the status of the Company's stock options as of December 31, 2001, 2000 and 1999, and changes during the years ended on those dates is presented below.

	2001		2000		
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Shares under option:					
Outstanding at beginning of year	6,484,300	\$21.68	6,239,406	\$20.28	5,270,000
Granted	938,655	33.54	981,143	24.70	1,190,000
Exercised	(1,118,634)	8.50	(636,047)	10.86	(1,400,000)
Forfeited	(53,587)	31.72	(100,202)	33.26	(80,000)
Outstanding at end of year	6,250,734	25.73	6,484,300	\$21.68	6,230,000
Options exercisable at end of year	4,382,219	\$24.59	4,632,637	\$20.16	4,400,000

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

Range of Exercise Prices	Options Outstanding Number	Options Outstanding Weighted Average Remaining Contractual Life (Years)	Options Outstanding Weighted Average Exercise Price	Options Outstanding
\$ 2.77-10.00	960,076	2.17	\$ 5.46	1,000,000
11.66-24.57	2,233,566	5.91	20.45	1,000,000
25.08-37.75	1,679,472	4.48	29.93	1,000,000
37.87-47.32	837,045	5.14	40.20	1,000,000
47.81-57.44	540,575	6.08	48.11	1,000,000
\$ 2.77-57.44	6,250,734	4.74	\$25.73	4,000,000

As provided under the 1993 Plan, the Company has also issued restricted stock and performance stock. Restricted shares are subject to certain restrictions on ownership and transferability that lapse upon vesting. Performance share payouts are based on the attainment of certain performance objectives related to the Company's financial performance and may vary depending on the degree to which the performance objectives are met. Performance shares

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

awarded in 1999, 2000 and 2001 relate to the 2001, 2002 and 2003 performance periods, respectively. The total amount of stock-based compensation expense (income) recognized for restricted stock and performance stock was (\$0.7) in 2001, \$3.5 in 2000 and \$1.4 in 1999. A summary of restricted stock and performance stock activity is as follows:

	2001	2000

Outstanding awards - beginning of year	244,161	156,386
New awards granted	81,278	114,272
Shares with restrictions lapsed(1)	(45,402)	(15,936)
Restricted shares forfeited	(14,714)	(10,561)

Outstanding awards - end of year	265,323	244,161

Weighted average market value of new awards on award date	\$33.44	\$24.68

- (1) Shares with restrictions lapsed in each period above include shares deferred by certain participants. The Company issued these participants equivalent deferred stock awards that will be distributed in the form of shares of common stock, generally, following termination of employment.

-22-

The compensation costs that have been charged against income for restricted stock and performance stock awards have been noted above. Set forth below are the Company's net earnings and earnings per share, presented both "as reported" and "pro forma," as if compensation cost had been determined consistent with the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

	2001	2000	1999

Net earnings :			
As reported	\$71.1	\$177.6	\$121.3
Pro forma	62.2	171.2	111.5
Basic earnings per share:			
As reported	\$1.77	\$ 4.34	\$ 2.83
Pro forma	1.55	4.18	2.60
Diluted earnings per share:			
As reported	\$1.71	\$ 4.15	\$ 2.73
Pro forma	1.50	4.02	2.53

The effects of applying SFAS 123 in this pro forma disclosure are not necessarily indicative of future amounts.

The fair value of each stock option granted during 2001, 2000 and 1999 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2001	2000	1999

Expected life (years)	5.7	6.0	6.0

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Expected volatility	44.14%	41.47%	43.47%
Expected dividend yield	-	-	-
Risk-free interest rate	4.672%	5.142%	6.58%
Weighted average fair value of options granted during the year	\$16.07	\$11.92	\$10.95

In 1995, the Company implemented a stock appreciation plan for all eligible active employees not eligible to participate in the stock option program. In December 1996 a payout of 25% of the total maximum payout was made and a second 25% payout was made in December 1997. In August 2000, a final payout of one thousand dollars per participant (\$2.8 in aggregate) was made.

15. PREFERRED STOCK

The Company is authorized to issue 20 million shares of preferred stock with a par value of \$.01 per share in one or more classes or series with rights and privileges as adopted by the Board of Directors. As of December 17, 1993, the Company had issued to American Cyanamid Company ("Cyanamid"), a wholly owned subsidiary of Wyeth, formerly known as American Home Products Corporation, eight million shares of preferred stock, of which only the Series C Stock remains outstanding.

