Chemtura CORP
Form 10-Q
November 13, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

(Commission File Number) **1-15339**

CHEMTURA CORPORATION
(Exact name of registrant as specified in its charter)

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

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

(Former name, former address and former fiscal year, if changed from last report)

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.

x Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

The number of shares of common stock outstanding as of the latest practicable date is as follows:

Class	**Number of shares outstanding at September 30, 2006**
Common Stock - $.01 par value	240,675,031

CHEMTURA CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2006

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements and Accompanying Notes

CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)
Quarter and nine months ended September 30, 2006 and 2005
(*In thousands of dollars, except per share data*)

	Quarter ended 2006	2005	Nine months ended 2006	2005
Net sales	$ 917,011	$ 918,416	$ 2,849,095	$ 2,110,475
Cost of products sold	698,201	703,353	2,123,248	1,546,085
Selling, general and administrative	103,546	101,865	307,295	227,772
Depreciation and amortization	50,943	46,244	148,261	104,107
Research and development	16,593	15,582	49,115	36,565
Facility closures, severance and related costs	863	220	(1,913)	24,295
Antitrust costs	25,669	6,716	70,752	13,220
Merger costs	1,102	19,378	15,892	28,064
In-process research and development		75,400		75,400
(Gain) loss on sale of businesses, net	(113)		12,362	
Income related to sale of Gustafson joint venture	(1,500)		(1,500)	
Impairment of non-current assets	74,653		80,263	
Equity income	(1,074)	(602)	(1,545)	(776)
Operating profit (loss)	(51,872)	(49,740)	46,865	55,743
Interest expense	22,401	29,171	80,871	77,886
Loss on early extinguishment of debt	24,348	10,859	43,897	10,859
Other expense (income), net	3,129	1,923	(2,385)	7,572
Loss from continuing operations before income taxes	(101,750)	(91,693)	(75,518)	(40,574)
Income tax expense (benefit)	(15,933)	28,592	(3,326)	51,308
Loss from continuing operations	(85,817)	(120,285)	(72,192)	(91,882)
Earnings (loss) from discontinued operations		(25)		2,631
Gain (loss) on sale of discontinued operations	45,925	1,388	45,925	(26,234)
Net loss	$ (39,892)	$ (118,922)	$ (26,267)	$ (115,485)
Basic earnings (loss) per common share:				
Loss from continuing operations	$ (0.36)	$ (0.51)	$ (0.30)	$ (0.58)
Earnings (loss) from discontinued operations				0.02
Gain (loss) on sale of discontinued operations	0.19	0.01	0.19	(0.17)
Net loss	$ (0.17)	$ (0.50)	$ (0.11)	$ (0.73)
Diluted earnings (loss) per common share:				
Loss from continuing operations	$ (0.36)	$ (0.51)	$ (0.30)	$ (0.58)
Earnings (loss) from discontinued operations				0.02
Gain (loss) on sale of discontinued operations	0.19	0.01	0.19	(0.17)
Net loss	$ (0.17)	$ (0.50)	$ (0.11)	$ (0.73)
Dividends per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

See accompanying notes to condensed consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
September 30, 2006 (Unaudited) and December 31, 2005
(*In thousands of dollars*)

	September 30, 2006	**December 31, 2005**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 127,324	$ 138,556
Accounts receivable	308,183	547,857
Inventories	678,796	661,617
Other current assets	232,939	193,570
Total current assets	1,347,242	1,541,600
NON-CURRENT ASSETS		
Property, plant and equipment, net	1,142,600	1,192,335
Cost in excess of acquired net assets	1,188,967	1,211,459
Intangible assets, net	567,122	620,677
Other assets	372,586	419,932
	$ 4,618,517	$ 4,986,003
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 49,929	$ 60,168
Accounts payable	267,233	310,485
Accrued expenses	407,675	444,336
Income taxes payable	134,013	160,700
Total current liabilities	858,850	975,689
NON-CURRENT LIABILITIES		
Long-term debt	1,069,059	1,309,603
Pension and post-retirement health care liabilities	576,642	618,539
Other liabilities	284,016	306,775
STOCKHOLDERS EQUITY		
Common stock	2,522	2,515
Additional paid-in capital	3,001,904	2,950,649
Accumulated deficit	(932,196)	(869,873)
Accumulated other comprehensive loss	(75,438)	(141,052)
Treasury stock at cost	(166,842)	(166,842)
Total stockholders equity	1,829,950	1,775,397
	$ 4,618,517	$ 4,986,003

See accompanying notes to condensed consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine months ended September 30, 2006 and 2005
(*In thousands of dollars*)

Increase (decrease) in cash	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (26,267)	$ (115,485)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Loss on sale of businesses, net	12,362	
(Gain) loss on sale of discontinued operations	(45,925)	26,234
Income related to sale of Gustafson	(1,500)	
Impairment of non-current assets	80,263	
Loss on early extinguishment of debt	43,897	10,859
Depreciation and amortization	148,261	106,887
Stock-based compensation expense	10,079	3,291
Equity income	(7,309)	(776)
In-process research and development		75,400
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	51,414	112,878
Accounts receivable - securitization	213,759	(58,158)
Inventories	(4,659)	45,195
Accounts payable	(48,798)	(95,699)
Deposit for civil antitrust settlement		(40,315)
Pension and post-retirement health care liabilities	(58,710)	(47,750)
Other	(85,156)	(48,617)
Net cash provided by (used in) operations	281,711	(26,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from divestments	135,742	92,002
Acquisitions, net of cash acquired	(6,734)	69,405
Merger transaction costs paid	(8,409)	(16,360)
Capital expenditures	(77,844)	(58,303)
Other investing activities	406	(56)
Net cash provided by investing activities	43,161	86,688
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments on) proceeds from credit facility	(414,095)	122,000
Proceeds on long-term borrowings	497,262	9,000
Payments on long-term borrowings	(323,689)	(132,241)
Payments on short-term borrowings	(13,963)	(413)
Premium paid on early extinguishment of debt	(35,570)	(3,323)
Payment for debt issuance costs	(5,775)	(2,478)
Dividends paid	(36,065)	(23,997)
Repayment of life insurance policy loan	(9,854)	
Proceeds from exercise of stock options	3,191	74,752
Other financing activities	(2,177)	(1,833)
Net cash (used in) provided by financing activities	(340,735)	41,467
CASH AND CASH EQUIVALENTS		
Effect of exchange rates on cash and cash equivalents	4,631	(8,535)
Change in cash and cash equivalents	(11,232)	93,564
Cash and cash equivalents at beginning of period	138,556	158,700
Cash and cash equivalents at end of period	$ 127,324	$ 252,264

CHEMTURA CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited) - Continued
Nine months ended September 30, 2006 and 2005
(*In thousands of dollars*)

	2005
SUPPLEMENTAL SCHEDULE FOR NON-CASH INVESTING TRANSACTIONS:	
Fair value of non-cash assets acquired in acquisition	$ 2,768,012
Cash acquired in acquisition	125,747
In-process research and development	75,400
Issuance of common stock in acquisition, net of registration costs	(1,852,624)
Treasury stock acquired	166,842
Liabilities assumed in acquisition	$ 1,283,377

See accompanying notes to condensed consolidated financial statements.

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CHEMTURA CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

On July 1, 2005, Crompton Corporation (Crompton) and Great Lakes Chemical Corporation (Great Lakes) combined their businesses by merging a wholly-owned subsidiary of Crompton with and into Great Lakes (the Merger). Under the terms of the merger agreement, Great Lakes shareholders received 2.2232 shares of the Company s common stock for each share of Great Lakes common stock and Great Lakes became a wholly-owned subsidiary of Crompton. The Company also changed its name to Chemtura Corporation.

