CYTEC INDUSTRIES INC/DE/
Form 10-Q
July 20, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
Commission file number 1-12372

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

Delaware (State or other jurisdiction of incorporation or organization)	22-3268660 (I.R.S. Employer Identification No.)
Five Garret Mountain Plaza Woodland Park, New Jersey (Address of principal executive offices)	07424 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definition of “accelerated filer, large accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨	Small reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
There were 71,456,656 shares of common stock outstanding at July 13, 2015.

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES
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PART I – FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS
CYTEC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$508.2	$527.1	$1,023.2	$1,016.2
Manufacturing cost of sales	342.7	347.1	713.7	676.2
Selling and technical services	36.2	37.5	71.5	74.3
Research and process development	12.0	12.4	24.4	25.2
Administrative and general	28.3	32.9	60.5	62.3
Amortization of acquisition intangibles	3.5	3.7	6.9	7.3
Earnings from operations	85.5	93.5	146.2	170.9
Other expense, net	1.8	—	1.5	0.5
Interest expense, net	3.9	3.0	7.6	6.2
Earnings from continuing operations before income taxes	79.8	90.5	137.1	164.2
Income tax provision	23.6	28.0	38.4	45.8
Earnings from continuing operations	56.2	62.5	98.7	118.4
Net (loss) gain on sale of discontinued operations, net of tax	(1.5)	11.1	(1.5)	11.1
(Loss) earnings from discontinued operations, net of tax	(1.5)	11.1	(1.5)	11.1
Net earnings	$54.7	$73.6	$97.2	$129.5
Comprehensive income	$72.8	$82.4	$58.8	$132.0
Earnings (loss) per share:				
Basic earnings (loss) per common share:				
Continuing operations	$0.78	$0.86	$1.37	$1.64
Discontinued operations	(0.02)	0.16	(0.02)	0.16
	$0.76	$1.02	$1.35	$1.80
Diluted earnings (loss) per common share:				
Continuing operations	$0.77	$0.85	$1.35	$1.61
Discontinued operations	(0.02)	0.15	(0.02)	0.15
	$0.75	$1.00	$1.33	$1.76
Dividends per common share	$0.125	$0.063	$0.25	$0.125

See accompanying Notes to Consolidated Financial Statements

CYTEC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in millions, except per share amounts)

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$123.2	$133.9
Trade accounts receivable, less allowance for doubtful accounts of $3.6 and $3.8 at June 30, 2015 and December 31, 2014, respectively	292.8	265.1
Other accounts receivable	74.4	74.6
Inventories	297.5	307.6
Deferred income taxes	34.1	27.4
Other current assets	31.5	26.2
Total current assets	853.5	834.8
Plants, equipment and facilities, at cost	1,694.5	1,680.8
Less: accumulated depreciation	(581.2)	(559.4)
Net plant investment	1,113.3	1,121.4
Acquisition intangibles, net of accumulated amortization of $77.5 and $70.8 at June 30, 2015 and December 31, 2014, respectively	134.2	141.6
Goodwill	507.3	508.8
Deferred income taxes	35.0	41.2
Other assets	133.1	119.4
Total assets	$2,776.4	$2,767.2
Liabilities		
Current liabilities		
Accounts payable	$166.5	$172.4
Current maturities of long-term debt	1.5	1.2
Accrued expenses	156.4	184.6
Income taxes payable	8.3	8.4
Deferred income taxes	0.4	0.3
Total current liabilities	333.1	366.9
Long-term debt	740.3	741.7
Pension and other postretirement benefit liabilities	235.2	245.9
Other noncurrent liabilities	166.1	170.3
Deferred income taxes	32.5	31.4
Stockholders’ equity		
Preferred stock, 20,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value per share, 150,000,000 shares authorized; issued 99,805,710 at June 30, 2015 and 99,772,436 at December 31, 2014	1.0	1.0
Additional paid-in capital	477.8	474.2
Retained earnings	1,778.9	1,699.6
Accumulated other comprehensive (loss) income	(25.3)	13.1
Treasury stock, at cost, 28,355,537 shares at June 30, 2015 and 28,732,931 shares at December 31, 2014	(963.2)	(976.9)
Total stockholders’ equity	1,269.2	1,211.0
Total liabilities and stockholders’ equity	$2,776.4	$2,767.2

See accompanying Notes to Consolidated Financial Statements

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in millions)