The Series C Stock, of which 4,000 shares are issued and outstanding, is perpetual, has a liquidation and redemption value of \$0.1, has an annual dividend of \$1.83 per share (7.32%) and is redeemable at the Company's option under certain limited circumstances. Shares of Series C Stock are not transferable except to a subsidiary of Cyanamid. In 2001, Cyanamid transferred the Series C stock to MDP Holdings, Inc., its wholly owned subsidiary. The Series C Stock provides MDP Holdings, Inc. with the right to elect one director to the Company's Board of Directors and contains certain covenants requiring the Company to satisfy its environmental remediation obligations, retiree health care and life insurance obligations and certain pension contribution obligations in a timely and proper manner. It also contains certain other covenants requiring the Company to maintain specified financial ratios and restricting the Company from taking certain actions, including paying dividends on its common stock in certain circumstances, merging or consolidating or selling all or substantially all of the Company's assets or incurring indebtedness in violation of certain covenants, without the consent of MDP Holdings, Inc. as the holder of the Series C Stock. In the event that the Company fails to comply with certain of such covenants, MDP Holdings, Inc., as the holder of the Series C Stock, will have additional rights which may include approval of the Company's capital expenditures and in certain more limited circumstances, appointing additional directors to the Company's Board of Directors, which together with MDP Holdings, Inc.'s existing representative, would constitute a majority of the Company's Board of Directors.

-23-

Under the terms of the Series C stock, the Company must maintain a debt-to-equity ratio of no more than 2-to-1 and a minimum fixed charge coverage ratio of not less than 3-to-1 for the average of the fixed charge coverage ratios for the four consecutive fiscal quarters most recently ended and must not incur more than \$150.0 of debt unless the Company's equity is in excess of \$200.0. If the Company has more than \$200.0 in equity, then it may incur additional debt as long as its ratio of debt-to-equity is not more than 1.5-to-1. At December 31, 2001, the Company had \$321.1 of debt and \$636.8 of equity as defined in the Series C Stock covenant and, under the revised terms, would have the ability to incur up to an additional \$634.1 in debt.

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

On January 22, 1999, the Company signed an agreement with Cyanamid providing that Cyanamid and its transferees would irrevocably waive certain financial covenants contained in the Series C Stock so that, in addition to restricted payments otherwise permitted under the Series C Stock, the Company may make up to \$100.0 in special restricted payments solely for the purpose of repurchasing its common stock. During November 2000, the Company completed the share repurchases under this authorization. The Company repurchased a total of 3,784,254 shares of its outstanding common stock under this authorization.

At December 31, 2001 and 2000, restricted payments permitted under the Series C Stock were limited to \$88.5 and \$109.9, respectively. Restricted payments include, but are not limited to, payments of dividends on common stock, payments for the repurchase of common stock outstanding and payments on certain classes of debt.

16. EARNINGS PER SHARE

The following represents the reconciliation of the numerators and denominators of the basic and diluted EPS computations for net earnings available for common stockholders for the years ended December 31, 2001, 2000 and 1999:

	2001			2000		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount

BASIC EPS						
Earnings before extraordinary item	\$66.2		\$1.65	\$177.6		\$4.34
Extraordinary gain, net of tax	4.9	40,203,975	0.12	-	40,920,647	-
	-----		-----	-----		-----
Net earnings	\$71.1		\$1.77	\$177.6		\$4.34

Effect of dilutive securities						
Options		1,240,592			1,716,746	
Performance/ Restricted stock		139,921			100,853	
Warrants		5,593			6,970	
Put options		657			-	
Diluted EPS						

Earnings before extraordinary item	\$66.2		\$1.59	\$177.6		\$4.15
Extraordinary gain, net of tax	4.9	41,590,738	0.12	-	42,745,216	-
	-----		-----	-----		-----
Net earnings	\$71.1		\$1.71	\$177.6		\$4.15

At December 31, 2001, there were 2,418,087 options outstanding with weighted average exercise prices of \$38.83 that were excluded from the above calculation

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

because their inclusion would have had an antidilutive effect on EPS.

17. OPERATIONS BY BUSINESS SEGMENT AND GEOGRAPHIC AREAS

BUSINESS SEGMENTS: The Company has four reportable segments: Water and Industrial Process Chemicals, Performance Products, Specialty Materials and Building Block Chemicals.

The Water and Industrial Process Chemicals segment produces water treating, mining, and phosphine chemicals that are used mainly in water and wastewater treatment and mineral processing and separation manufacturing. The segment includes the Paper Chemicals business, which was substantially divested on November 1, 2000. For more information about the sale of the paper chemicals business see Note 2. The Performance Products segment produces coatings and performance chemicals and polymer additives that are used primarily in coatings, adhesives and plastics applications. The Specialty Materials segment manufactures and sells materials that are used mainly in commercial and military aviation and launch vehicles, satellites and aircraft brakes. The Building Block Chemicals segment manufactures acrylonitrile, acrylamide, hydrocyanic acid, melamine and sulfuric acid. Some of these chemical intermediates are used in the manufacture of the Company's specialty chemicals, with the remainder sold to third parties.