ACCOUNTING POLICIES

Presentation of Condensed Consolidated Financial Statements

The information in the foregoing condensed consolidated financial statements for the quarter and nine months ended September 30, 2006 and September 30, 2005 are unaudited, but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise disclosed in the accompanying notes to the condensed consolidated financial statements.

The foregoing condensed consolidated financial statements include the accounts of Chemtura Corporation and the wholly-owned and majority-owned subsidiaries that it controls, including the results of operations of Great Lakes commencing July 1, 2005, which are collectively referred to as the Company. Other affiliates in which the Company has a 20% to 50% ownership interest or a non-controlling majority interest are accounted for in accordance with the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

On June 24, 2005, the Refined Products business was sold to Sun Capital Partners Group, Inc. Accordingly, the accompanying condensed consolidated financial statements for 2005 reflect the results of the Refined Products business as earnings from discontinued operations (net of tax) through the date of the sale. The condensed consolidated statements of cash flows have not been adjusted to separately reflect the discontinued operation and thus include the cash flows of the Refined Products business through the sale date. Refer to the discontinued operations footnote for further information.

Certain financial information and footnote disclosures included in the annual financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s 2005 Annual Report on Form 10-K. The consolidated results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results expected for the full year.

Operating Costs and Expenses

Cost of products sold includes all costs incurred in manufacturing products, including raw materials, direct manufacturing costs and manufacturing overhead. Cost of products sold also includes warehousing; distribution; engineering (other than polymer processing equipment design engineering); purchasing; customer service and environmental, health and safety functions, and shipping and handling costs for outbound product shipments. Selling, general and administrative expense (SG&A) includes costs and expenses related to the following functions and activities: selling, advertising, polymer processing equipment design engineering, information technology, legal, provision for doubtful accounts, corporate facilities and corporate administration. SG&A also includes accounting, finance and human resources, excluding direct support in manufacturing operations, which is included as cost of products sold. Research and development expenses (R&D) include basic and applied research and development activities of a technical and non-routine nature. R&D costs are expensed as incurred. Costs of products sold, SG&A and R&D expenses exclude depreciation and amortization expenses, which are presented on a separate line in the condensed consolidated statements of earnings.

Also included in cost of products sold for the third quarter and nine months ended September 30, 2005 is $37.1 million related to the fair value impact of purchase accounting on inventory resulting from the Merger.

Other (Income) and Expenses

The following table is a summary of the (income) and expense items included on the other expense (income), net line in the condensed consolidated statements of earnings for all periods presented.

(In thousands)	Quarter ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Costs of securitization programs and other accounts receivable financing	$ 4,181	$ 3,289	$ 11,005	$ 9,846
Equity (income) loss Davis Standard LLC	(2,790)	(395)	(5,764)	248
Favorable settlement of contractual matter			(4,300)	
Foreign exchange (gain)/ loss	3,171	(590)	2,065	(728)
Interest income	(900)	(2,742)	(7,701)	(7,634)
Minority interest	(945)	1,651	2,239	3,703
Pension and other post-retirement benefits of legacy Witco businesses	80	712	240	2,138
Other items, individually less than $1,000	332	(2)	(169)	(1)
Other (income) expense, net	$ 3,129	$ 1,923	$ (2,385)	$ 7,572

The interest income for the nine months ended September 30, 2006 and the nine months ended September 30, 2005 include interest income resulting from tax settlements of $4.0 million and $2.2 million, respectively.

Pension and other post-retirement benefits of legacy Witco plans represents the accretion of interest on obligations assumed in connection with the purchase of Witco in 1999 relating to businesses for which the Company and the plan participants did not have any continuing involvement either prior or subsequent to the acquisition.

Other Items

Included in cash and cash equivalents in the Company s condensed consolidated balance sheets at September 30, 2006 and December 31, 2005, are $2.5 million and $2.4 million, respectively, of restricted cash that is required to be on deposit to support certain letters of credit and performance guarantees, the majority of which will be settled within one year. There are no additional legal restrictions on these cash balances. In addition, at September 30, 2006, the Company had approximately $7.0 million in an escrow account that is restricted to pay existing antitrust settlement liabilities, which has been recorded in other current assets in the condensed consolidated balance sheet.

Included in accounts receivable are allowances for doubtful accounts of $28.6 million at September 30, 2006 and $30.5 million at December 31, 2005.

Accumulated depreciation amounted to $1,006.7 million at September 30, 2006 and $861.7 million at December 31, 2005.

During the first nine months of 2006 and 2005, the Company made interest payments of approximately $81.2 million and $90.6 million, respectively. The decrease was primarily due to the tendering of the Senior Floating Rate Notes due 2010 and the tendering of the 9.875% Senior Notes due 2012, partially offset by the inclusion of the debt of Great Lakes. During the first nine months of 2006 and 2005, the Company made payments for income taxes (net of refunds) of $54.7 million and $29.1 million, respectively.

RECLASSIFICATIONS

In the third quarter of 2006, the Company reclassified certain amounts related to operations from other (income) expense, net to SG&A, (gain) loss on sale of businesses, net and income related to the sale of Gustafson joint venture in the condensed consolidated statement of earnings. The items reclassified include (a) legacy Witco pension and other post-retirement benefit obligations related to businesses for which the Company has continuing involvement, (b) gains and losses on the sale of businesses which did not meet the criteria to be considered discontinued operations and (c) gains on the sale of equity method investees for which income had previously been reported within operating profit (loss). Although the Company properly classified these items within earnings (loss) from continuing operations, the Company improperly did not include these items as a component of operating profit (loss) in prior periods.

The following tables represent the effect of these reclassifications on prior period interim financial statements for all periods previously reported in 2006 and 2005. Additionally, the Company has provided the effect of such reclassifications on previously reported financial statements for the years ended December 31, 2005, 2004 and 2003.

The effect of the 2006 reclassification on the consolidated statements of earnings for the prior quarters and first six months of 2006 is as follows:

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(In thousands)	Periods Ended in 2006 Three-Months March 31,	Three Months June 30,	Six Months June 30,
Increase to SG&A	$ 130	$ 128	$ 258
(Gain) loss on sale of business, net		12,475	12,475
Decrease to operating profit	$ (130)	$ (12,603)	$ (12,733)
Change to other (income) expense, net	$ (130)	$ (12,603)	$ (12,733)

The effect of the 2006 reclassification on the consolidated statements of earnings for the quarters and six and nine month periods of 2005 is as follows:

(In thousands)	Quarters Ended in 2005 March 31,	June 30,	September 30,	December 31,
Increase to SG&A	$ 681	$ 681	$ 682	$ 682
(Gain) loss on sale of businesses, net				(3,199)
Increase/(decrease) to operating profit	$ (681)	$ (681)	$ (682)	$ 2,517
Change to other (income) expense, net	$ (681)	$ (681)	$ (682)	$ 2,517

(In thousands)	Periods Ended in 2005 Six-Months June 30,	Nine-Months September 30,
Increase to SG&A	$ 1,362	$ 2,044
(Gain) loss on sale of businesses, net		
Increase/(decrease) to operating profit	$ (1,362)	$ (2,044)
Change to other (income) expense, net	$ (1,362)	$ (2,044)

The effect of the 2006 reclassification on prior year annual consolidated statements of earnings is as follows:

(In thousands)	Years Ended December 31, 2005	2004	2003
Increase to SG&A	$ 2,726	$ 2,625	$ 2,592
(Gain) loss on sale of businesses, net	(3,199)	(1,302)	(3,579)
Income related to sale of Gustafson joint venture		(93,448)	
Increase/(decrease) to operating profit	$ 473	$ 92,125	$ 987
Change to other (income) expense, net	$ 473	$ 92,125	$ 987

The Company will reflect these annual reclassification amounts in its 2006 Annual Report on Form 10-K.