	Six Months Ended June 30, 2015	2014
Cash flows provided by (used in) operating activities		
Net earnings	$97.2	$129.5
(Loss) earnings from discontinued operations, net of tax	(1.5)	11.1
Net earnings from continuing operations	98.7	118.4
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Depreciation	35.3	30.5
Amortization	8.7	9.0
Share-based compensation	6.6	6.3
Deferred income taxes	3.0	11.2
Pension and postretirement benefit (income) expense	(1.5)	0.5
Contributions to pension and postretirement plans	(7.3)	(6.1)
Non-cash loss on disposal of assets	0.9	1.8
Unrealized (gain) loss on foreign currency forward contracts	(3.5)	1.3
Changes in operating assets and liabilities:		
Trade accounts receivable	(41.3)	(41.0)
Other receivables	3.0	(0.6)
Inventories	5.0	(36.5)
Other assets	(4.2)	1.8
Accounts payable	2.8	40.8
Accrued expenses	(27.5)	(14.3)
Income taxes payable	(8.1)	(9.5)
Other liabilities	(0.1)	(8.6)
Net cash provided by operating activities of continuing operations	70.5	105.0
Net cash (used in) provided by operating activities of discontinued operations	(1.7)	0.3
Net cash provided by operating activities	68.8	105.3
Cash flows used in investing activities:		
Additions to plants, equipment and facilities	(64.3)	(121.6)
Other investing activities, net	—	(0.1)
Net cash used in investing activities	(64.3)	(121.7)
Cash flows provided by (used in) financing activities:		
Proceeds from long-term debt	—	0.3
Payments on long-term debt	(0.6)	(0.3)
Cash dividends	(17.8)	(8.9)
Proceeds from the exercise of stock options	7.7	9.9
Excess tax benefits from share-based payment arrangements	2.7	4.4
Net cash (used in) provided by financing activities	(8.0)	5.4
Effect of currency rate changes on cash and cash equivalents	(7.2)	(0.6)
Decrease in cash and cash equivalents	(10.7)	(11.6)
Cash and cash equivalents, beginning of period	133.9	151.8
Cash and cash equivalents, end of period	$123.2	$140.2

See accompanying Notes to Consolidated Financial Statements

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CYTEC INDUSTRIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Currencies in millions, except per share amounts, unless otherwise indicated)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting on Form 10-Q and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted pursuant to such rules and regulations.

Financial statements prepared in accordance with U.S. GAAP require management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and other disclosures. In the opinion of management, these condensed consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position and the results of our operations and cash flows for the interim periods presented.

The results of operations for any interim period are not necessarily indicative of the results of operations for the full year. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in the Company's 2014 Annual Report on Form 10-K. Unless indicated otherwise, the terms "Company," "Cytec," "we," "us," and "our" each refer collectively to Cy Industries Inc. and its subsidiaries.

Except for the number of authorized shares and par value, all references to shares and per share data for all periods presented herein reflect the impact of the 2-for-1 stock split in the form of a stock dividend which was effective in September 2014, as discussed in Note 17 of our 2014 Form 10-K.

Reclassifications

Certain amounts reported for prior years in the unaudited consolidated financial statements and accompanying notes have been reclassified to conform to the current year's presentation.

2. NEW ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The guidance provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting of other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. The update is effective for reporting periods beginning after December 15, 2015 and for interim periods within those fiscal years, with early adoption permitted. Entities have the option of applying either a full retrospective approach to all periods presented or a prospective approach to all arrangements entered into or materially modified after the effective date. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU will require the presentation of debt issuance costs in financial statements as a direct reduction of related debt liabilities with amortization of debt issuance costs reported as interest expense. Under current U.S. GAAP standards, debt issuance costs are reported as deferred charges (i.e., as assets). ASU 2015-03 is effective for annual periods, and interim periods within those fiscal years, beginning after December 15, 2015 and is to be applied retrospectively upon adoption. Early adoption is permitted, including adoption in an interim period for financial statements that have not been previously issued. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This guidance focuses on a reporting company's consolidation evaluation to determine whether they should consolidate certain legal entities. This guidance is effective for annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements, but do not anticipate it will be material.

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In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” which will supersede current revenue recognition guidance in Accounting Standards Codification Topic 605, “Revenue Recognition.” The new standard is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and clarify guidance for multiple-element arrangements. In July 2015, the FASB voted to delay the effective date of the standard by one year to the first quarter of 2018 to provide companies sufficient time to implement the standard. Early adoption will be permitted, but not before the first quarter of 2017. Adoption can occur using one of two prescribed transition methods. We have not yet selected a transition method and continue to evaluate the impact this guidance, as well as amendments to the guidance that have been proposed by the FASB, will have on our future consolidated financial statements and related disclosures.

3. DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

The following tables display summarized activity in our consolidated statements of income for discontinued operations during the three and six months ended June 30, 2015 and 2014 related to our former Coating Resins (“Coatings”) business and other divestitures.

	Three Months Ended June 30,			
	2015		2014	
	Coatings	Total	Coatings	Total
(Loss) gain on sale of discontinued operations	$(2.3)	$(2.3)	$0.5	$0.5
Income tax benefit on (loss) gain on sale	0.8	0.8	10.6	10.6
(Loss) earnings from discontinued operations, net of tax	$(1.5)	$(1.5)	$11.1	$11.1

	Six Months Ended June 30,				
	2015		2014		
	Coatings	Total	Coatings	Pre-Acquisition Umeco	Total
(Loss) gain on sale of discontinued operations	$(2.3)	$(2.3)	$(3.6)	$3.6	$—
Income tax benefit on (loss) gain on sale	0.8	0.8	11.1	—	11.1
(Loss) earnings from discontinued operations, net of tax	$(1.5)	$(1.5)	$7.5	$3.6	$11.1

Discontinued operations

Coating Resins

On April 3, 2013, we completed the divestiture of our remaining Coatings business to Advent International (“Advent”), a global private equity firm. In connection with the sale of the business to Advent, we agreed to retain certain liabilities, including liabilities for U.S. pension and other postretirement benefits and certain tax liabilities related to taxable periods (or portions thereof) ending on or before April 3, 2013. For both the three and six months ended June 30, 2015, we recorded after-tax losses of $1.5 related to the sale of Coatings, of which $0.1 was for these tax liabilities and $1.4 of additional costs of exiting a former Coatings facility. During the three and six months ended June 30, 2014, we recorded after-tax benefits of $0.5 and charges of $1.3, respectively, related to certain of these tax liabilities. Additionally, in the three and six months ended June 30, 2014, we recorded tax benefits of $10.6 and $11.1, respectively, based on our best estimate of the purchase price allocation attributable to the Coatings business sold in various taxing jurisdictions. For the six months ended June 30, 2014, we also incurred after-tax charges of approximately $2.3 for purchase price and working capital adjustments related to the sale. These after-tax losses and gains are included in Net (loss) gain on sale of discontinued operations, net of tax in the consolidated statements of income. The final price paid and loss on sale remains subject to final working capital and other customary adjustments.

As of June 30, 2015, the final working capital adjustment on the Coatings divestiture transaction is in dispute. We believe we will recover the net amount we have recorded with respect to the final working capital adjustment.

Other divestitures

Former Umeco entities divested prior to our acquisition

As part of our acquisition accounting for Umeco in 2012, we established reserves related to income tax and value added tax liabilities of an entity that had been divested by Umeco in 2011, for periods that were under audit prior to it its divestiture. We

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continued to accrue interest through the end of 2013. In the first quarter of 2014, we agreed to a settlement for audit periods through March 31, 2009, which resulted in a benefit of approximately $3.6. The benefit is included in Net (loss) gain on sale of discontinued operations, net of tax in the consolidated statement of income for the six months ended June 30, 2014.

4. RESTRUCTURING OF OPERATIONS

In accordance with our accounting policy, restructuring costs are included in our Corporate and Unallocated operating results for segment reporting purposes, which is consistent with management's view of its businesses. Aggregate pre-tax restructuring charges included in the consolidated statements of income were recorded by line item as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Manufacturing cost of sales	$0.3	$0.1	$1.4	$0.3
Selling and technical services	0.1	—	0.4	—
Administrative and general	(0.3)	0.2	1.9	0.1
Total	$0.1	$0.3	$3.7	$0.4

Details of our 2015 restructuring initiatives are as follows:

During the first quarter of 2015, we approved plans to realign the supporting structure of all our segments and across various functions to take advantage of synergies from the ongoing implementation of our single, global enterprise resource planning ("ERP") system. These plans resulted in a restructuring charge of $3.5 for severance related to the elimination of approximately 55 positions. The initiative is expected to be completed by the end of 2016. During the second quarter of 2015, we recorded a favorable adjustment of $0.1 to the 2015 restructuring initiatives. The remaining reserve relating to the 2015 restructuring initiatives at June 30, 2015 is $1.9.