-24-

The accounting policies of the reportable segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements. All intersegment sales prices are cost based. The Company evaluates the performance of its operating segments based on earnings from operations and cash flows of the respective segment.

Summarized segment information for the years 2001, 2000 and 1999 is as follows:

	Water and Industrial Process Chemicals	Performance Products	Specialty Materials	Building Block Chemicals	To Se

2001					
Net sales to external customers	\$335.0	\$434.7	\$450.2	\$167.2	\$1
Intersegment net sales	-	-	-	48.6	

Total net sales	335.0	434.7	450.2	215.8	1
Earnings (loss) from operations	25.7	16.3	95.9	(18.7)	
Percentage of sales	7.7%	3.7%	21.3%	(8.7)%	
Total assets	241.5	384.8	487.3	226.2	1
Capital expenditures	22.0	16.0	8.5	13.3	
Depreciation and amortization	17.5	29.2	16.9	27.3	

2000					
Net sales to external customers	\$403.1	\$474.0	\$411.6	\$203.8	\$1
Intersegment net sales	-	-	-	63.4	
Total net sales	403.1	474.0	411.6	267.2	1
Earnings from operations	40.2	56.8	85.9	12.7	
Percentage of sales	10.0%	12.0%	20.9%	4.8%	
Total assets	256.3	434.1	487.0	260.3	1
Capital expenditures	28.3	16.5	8.2	20.1	

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Depreciation and amortization	18.9	30.7	17.6	25.6	

1999					
Net sales to external customers	\$387.5	\$449.8	\$435.7	\$171.5	\$1
Intersegment net sales	-	-	-	42.0	

Total net sales	387.5	449.8	435.7	213.5	1
Earnings from operations	43.5	51.6	84.9	6.1	
Percentage of sales	11.2%	11.5%	19.5%	2.9%	
Total assets	267.3	436.1	494.4	245.1	1
Capital expenditures	19.0	18.8	13.9	20.0	
Depreciation and amortization	18.3	30.5	17.7	27.0	

The following table provides a reconciliation of selected segment information to corresponding amounts contained in the Company's Consolidated Financial Statements:

	2001	2000	1999

Net sales:			
Net sales from			
reportable segments	\$1,435.7	\$1,555.9	\$1,486.5
Elimination of			
intersegment revenue	(48.6)	(63.4)	(42.0)

Total consolidated net sales	\$1,387.1	\$1,492.5	\$1,444.5

Earnings from operations:			
Earnings from			
reportable segments	\$ 119.2	\$ 195.6	\$ 186.1
Corporate unallocated(1)	(6.5)	(19.0)	(1.1)

Total consolidated			
earnings from operations	\$ 112.7	\$ 176.6	\$ 185.0

Total assets:			
Assets from			
reportable segments	\$1,339.8	\$1,437.7	
Other assets	310.6	283.9	

Total consolidated assets	\$1,650.4	\$1,721.6	

(1) Includes net restructuring and other charges (see Note 3).

-25-

OPERATIONS BY GEOGRAPHIC AREAS: Net sales to unaffiliated customers presented below are based upon the sales destination that is consistent with management's view of the business. U.S. exports included in net sales are based upon the sales destination and represent direct sales of U.S.-based entities to unaffiliated customers outside of the United States. Earnings from operations are also based upon destination and consist of total net sales less operating expenses. Identifiable assets are those assets used in the Company's operations in each geographic area. Unallocated assets are primarily miscellaneous receivables, construction in progress and cash and cash equivalents.

	2001	2000	1999

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

Net sales			
United States	\$ 736.9	\$ 798.8	\$ 816.0
Other Americas	151.0	163.8	141.3
Asia/Pacific Rim	170.7	193.4	152.9
Europe, Mideast, Africa	328.5	336.5	334.3

Total	\$1,387.1	\$1,492.5	\$1,444.5

U.S. exports included in net sales above			
Other Americas	\$ 50.7	\$ 47.5	\$ 44.2
Asia/Pacific Rim	80.6	95.2	67.0
Europe, Mideast, Africa	54.0	46.1	42.2

Total	\$ 185.3	\$ 188.8	\$ 153.4

Earnings from operations(1)			
United States	\$ 26.3	\$ 77.3	\$ 88.9
Other Americas	29.6	31.1	26.6
Asia/Pacific Rim	20.1	25.3	12.7
Europe, Mideast, Africa	36.7	42.9	56.8