These reclassifications had no impact on the Company s previously reported income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) or basic or diluted earnings per share amounts. Additionally, the effect of these changes did not affect the Company s calculations under any debt covenants or for executive compensation plans.

During 2005, the Company reclassified certain immaterial amounts relating to operations from other (income) expense, net to cost of products sold and SG&A in the 2005 condensed consolidated statement of earnings. For the quarter ended September 30, 2005, the Company reclassified $1.3 million from other expense, net, which resulted in an increase in cost of products sold of $0.6 million and an increase in SG&A of $0.7 million. For the nine months ended September 30, 2005, the Company reclassified $5.1 million from other expense, net, which resulted in a reduction in cost of products sold of $0.2 million and an increase in SG&A of $5.3 million.

ACCOUNTING DEVELOPMENTS

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 151, Inventory Costs an Amendment of ARB No. 43, Chapter 4. Statement No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage, requiring these items be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company prospectively adopted the provisions of Statement No. 151 on January 1, 2006. The adoption of Statement No. 151 changed the timing of when certain manufacturing variances will be recognized in consolidated earnings. The adoption of Statement No. 151 did not have a material impact on the Company s consolidated earnings and financial position during the first nine months of 2006.

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (FASB 123(R)), which replaced Statement No. 123, Accounting for Stock-Based Compensation (FASB 123) and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). FASB 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value, beginning with the first annual period after June 15, 2005. The pro forma disclosures previously permitted under FASB 123 are no longer an alternative to financial statement recognition. In March 2005, the SEC Staff issued Staff Accounting Bulletin 107, Share-Based Payment (SAB 107), which expresses views of the SEC Staff about the application of FASB 123(R). Effective January 1, 2006, the Company adopted FASB 123(R) using the modified prospective method. Under the modified prospective method, the compensation cost for all new awards and awards modified, repurchased or cancelled after the date of adoption of FASB 123(R), as well as the unrecognized compensation cost of unvested awards as of the date of adoption, are recognized in earnings based on the grant-date fair value of those awards. The Company recognizes compensation cost for stock-based awards issued after January 1, 2006 over the requisite service period for each separately vesting tranche, as if multiple awards were granted. As a result of adopting FASB 123(R), on January 1, 2006, incremental stock-based compensation expense recognized was $2.4 million ($1.5 million after-tax and less than $0.01 per basic and diluted earnings per share) for the three months ended September 30, 2006 and was $6.6 million ($4.1 million after-tax and $0.02 per basic and diluted earnings per share) for the nine months ended September 30, 2006, primarily attributable to the Company s stock option program.

In March 2006, the FASB issued Statement No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140. Statement No. 156 provides additional guidance for recognizing servicing assets and liabilities, and is effective for fiscal years beginning after September 15, 2006. Statement No. 156 amends Statement No. 140 to require that all separately recognized servicing assets and liabilities in accordance with Statement No. 140 be initially measured at fair value, if practicable. Furthermore, Statement No. 156 permits, but does not require, fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. Statement No. 156 is not expected to have any impact on the Company s financial position, results of operation or cash flows.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in tax positions and requires that a Company recognize in its financial statements the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of evaluating the impact of adopting FIN 48 on its financial position and results of operations.

In September 2006, the FASB issued Statement No. 157 Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of Statement No. 157 are effective as of the beginning of the Company s 2008 fiscal year. The Company is currently in the process of determining the impact of adopting Statement No. 157 on its financial position or its results of operations.

In September 2006, the FASB issued Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends Statement No. 87, Employers Accounting for Pensions and Statement No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under Statement No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under Statement No. 87 and Statement No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive loss, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date, the date at which the plan assets are measured, is required to be the Company s fiscal year end. Statement No. 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of Statement No. 158 is expected to reduce the Company s stockholders equity by approximately $20 million, net of tax, and is not expected to materially affect the results of operations.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108) to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that misstatements be quantified based on their impact on each of the Company s financial statements and related disclosures. SAB 108 is effective as of the end of fiscal year 2006, allowing a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material, but are material under the guidance in SAB 108. The Company is currently evaluating the impact of adopting SAB 108 on its financial position and results of operations.

STOCK-BASED COMPENSATION

The Company uses various employee stock-based compensation plans. Awards under these plans are granted to eligible officers, management employees and non-management directors. Awards may be made in the form of incentive stock options, non-qualified stock options, stock appreciation rights and restricted stock. The Company plans to issue any shares related to the exercise of stock options or vested restricted stock under these plans by issuing additional shares of common stock.

Description of the Plans

The 1988 Long-Term Incentive Plan (1988 Plan), as amended, authorized the Company s Board of Directors (Board) to grant stock options, stock appreciation rights, restricted stock and long-term performance awards covering up to 10 million shares to the officers and other key employees of the Company over a period of ten years through October 1998. Non-qualified and incentive stock options were granted under the 1988 plan at prices not less than 100% of the fair market value of the underlying common shares on the date of the grant. All outstanding options will expire not more than ten years and one month from the date of grant.

The 1993 Stock Option Plan for Non-Employee Directors, as amended in 1996 (1993 Stock Option Plan), authorized 200,000 options to be granted to non-employee directors. The options vest over a two-year period and are exercisable over a ten-year period from the date of grant, at a price equal to the fair market value of the underlying common stock on the date of grant.

The 1998 Long-Term Incentive Plan (1998 Plan) was approved by the Company s shareholders in 1999. This plan authorizes the Board to grant stock options, stock appreciation rights, restricted stock and long-term performance awards to eligible employees and non-qualified stock options to non-employee directors over a ten-year period. During 2006 and 2005, non-qualified and incentive stock options were granted under the 1998 Plan at prices not less than 100% of the fair market value of the underlying common shares on the date of grant. All outstanding options will expire not more than ten years and one month from the date of grant. The 1998 Plan authorizes the Company to grant shares and options for shares of common stock equal to the sum of (i) the shares available for award under the 1988 Plan and the 1993 Stock Option Plan For Non-Employee Directors as of October 18, 1998 and (ii) the shares awarded under prior plans of the Company which were forfeited, expired, lapsed, not earned or tendered to pay the exercise price of options or withholding taxes. In 1999, the number of common shares reserved for issuance under the 1998 plan was increased by 2.8 million shares and, pursuant to the merger with Witco, increased by an additional 5 million shares. Under the terms of the merger with Witco, the shareholders also approved the conversion of all outstanding Witco options into options to purchase the Company s common stock. These 4.7 million converted options expired 30 days after the merger with Witco and became available for grant under the 1998 Plan.

In October 2001, the Board approved the 2001 Employee Stock Option Plan (2001 Plan). The 2001 Plan authorizes the Board to grant up to 1 million non-qualified stock options to key non-officer employees. Options under the 2001 Plan will be granted at prices not less than 100% of the fair market value of the underlying common shares on the date of grant and will expire not more than 10 years and one month from the date of grant.

In April 2006, the Company s shareholders approved the 2006 Chemtura Corporation Long-Term Incentive Plan (2006 Plan). The 2006 Plan permits the grant of various forms of stock-based compensation awards, including stock options, restricted stock, stock appreciation rights and performance awards. The 2006 Plan provides for the issuance of a maximum of 10.5 million shares, with shares granted under the 2006 Plan pursuant to awards other than stock options and stock appreciation rights limited to one-third of the total maximum number of shares available for award under the 2006 Plan.

In accordance with the terms of the Merger, all unvested Great Lakes options as of the merger date were immediately vested and all of the outstanding options were converted into options to purchase the Company s common stock.