Updates to our 2013 restructuring initiatives are as follows:

During the first six months of 2015, we recorded a net adjustment of $0.3 to the 2013 restructuring initiatives. The remaining reserve relating to the 2013 restructuring initiatives at June 30, 2015 is $1.0.

Updates to our 2012 restructuring initiatives are as follows:

The remaining reserve relating to the 2012 restructuring initiatives at June 30, 2015 is $2.1.

Following are the changes in the restructuring reserve balance through the first six months of 2015:

Restructuring Initiatives:	2012	2013	2015	Total
Balance at December 31, 2013	$4.8	$1.8	$—	$6.6
2014 (credits) charges	(0.4)	1.4	—	1.0
Non-cash items [(1)]	—	(0.5)	—	(0.5)
Cash payments	(1.2)	(0.9)	—	(2.1)
Balance at December 31, 2014	$3.2	$1.8	$—	$5.0
First quarter charges	0.1	—	3.5	3.6
Non-cash items[(1)]	—	(0.1)	—	(0.1)
Cash payments	(0.9)	(0.1)	(1.0)	(2.0)
Balance at March 31, 2015	$2.4	$1.6	$2.5	$6.5
Second quarter (credits) charges	(0.1)	0.3	(0.1)	0.1
Non-cash items[(1)]	—	(0.3)	—	(0.3)
Cash payments	(0.2)	(0.6)	(0.5)	(1.3)
Balance at June 30, 2015	$2.1	$1.0	$1.9	$5.0

(1) Includes accelerated depreciation of plant assets at our California sites.

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5. SHARE-BASED COMPENSATION

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

The weighted average assumptions for the six months ended June 30, 2015 and 2014 are noted in the following table:

	Six Months Ended June 30,	
	2015	2014
Expected life (years)	6.2	6.3
Expected volatility	30.4 %	34.6 %
Expected dividend yield	1.03 %	0.63 %
Risk-free interest rate	2.31 %	3.00 %
Weighted-average fair value per option	$14.40	$16.40

The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the combination of implied market volatility and our historical volatility. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. As share-based compensation recognized in the consolidated statements of income is based on awards ultimately expected to vest, we incorporate the probability of pre-vesting forfeiture in determining the number of expected vested options. The forfeiture rate is based on the historical forfeiture experience and prospective actuarial analysis.

Stock Award and Incentive Plan

The 1993 Stock Award and Incentive Plan, as amended on September 17, 2014, (the “1993 Plan” or “Amended Plan”) provides for grants of a variety of awards, such as stock options (including incentive stock options and nonqualified stock options), nonvested stock (including performance stock), SARS (including those settled with common shares) and deferred stock awards and dividend equivalents.

At June 30, 2015, there were approximately 7,500,000 shares reserved for issuance under the 1993 Plan, inclusive of approximately 3,600,000 shares reserved for issuance for all outstanding share-based compensation grants.

Stock options and stock-settled SARS

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

A summary of stock options and stock-settled SARS activity for the six months ended June 30, 2015 is presented below:

Options and Stock-Settled SARS Activity:	Number of Units	Weighted Average Exercise Price Per Unit	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	2,996,794	$28.84		
Granted	565,408	44.69		
Exercised	(366,079)	26.44		
Forfeited	(13,838)	43.22		
Outstanding at June 30, 2015	3,182,285	$31.88	6.5	$91.2
Exercisable at June 30, 2015	2,066,881	$25.72	5.2	$72.0

During the six months ended June 30, 2015, we granted 565,408 stock options. The weighted-average grant-date fair value of the stock options granted during the six months ended June 30, 2015 and 2014 was $14.40 and $16.40 per share, respectively.

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Total pre-tax compensation cost related to stock option and stock-settled SARS was $2.4 and $2.3 for the three months ended June 30, 2015 and 2014, respectively, and $4.4 and $4.3 during the six months ended June 30, 2015 and 2014, respectively. The total intrinsic value of stock options and stock-settled SARS exercised during the six months ended June 30, 2015 and 2014 was $9.2 and $23.4, respectively. Treasury shares and newly issued shares have been utilized for stock option and stock-settled SARS exercises.

As of June 30, 2015, there was $9.4 of total unrecognized compensation cost related to stock options and stock-settled SARS. That cost is expected to be recognized over a weighted-average period of 1.3 years as th