Total	\$ 112.7	\$ 176.6	\$ 185.0

Identifiable assets			
United States	\$ 904.4	\$ 945.8	\$ 958.8
Other Americas	128.5	139.6	144.2
Asia/Pacific Rim	25.6	29.5	30.2
Europe, Mideast, Africa	210.0	204.1	204.7

Total	\$1,268.5	\$1,319.0	\$1,337.9

Investment in			
associated companies	92.6	94.8	146.4
Unallocated assets	289.3	307.8	266.2

Total assets	\$1,650.4	\$1,721.6	\$1,750.5

(1) Earnings from operations in 2001 includes restructuring charges of \$5.4 in the United States. Earnings from operations in 2000 includes net restructuring and other charges of \$8.4, \$0.3 and \$2.8 in the United States, Other Americas and Europe, respectively.

MAJOR CUSTOMERS: Sales to Boeing Company and its subcontractors for commercial and military aerospace and other components were approximately \$149.5, or 10.8% of consolidated net sales, in 2001; approximately \$153.4, or 10.3% of consolidated net sales, in 2000 and approximately \$176.5, or 12.2% of consolidated net sales, in 1999. Sales to Boeing Company and subcontractors are included in the Specialty Materials operating segment.

-26-

MANAGEMENT STATEMENT

Your management has prepared and is responsible for the accompanying Consolidated Financial Statements. These statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances and necessarily include some amounts based on management's estimates and judgments. All financial information in this

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

annual report is consistent with that in the Consolidated Financial Statements.

The Company's accounting systems include internal controls designed to provide reasonable assurance of the reliability of its financial records and the proper safeguarding and use of its assets. Such controls are based on established policies and procedures and are implemented by trained, skilled personnel with an appropriate segregation of duties. The internal controls are complemented by the Company's internal audit function which conducts regular and extensive internal audits.

The Company's independent auditors, KPMG LLP, have audited the Consolidated Financial Statements. They have indicated in their report that their audits were conducted in accordance with auditing standards generally accepted in the United States of America.

The Board of Directors exercises its responsibility for these Consolidated Financial Statements through its Audit Committee, composed solely of nonmanagement directors, which meets periodically with management, the internal auditors and the independent auditors to review internal accounting control, auditing and financial reporting matters. The independent auditors and representatives of the internal auditor function have full and free access to the Audit Committee.

David Lilley
Chairman, President and Chief Executive Officer

James P. Cronin
Executive Vice President and Chief Financial Officer

West Paterson, New Jersey
January 22, 2002

-27-

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders,
Cytec Industries Inc.:

We have audited the accompanying consolidated balance sheets of Cytec Industries Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

present fairly, in all material respects, the financial position of Cytec Industries Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 2 to the consolidated financial statements, effective July 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations."

KPMG LLP

Short Hills, New Jersey
January 22, 2002

-28-

QUARTERLY DATA (UNAUDITED)

(Dollars in millions, except per share amounts)	1Q	2Q	3Q
<hr/>			
2001			
Net Sales	\$376.1	\$354.1	\$342.1
Gross profit (1)	81.9	84.9	85.0
Earnings before extraordinary item	17.2	20.9	21.3
Extraordinary item, net of taxes	-	-	4.9
Net earnings	17.2	20.9	26.2
Basic net earnings per common share(2)			
Earnings before extraordinary item	\$.43	\$.52	\$.53
Extraordinary item	-	-	.12
Basic net earnings per common share	\$.43	\$.52	\$.65
Diluted net earnings per common share(2)			
Earnings before extraordinary item	\$.41	\$.50	\$.51
Extraordinary item	-	-	.12
Diluted net earnings per common share	\$.41	\$.50	\$.63
<hr/>			
2000			
Net Sales	\$368.8	\$389.1	\$376.2
Gross profit(1)	103.9	108.4	104.1
Net earnings	32.1	40.7	27.8
Basic net earnings per common share(2)	\$.77	\$.99	\$.68
Diluted net earnings per common share(2)	\$.74	\$.95	\$.65

(1) Gross profit is derived by subtracting manufacturing cost of sales from net sales.

(2) The sum of the quarters may not equal the full year basic and diluted earnings per share since each period is calculated separately.

-29-

Edgar Filing: CYTEC INDUSTRIES INC/DE/ - Form 10-K/A

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

(Registrant)

DATE: July 29, 2002

/s/ J.P. Cronin

J. P. Cronin, Executive Vice President,
Chief Financial and Accounting Officer

-30-

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
23	Consent of KPMG LLP

-31-