Adoption of FASB Statement No. 123 (R), Share-Based Payment

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (FASB 123(R)), which replaced Statement No. 123, Accounting for Stock-Based Compensation (FASB 123) and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). FASB 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value, beginning with the first annual period after June 15, 2005. The pro forma disclosures previously permitted under FASB 123 are no longer an alternative to financial statement recognition. In March 2005, the SEC Staff issued Staff Accounting Bulletin 107, Share-Based Payment (SAB 107), which expresses views of the SEC Staff about the application of FASB 123(R).

Through December 31, 2005, the Company elected to continue its historical method of accounting for stock-based compensation in accordance with APB 25, as permitted under FASB 123 and FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FASB 148). Under APB 25, compensation expense for fixed plans was recognized based on the difference between the exercise price and the stock price on the date of grant. Since the Company s fixed plan awards were granted with an exercise price equal to the stock price on the date of grant, no compensation expense was recognized in the statement of earnings for these awards. However, compensation expense was recognized for the restricted stock awards under the Company s long-term incentive programs in accordance with the provisions of APB 25. The following table illustrates the effect on net earnings (loss) and related per share amounts for the quarter and nine month periods ended September 30, 2005, as if the Company had applied the fair value recognition provisions of FASB 123 and FASB 148 to all stock-based employee compensation awards.

(In thousands, except per share data)	**Quarter ended September 30, 2005**	**Nine months ended September 30, 2005**
Net loss, as reported	$ (118,922)	$ (115,485)
Stock-based employee compensation expense included in net earnings ($574 and $3,291 pre-tax), net of tax	246	1,931
Total stock-based employee compensation determined under fair value based accounting method for all awards, net of tax	(1,306)	(5,320)
Pro forma net loss	$ (119,982)	$ (118,874)
Basic loss per share:		
Basic as reported	$ (0.50)	$ (0.73)
Basic pro forma	$ (0.51)	$ (0.75)
Diluted loss per share:		
Diluted as reported	$ (0.50)	$ (0.73)
Diluted pro forma	$ (0.51)	$ (0.75)

Effective January 1, 2006, the Company adopted FASB 123(R) using the modified prospective method. Under the modified prospective method, the compensation cost for all new awards and awards modified, repurchased or cancelled after the date of adoption of FASB 123(R), as well as the unrecognized compensation cost of unvested awards as of the date of adoption are recognized in earnings based on the grant-date fair value of those awards.

Total stock-based compensation expense, including amounts for restricted stock and options, was $3.1 million and $10.1 million for the quarter and nine month periods ended September 30, 2006, respectively, and is presented within SG&A. Included within the total stock-based compensation is $2.4 million ($1.5 million after tax and less than $0.01 per basic and diluted earnings per share) for the quarter ended September 30, 2006 and $6.6 million ($4.1 million after tax and $0.02 per basic and diluted earnings per share) for the nine months ended September 30, 2006 of incremental compensation expense that represents the effect of the Company s January 1, 2006 adoption of FASB 123(R), primarily for the Company s stock option program. Compensation expense related to stock options has been allocated 50% to the corporate segment and 50% to the Company s operating segments. All other stock-based compensation expense is recorded in the corporate segment.

Stock Option Plans

In January 2006, the Company s Board of Directors granted merger integration awards consisting of stock options covering 211,800 shares with an exercise price equal to the fair market value of the underlying common stock at the date of grant. These options will vest ratably over a three-year period.

In March 2006, the Company s Board of Directors also approved the grant of options covering 1,926,800 shares with an exercise price equal to the fair market value of the underlying common stock at the date of grant, including options covering 220,000 shares related to merger integration. These options will vest ratably over a three-year period.

The Company uses the Black-Scholes option-pricing model to determine the compensation expense related to stock options. The Company has elected to recognize compensation cost for option awards granted equally over the requisite service period for each separately vesting tranche, as if multiple awards were granted. Using this method, the weighted average fair value of stock options granted during the quarters ended September 30, 2006 and 2005 was $3.87 and $9.99, respectively, and the

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weighted average fair value of stock options granted during the nine month periods ended September 30, 2006 and 2005 was $4.84 and $6.32, respectively. The Black-Scholes option-pricing model requires the use of various assumptions. The following table presents the weighted average assumptions used:

	Nine months ended September 30, 2006		2005	
Dividend yield	1.8	%	1.2	%
Expected volatility	49	%	49	%
Risk-free interest rate	4.8	%	4.1	%
Expected life (in years)	6		7	

During 2006, the Company took into consideration guidance contained in FASB 123(R) and SAB 107 when reviewing and developing assumptions for the 2006 grants. The weighted average expected life for the 2006 grants of 6 years reflects the alternative simplified method permitted by SAB 107, which defines the expected life as the average of the contractual term of the options and the weighted average vesting period for all option tranches. Expected volatility for the 2006 option grants is based on historical volatility over the six years prior to the option grant date. Currently the Company has no expectation that the expected volatility is likely to differ from its historical volatility.

Stock option plan activity for the quarter and nine months ended September 30, 2006 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value *(in millions)*
Options outstanding, January 1, 2006	15,329,956	$ 12.22		
Granted	2,138,600	10.92		
Exercised	(102,800)	8.25		$ 0.3
Canceled or expired	(309,124)	19.22		
Options outstanding, March 31, 2006	17,056,632	11.95	5.5	$ 30.6
Granted				
Exercised	(251,039)	8.49		$ 0.9
Canceled or expired	(182,970)	13.50		
Options outstanding, June 30, 2006	16,622,623	11.99	5.3	$ 11.0
Granted	12,000	8.86		
Exercised	(25,667)	8.28		
Canceled or expired	(656,368)	14.14		
Options outstanding, September 30, 2006	15,952,588	$ 11.90	5.2	$ 6.7
Options exercisable, September 30, 2006	12,799,005	$ 12.05	4.2	$ 6.4

Total remaining unrecognized compensation cost associated with unvested stock options at September 30, 2006 was $8.5 million, which will be recognized over the weighted average period of approximately one year.

The total intrinsic value of stock options exercised during the quarter and nine month periods ended September 30, 2005 was $17.7 million and $28.7 million, respectively. The total intrinsic value of stock options outstanding and exercisable at September 30, 2005 was $34.8 million and $20.7 million, respectively.

Restricted Stock Plans

In January 2006, the Board granted merger integration awards consisting of long-term incentive awards in the amount of 70,600 shares of restricted stock which will vest ratably on the first and second anniversary of the grants.

In March 2006, the Board approved a grant of long-term incentive awards of restricted stock which carries a market condition requirement. These shares will vest based on the achievement of specified stock price appreciation milestones, which represents a market condition, over a three-year period. This grant was for 572,400 shares of restricted stock. The plan also includes a provision for the grant of an additional 572,400 shares, for a maximum payout of 1,144,800 shares of restricted stock, to be issued if the maximum level of specified stock appreciation is attained. Shares are scheduled to vest when a particular milestone (based on the closing price of the Company s common stock on the New York Stock Exchange) is reached and maintained for fifteen consecutive trading days. Share awards for milestones achieved during 2006 and

2007 will vest and be paid out on February 1, 2008. Share awards for milestones achieved during 2008 will become vested and be paid out on February 1, 2009.

Additionally, in February and March 2006, grants of 61,400 and 7,500 shares, respectively, of restricted stock that do not contain market condition requirements were approved. The grant of 61,400 shares vests immediately, while the grant of 7,500 shares vests half in 2008 and half in 2010.

In May and June 2006, grants of 1,000 and 2,500 shares, respectively, of restricted stock that do not contain market condition requirements were approved. The grants vest in 2009 and 2008, respectively.

The fair value of restricted stock awards without market conditions is determined based on the number of shares granted and the quoted closing price of the Company s stock at the date of grant. To determine the fair value of restricted stock with market conditions, the Company uses the Monte Carlo simulation method. The Company s determination of the fair value of restricted stock awards with market conditions on the date of grant is affected by its stock price as well as assumptions regarding a number of highly complex and subjective variables, including expected volatility and risk-free interest rate. If other reasonable assumptions are used, the results may differ.

The fair value of all restricted stock awards with market conditions is amortized on a straight-line vesting basis over the derived service periods. In the case of accelerated vesting based on the market performance of the Company s common stock, the compensation costs related to the vested awards that have not previously been amortized are recognized upon vesting.

Restricted stock award activity for the quarter and nine months ended September 30, 2006 is as follows:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Fair Value *(in millions)*
Restricted unvested stock awards, January 1, 2006	1,462,460	$ 11.36	
Granted	1,284,300	5.98	$ 7.7
Dividends	4,635		
Vested	(216,342)	8.45	$ 2.5
Canceled or expired	(23,810)	12.71	
Restricted unvested stock awards, March 31, 2006	2,511,243	8.73	$ 29.6
Granted	3,500	9.42	
Dividends	4,122		
Vested			
Canceled or expired	(49,410)	9.44	
Restricted unvested stock awards, June 30, 2006	2,469,455	8.72	23.1
Granted			
Dividends	4,571		
Vested	(42,953)		0.4
Canceled or expired	(31,356)	7.92	
Restricted unvested stock awards, September 30, 2006	2,399,717	$ 8.70	$ 20.9

Total remaining unrecognized compensation cost associated with unvested restricted stock awards at September 30, 2006 was $6.3 million, which will be recognized over the weighted average period of approximately one year.

The total fair value of shares granted and vested during the quarter ended September 30, 2005 was $0.5 million and $0.2 million, respectively, and granted and vested during the nine months ended September 30, 2005 was $6.4 million and $2.9 million, respectively. The total fair value of unvested restricted stock at September 30, 2005 was $18.0 million. The weighted average grant-date fair value of restricted shares granted during the nine months ended September 30, 2005 was $12.95.

Tax Benefits of Stock-Based Compensation Plans

Prior to the adoption of FASB 123(R), any benefit the Company received from tax deductions resulting from the exercise of stock options and restricted stock awards was presented in the cash flow from operations section of the condensed consolidated statements of cash flows. FASB 123(R) requires the benefits of tax deductions in excess of grant-date fair value be presented in the cash flow from financing section of the condensed consolidated statements of cash flows. The Company did not obtain any significant cash tax benefit associated with shares exercised during the nine months ended September 30, 2006 as the Company s taxable income has been offset by net operating loss carry forwards. Cash proceeds received from option exercises for the nine months ended September 30, 2006 and 2005 were $3.2 million and $74.8 million, respectively.

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In November 2005, the FASB issued FASB Staff Position No. (FSP) FASB 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Award Payments (FSP 123(R)-3). The provisions of FSP 123(R)-3 set forth an alternative method of calculating the excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of FASB 123(R). The Company, which is currently evaluating its available transition alternatives, has until January 1, 2007 to make its one-time election.

MERGER

On March 9, 2005, the Company and Great Lakes announced the signing of a definitive merger agreement (the Agreement) for an all-stock merger transaction. The transaction closed on July 1, 2005, and in accordance with the terms of the Agreement, Great Lakes shareholders received 2.2232 shares of the Company s common stock for each share of Great Lakes common stock resulting in the issuance of approximately 116.1 million shares, which is net of 11.5 million treasury shares, of the Company s common stock with a fair value of approximately $1.85 billion. The fair value of the portion of the purchase price paid in common stock is based on a fair value per common share of $14.52, which represents the average of the closing prices on March 9, 2005, the date the terms of the agreement were agreed to and announced, and the two days before and after that date. The Company also exchanged all of the outstanding vested and unvested Great Lakes stock options for 8.1 million of fully vested stock options of the Company, valued at $35.8 million. The total purchase price, including the value of the common stock and stock options issued, was $1.89 billion. In addition, vesting was accelerated for substantially all of the outstanding unvested restricted share units of Great Lakes. As a result of the Merger, the Company obtained a 100% equity interest in Great Lakes.

The acquired assets and assumed liabilities have been recorded at their fair value and the excess cost of the acquired net assets over their fair value has been recorded as goodwill. The Company believes that this goodwill is attributable to an enhanced competitive position, greater stability through geographic and end-market diversification, a significantly strengthened balance sheet and credit profile, and a broader platform for future growth. The total purchase price has been allocated to the acquired net tangible and intangible assets and assumed liabilities based upon valuations and estimates of fair value. The purchase price at July 1, 2005 has been allocated as follows:

(In thousands)	
Cash and cash equivalents	$ 125,747
Accounts receivable	347,154
Inventories	373,230
Other current assets	116,775
Property, plant and equipment	573,024
Cost in excess of acquired net assets (goodwill)	914,662
In-process research and development	73,300
Other intangible assets	518,000
Other assets	37,537
Short-term borrowings	(29,816)
Accounts payable	(170,120)
Accrued expenses	(274,792)
Income taxes payable	(29,776)
Long-term debt	(454,475)
Pension and post-retirement health care benefits	(128,642)
Other liabilities	(270,107)
Treasury stock	166,842
Total purchase price	$ 1,888,543

In addition to previous adjustments to goodwill, the above purchase price allocation includes a net increase to goodwill of $25.8 million recognized in September 2006 to record adjustments to deferred tax assets for tax periods prior to the Merger resulting from an examination by the Internal Revenue Service and the filing of the corporations pre-merger income tax return, as well as a refund of pre-merger related income taxes received during the third quarter of 2006.

In-process research and development (IPR&D) had no future alternate use and was written off to operations during 2005. The Company wrote off a net of $73.3 million of IPR&D in 2005, of which $75.4 million was written-off during the third quarter of 2005 and a revision of $2.1 million was recorded during the fourth quarter of 2005.

The following pro forma unaudited results of operations for 2005 give effect to the Merger as if it had been consummated as of the beginning of the period. The pro forma unaudited results of operations combine the historical results of operations of the Company and Great Lakes with the pro forma adjustments described below.

The pro forma unaudited results of operations do not give effect to synergies and cost savings expected to result from the Merger. The pro forma unaudited results of operations do not purport to be indicative of what the actual results of operations would have been had the Merger been completed on the dates assumed, or the results of operations that may be achieved in the future.

The pro forma unaudited results of operations for the quarter and nine months ended September 30, 2005 are as follows:

(In thousands, except per share data)	**Quarter ended September 30, 2005**	**Nine months ended September 30, 2005**
Net sales	$ 918,416	$ 3,022,309
Loss from continuing operations (1)	$ (17,556)	$ (52,772)
Net loss (1)	$ (16,193)	$ (76,375)
Basic and diluted loss per share:		
Loss from continuing operations	$ (0.07)	$ (0.22)
Net loss	$ (0.07)	$ (0.33)
Weighted average shares outstanding basic and diluted	237,152	234,587

(1) The pro forma loss from continuing operations for the nine months ended September 30, 2005 includes a charge for the write-off of in-process research and development expenses of $75,400 ($75,400 net of tax), and a charge for the impact on cost of products sold of the fair value adjustment to inventory of $37,100 ($27,329 net of tax).

The pro forma adjustments included in the earnings (loss) from continuing operations and in net earnings (loss) above are summarized as follows:

(In thousands)	**Nine months ended September 30, 2005 Income (Expense)**
Reduction in pension expense (a)	$ 1,950
Reduction in interest expense (b)	4,404
Depreciation (c)	5,274
Amortization (d)	(9,154)
Inventory accounting (e)	(903)
Reversal of merger costs (f)	138,429
Pro forma adjustments gross	$ 140,000
Pro forma adjustments - net of tax	$ 112,539

The pro forma adjustments are as follows:

(a) Pension represents a reduction in pension expense, principally due to the elimination of the impact of amortization of historical gains and losses from Great Lakes historical net periodic benefit cost.

(b) Interest represents the impact on interest expense of amortization of the fair value adjustment to Great Lakes long-term debt.

(c) Depreciation represents the impact on depreciation expense of the fair value adjustment and change in the remaining useful lives of Great Lakes property, plant and equipment.

(d) Amortization represents the impact on amortization expense of the fair value adjustment and change in remaining useful life of Great Lakes intangible assets.

(e) Inventory accounting represents the impact of conforming Great Lakes inventory variance capitalization policy to a consistently applied method utilized by the Company.

(f) Merger expenses represents the reversal of merger-related expenses incurred by Great Lakes.

As a result of the Merger, the Company assumed the merger-related liabilities of Great Lakes, which primarily related to the change in control provisions in employment contracts that were triggered by the Merger. A reconciliation of this reserve balance from July 1, 2005 is as follows:

(In thousands)	Severance and Related Costs (1)	Other Merger-Related Costs (2)	Total
Great Lakes liability assumed at July 1, 2005	$ 41,569	$ 27,345	$ 68,914
2005 purchase price adjustment	2,851	20,788	23,639
Cash payments	(37,783)	(46,826)	(84,609)
Non-cash changes	(302)	(201)	(503)
Balance at December 31, 2005	6,335	1,106	7,441
2006 purchase price adjustment	1,163	175	1,338
Cash payments	(7,128)	(1,281)	(8,409)
Non-cash changes	30		30
Balance at September 30, 2006	$ 400	$	$ 400

(1) Includes severance relating to former Great Lakes personnel only, including severance recorded for employees identified as redundancies subsequent to the date of the Merger.

(2) Includes primarily investment banking fees, legal fees and audit fees incurred by the Company directly related to the closing of the Merger.

As a result of the Merger, the Company recorded charges for certain costs directly related to the Merger as a component of operating profit. The related reserve activity is summarized as follows:

(In thousands)	Severance and Related Costs (3)	Merger Integration Costs (4)	Total
2005 Merger costs	$ 9,477	$ 35,753	$ 45,230
Cash payments	(4,813)	(22,725)	(27,538)
Non-cash changes	(403)		(403)
Balance at December 31, 2005	4,261	13,028	17,289
2006 Merger costs	288	15,604	15,892
Cash payments	(3,221)	(25,177)	(28,398)
Non-cash changes	(88)		(88)
Balance at September 30, 2006	$ 1,240	$ 3,455	$ 4,695

(3) Includes severance relating to former Crompton personnel only.

(4) Includes primarily consulting costs related to the integration of Crompton and Great Lakes.

The above Merger related reserves are included in accrued expenses on the Company s condensed consolidated balance sheets at September 30, 2006 and December 31, 2005.

As of September 30, 2006, the Company had terminated approximately 595 employees worldwide, as a direct result of the Merger. The Company expects to substantially pay its remaining merger integration costs by the end of 2006.

FACILITY CLOSURES, SEVERANCE AND RELATED COSTS

The Company is in the process of implementing a new cost savings initiative to support its continuing efforts to become more efficient and reduce costs. As of September 30, 2006, the Company is still finalizing the specific plans that will be implemented in 2006, and the projected cost savings impact and one-time costs that it expects to incur. During the first nine months of 2006, the Company recorded a pre-tax charge of $3.4 million, primarily for severance costs resulting from specific plans that have been approved and implemented as of September 30, 2006 and the write-off of assets related to the closure of certain research and development facilities. As a result of this initiative, the Company has terminated approximately 51 employees as of September 30, 2006. A summary of this charge and the related activity is as follows:

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(In thousands)	Severance and Related Costs	Asset Write-offs	Other Facility Closure Costs	Total
2006 charge	$ 2,883	$ 447	$ 42	$ 3,372
Cash payments	(2,107)		(42)	(2,149)
Non-cash write-offs		(447)		(447)
Foreign currency translation	(20)			(20)
Balance at September 30, 2006	$ 756	$	$	$ 756

In 2004, the Company completed an activity-based restructuring initiative intended to structure the Company s operations in a more efficient and cost effective manner, including a voluntary severance program. During 2005, the Company recorded pre-tax charges totaling $24.0 million, of which $19.5 million related to unrecoverable future lease costs and asset write-offs related to the closure of the Company s former research and development facility in Tarrytown, NY. During the first nine months of 2006, the Company recorded a pre-tax credit of $4.0 million, primarily to adjust the reserve for unrecoverable future lease costs at the Tarrytown, NY facility and for other reserves no longer deemed necessary. Charges and adjustments related to these programs are summarized as follows:

(In thousands)	Severance and Related Costs(a)	Asset Write-offs(b)	Other Facility Closure Costs(c)	Total
Balance at December 31, 2004	$ 40,053	$	$ 1,591	$ 41,644
2005 charge	2,898	3,970	17,102	23,970
Cash payments	(34,483)		(4,066)	(38,549)
Non-cash charges and accretion	(442)	(3,970)	334	(4,078)
Balance at December 31, 2005	8,026		14,961	22,987
2006 credit	(832)		(3,123)	(3,955)
Cash payments	(5,208)		(2,453)	(7,661)
Non-cash accretion			485	485
Balance at September 30, 2006	$ 1,986	$	$ 9,870	$ 11,856

(a) Includes domestic and international severance, benefits and related pension curtailments.

(b) Includes asset write-offs related to sites closed as a result of the activity-based initiative, including assets related to the Tarrytown, NY closure.

(c) Includes consulting costs that have been incurred which were directly related to developing and implementing the activity-based restructuring initiative, unrecoverable future lease costs related to the closure of the Tarrytown, NY site and other contractual obligations related to closed sites.

During the first quarter of 2006, the Company recorded a pre-tax credit of $0.8 million to adjust certain reserves related to the 1998 closure of its Painesville, Ohio facility.

At September 30, 2006, the Company also had remaining reserves of $0.1 million, $0.2 million and $0.7 million relating to its 2004 executive reorganization, 2003 cost reduction program and 2001 cost reduction initiative and corporate headquarters relocation, respectively. The reserve balances for these programs were $0.5 million, $0.8 million and $1.0 million, respectively, at December 31, 2005. The decrease to these reserves during the first nine months of 2006 was primarily due to payments.

During the fourth quarter of 2004, the Enenco joint venture, in which the Company owned a 50 percent interest, closed its manufacturing facility in Memphis, TN. During the first quarter of 2005, the Company acquired the remaining 50 percent interest from its joint venture partner and as a result accounts for Enenco as a wholly-owned subsidiary of the Company. This transaction resulted in a pre-tax credit to facility closures, severance and related costs during the first nine months of 2005 of $1.9 million due to recoveries from the joint venture partner of $1.2 million, adjustments to third party accruals of $0.5 million and adjustments to decommissioning and demolition reserves of $0.2 million. During the first nine months of 2006, the Company recorded a pre-tax credit adjustment of $0.4 million to facility closures, severance and related costs for reserves related to Enenco.

The Company has included $6.9 million and $11.4 million of its facility closures, severance and related cost reserves in other liabilities at September 30, 2006 and December 31, 2005, respectively, and $6.7 million and $14.0 million, respectively, in accrued expenses in its condensed consolidated balance sheets.

ASSET IMPAIRMENT

In August 2006, the Company determined that a significant customer will not renew its contract with the Fluorine business effective December 31, 2006. As a result of the projected loss of revenue resulting from the loss of this customer, the Company reviewed the recoverability of the long-lived assets of the Fluorine business in accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, based on the revised cash flow projections of the business. As a result, the Company recorded an impairment charge of $22.7 million to write-down the value of property, plant and equipment, net by $7.5 million and intangible assets, net by $15.2 million as of September 30, 2006. The $22.7 million charge is included within impairment of non-current assets on the condensed consolidated statement of earnings.

DIVESTITURES

Gustafson

During the third quarter of 2006, the Company recorded income of $1.5 million representing an adjustment of a contingency related to the 2004 sale of the Gustafson joint venture.

Industrial Specialties

During the third quarter of 2006, the Company recorded income of $0.1 million representing an adjustment of a contingency related to the 2002 sale of its Industrial Specialties business.

West Lafayette

On June 23, 2006, the Company sold a significant portion of the real estate of the former Great Lakes offices in West Lafayette, Indiana for net proceeds of $6.1 million, representing gross proceeds of $6.5 million less costs incurred to complete this transaction of $0.4 million. Upon signing a definitive agreement in March 2006, the Company classified the net book value of these assets of $6.5 million as assets held for sale and at that time ceased depreciating these assets. During the second quarter of 2006, the assets were revalued to $6.1 million reflecting the adjusted fair value under purchase accounting for the Merger.

Industrial Water Additives

On May 12, 2006, the Company sold its Industrial Water Additives (IWA) business, which was acquired in the Merger, to BWA Water Additives (BWA), a subsidiary of Close Brothers Private Equity located in the United Kingdom.

The Company received cash proceeds of $85.0 million, exclusive of a $10.2 million adjustment for retained accounts receivable and accounts payable. The pre-tax loss on the sale was recorded during the second quarter of 2006 and is included within (gain) loss on sale of businesses, net in the accompanying condensed consolidated statement of earnings for the nine month period ended September 30, 2006.

	(In thousands)
Cash proceeds	$ 85,000
Adjustment for retained accounts receivable and accounts payable	(10,185)
Adjusted proceeds	74,815
Net assets sold	80,960
Transaction costs incurred	3,278
Retention agreements	374
Loss related to supply agreements	2,323
Other	355
Pre-tax loss	(12,475)
Tax expense	1,637

Net loss on sale of business	$	(14,112)

The assets sold consisted primarily of the dedicated intellectual property rights used to produce IWA products at the Company s Trafford Park, United Kingdom and Adrian, Michigan facilities, inventories, office and lab equipment, and the Company s shares in Biolab Gulf GmbH, which is a holding company that owns a 49% interest in the Company s Biolab Arabia joint venture, located in Saudi Arabia, a previously consolidated entity. The Company retained the Liquibrom product line which was previously included within the IWA business unit.

Included in the net assets sold are $33.6 million of allocated goodwill related to the portion of the IWA business unit that was sold; $32.5 million related to net intangible assets, primarily technology, brands and customer relationships, and finished goods inventory of $12.2 million.

Transaction costs include legal fees, investment bank advisory fees, tax consulting fees and other direct costs incurred to sell the business.

In connection with this sale, the Company entered into several ancillary agreements, including two supply agreements, a distribution agreement, and a transitional service agreement.

The Company may also receive earn-out proceeds from BWA relating to the sale of belclene phosphonates products. The Company has not recognized the earn-out potential in current earnings, as the recognition of this additional gain is contingent upon the future sales of these products through May 12, 2007.

The fully-dedicated manufacturing assets of the IWA business located in Trafford Park, United Kingdom and Adrian, Michigan that the Company continues to own will be utilized by the Company solely to supply certain finished product to BWA for a period of no less than two years. Based upon the Company s current operations, these assets will have limited use or salvage value, if any, after such transition period. As a result, based upon an undiscounted cash-flow analysis including an estimate of salvage value, these assets were determined to be impaired (not recoverable) as the carrying value of the assets was greater than the expected cash flows from the assets. Therefore, during the second quarter of 2006, the Company recorded an impairment charge of $5.6 million to write-down such assets to fair value. Fair value was determined based upon estimated discounted cash flows directly related to the assets, including an estimate of salvage value.

The Company considered whether or not the sale of the IWA business constituted a discontinued operation, as defined by FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FASB 144). Under FASB 144, the involvement of the Company under the supply agreements and the distribution agreement is considered significant and therefore, the requirements for presentation as a discontinued operation have not been met. The Company will continue to assess the level of involvement and continuing cash flows related to these agreements and, if circumstances change, the Company may be required to reclassify the results as discontinued operations in the condensed consolidated statement of earnings.

Davis Standard

On March 31, 2005, the Company entered into an agreement with Hamilton Robinson LLC, a private equity firm, to form a venture (Davis-Standard LLC), which would combine the Company s Polymer Processing Equipment business and Hamilton Robinson s Black Clawson Converting Machinery Company. The transaction closed on April 29, 2005 and resulted in the Company acquiring a 61.24% non-controlling interest in Davis-Standard LLC. In accordance with EITF 96-16, Investor s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights , the Company is not consolidating the financial statements of Davis-Standard LLC because the holder of the minority interest in Davis-Standard LLC effectively exercises control over the operations of the business through its majority voting rights. As of the closing date, the Company deconsolidated approximately $136.6 million of assets and $62.8 million of liabilities of the Polymer Processing Equipment business. The investment is recorded in other assets with no significant gain or loss recognized on the transaction. The Company accounts for its investment in Davis-Standard LLC under the equity method and records its proportionate share of the venture s results of operations in other expense, net in the Company s condensed consolidated statements of earnings. The carrying amount of the Company s investment in Davis-Standard LLC was $79.4 million at September 30, 2006 and $75.2 million at December 31, 2005. The Company recorded $2.8 million and $5.8 million in other (income) expense, net for the quarter and nine months ended September 30, 2006. The Company subsequently sold this venture (see Subsequent Events Footnote for further details).

ACQUISITIONS

Trace Chemicals

On March 24, 2006, the Company acquired the Trace Chemicals business from Bayer CropScience LP. Trace Chemicals is a leader in farmer-applied seed treatments in markets serving the United States. The acquisition will serve to enhance the Company s offerings in the Crop Protection business. The cash paid for this acquisition was $6.7 million and the assets acquired included inventory, property, plant and equipment and intangible assets.

DISCONTINUED OPERATIONS

Refined Products

On June 24, 2005, the Company sold certain assets and assigned certain liabilities of its Refined Products business to Sun Capital Partners Group, Inc. (Sun) for $80.0 million. The consideration that the Company received was subject to adjustment based on the change in certain transferred assets and liabilities of the Refined Products business through the closing date and for retained accounts receivable and accounts payable, which resulted in a $30.3 million reduction to the proceeds received. The Company also pre-paid approximately $6.8 million of the manufacturing costs for certain petroleum additives products that will be manufactured for the Company by Sun. During the second quarter of 2005, the Company recognized a loss on the transaction of $28.2 million (net of an income tax benefit of $14.3 million).

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The agreement provided for the sale of assets and assignment of liabilities with carrying amounts as follows:

(In thousands)	June 24, 2005
Inventory	$ 40,928
Other current assets	1,066
Property, plant and equipment, net	42,540
Other assets	11,573
Total assets held for sale	$ 96,107
Accounts payable	$ 4,331
Accrued expenses	3,800
Total liabilities held for sale	$ 8,131

The revenues, pre-tax earnings and earnings from discontinued operations for 2005 are as follows:

(In thousands)	Quarter ended September 30, 2005	Nine months ended September 30, 2005
Net sales	$	$ 136,419
Pre-tax earnings (loss) from discontinued operations	$ (36)	$ 3,977
Income taxes	(11)	1,346
Earnings (loss) from discontinued operations	$ (25)	$ 2,631

Prior to the divestiture of the Refined Products business, the Company s Refined Products business and Petroleum Additives business shared a manufacturing facility. Contemporaneous with the sale of the Refined Products business, the Company entered into toll manufacturing arrangements with Sun, whereby Sun will continue to manufacture certain products for Petroleum Additives. These arrangements extend for up to ten years. For the three month period ended September 30, 2006, the Company purchased approximately $12 million and $8 million, respectively, from Sun. For the nine months ended September 30, 2006, the Company purchased approximately $37 million from Sun and from the date of sale through September 30, 2005 the Company purchased approximately $8 million from Sun.

The Company has classified the transactions as a discontinued operation in the condensed consolidated statements of earnings in accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FASB 144). Under that Statement the cash flows associated with the continuation of activities are deemed indirect; and therefore, the Company evaluated significant continued involvement in the operations of the Refined Products business. The Company determined that (a) the Company does not have the ability to significantly influence the operating and financial policies of the Sun, nor does it have any authority or interest in any of the components of the revenue or profit generating aspects of the Refined Products business; (b) under the terms of the sale agreement, the Company is prohibited from competing with Sun in the Refined Products business; (c) the Company s rights are limited to oversight rights related to monitoring the manufacture of products to protect the interest of its Petroleum Additives business, a right that is not uncommon in similar arm s-length arrangements; and (d) the Company can migrate its supply requirements to other manufacturers.

OrganoSilicones

On July 31, 2003, the Company sold certain assets and assigned certain liabilities of its OrganoSilicones business unit to the Specialty Materials division of GE and acquired GE s Specialty Chemicals business. As a result of this transaction, the Company was to receive quarterly earn-out payments through December of 2006 based on the minimum required payments and additional payments contingent on the combined performance of GE s existing Silicones business and the OrganoSilicones business that GE acquired from the Company through September of 2006. The total of such earn-out proceeds was for a minimum of $105 million and a maximum of $250 million. The minimum earn-out of $105 million was accrued as part of the gain on the sale of the business. During the nine months ended September 30, 2006 and September 30, 2005, the Company received a total of $54.4 million and $45.9 million of earn-out proceeds, respectively, of which $28.2 million and $19.7 million represented additional contingent earn-out proceeds received in 2006 and 2005, respectively, related to the combined performance of the GE and

OrganoSilicones businesses. To date through September 30, 2006, the Company has received the $105 million minimum earn-out and a cumulative total of $61.2 million of additional contingent earn-out proceeds in excess of the minimum payments. The Company expects to receive its final additional contingent earn-out payment of $5.8 million by December 31, 2006, which represents the performance of GE s Silicones business during the third quarter of 2006. As a result of the expiration of the performance contingency on September 30, 2006 and the expiration of the earn-out period, the total cumulative additional contingent earn-out of $67 million ($45.9 million, net of taxes) has been recognized as a gain on the sale of discontinued operations for quarter and nine months ended September 30, 2006 in the condensed consolidated statement of operations. This expected payment of $5.8 million has been recorded as a receivable at September 30, 2006, and is included in other current assets in the condensed consolidated balance sheet.

The cumulative additional contingent earn-out proceeds at December 31, 2005 of $33.0 million had not been recognized in earnings, as the recognition of this additional gain was contingent upon the continued favorable future performance of GE s Silicones business through September 2006. At December 31, 2005, the balance of additional earn-out proceeds received in excess of the minimum earn-out was included in accrued expenses in the condensed consolidated balance sheet.

ACCOUNTS RECEIVABLE PROGRAMS

At December 31, 2005, the Company had an accounts receivable securitization program to sell up to $125 million of domestic receivables to agent banks. In March 2006, the Company expanded its domestic accounts receivable program to include former Great Lakes subsidiaries and to allow for the sale of up to $275 million of domestic receivables and optimize the benefits under the program. In September 2006, the Company amended the domestic accounts receivable program to provide that up to $100 million of the consideration payable to the Company may be in the form of letters of credit issued to the Company or its designees. Accounts receivable sold under this program were $143.4 million and $28.9 million as of September 30, 2006 and December

31, 2005, respectively. In addition, the Company s European subsidiaries have a separate program to sell eligible accounts receivable to agent banks. In March 2006, the Company expanded the international accounts receivable program to include former Great Lakes subsidiaries and to allow for the sale of up to $175 million of international receivables and optimize the benefits under the program. International accounts receivable sold under this program were $155.4 million and $56.3 million as of September 30, 2006 and December 31, 2005, respectively.   The total costs associated with these programs of $4.0 million and $2.6 million for the quarter ended September 30, 2006 and 2005, respectively, and $10.3 million and $8.0 million for the nine months ended September 30, 2006 and 2005, respectively, are included in other expense, net in the condensed consolidated statements of earnings.

Under the domestic program, certain subsidiaries of the Company sell, or transfer as capital contributions, their accounts receivable to a special purpose entity (SPE) that has been created as a separate legal entity for the purpose of acquiring such receivables and selling an undivided interest therein to agent banks. In accordance with the domestic sale agreement, the agent banks purchase an undivided ownership interest in the accounts receivable owned by the SPE. The amount of such undivided ownership interest will vary based on the level of eligible accounts receivable as defined in the agreement. In addition, the agent banks retain a security interest in all of the receivables owned by the SPE, which was $184.6 million and $143.8 million as of September 30, 2006 and December 31, 2005, respectively. The balance of the unsold receivables owned by the SPE is included in the Company s accounts receivable balance on the condensed consolidated balance sheet. Under the international program, certain foreign subsidiaries of the Company sell eligible accounts receivable directly to agent banks. During the period, the Company had an obligation to service the accounts receivable sold under its domestic and international programs. The Company has treated the transfer of receivables under its domestic and international receivable programs as a sale of accounts receivable.

INVENTORIES

Components of inventories are as follows:

(In thousands)	September 30, 2006	December 31, 2005
Finished goods	$ 473,542	$ 466,365
Work in process	31,371	31,406
Raw materials and supplies	173,883	163,846
	$ 678,796	$ 661,617

GOODWILL AND INTANGIBLE ASSETS

Gross cost of intangible assets excluding excess costs of acquisitions, decreased $25.6 million during the nine months ended September 30, 2006 due primarily to the elimination of $33.8 million of intangible assets related to the sale of IWA and an asset impairment of $15.7 million related to the Fluorine business, partially offset by a $3.9 million increase due to the acquisition of Trace Chemicals, capitalized patent re-registration costs of $2.0 million, capitalized legal costs of $3.5 million, a purchase accounting fair value adjustment related to the Merger of $1.4 million and favorable foreign currency translation of $13.4 million. The net book value of the IWA intangible assets sold were $32.5 million and the net book value of the Fluorine intangible asset impairment was $15.2 million.

The Company s intangible assets (excluding goodwill) are comprised of the following:

(In thousands)	September 30, 2006		December 31, 2005	
	Gross Cost	Accumulated Amortization	Gross Cost	Accumulated Amortization
Patents (a)	$ 158,369	$ (39,997)	$ 156,089	$ (33,279)
Trademarks (b)	309,920	(48,149)	331,633	(40,079)
Customer relationships (c)	136,778	(17,371)	140,143	(11,309)
Production rights (d)	45,000	(5,357)	50,000	(2,381)
Other (e)	59,810	(31,881)	57,578	(27,718)
	$ 709,877	$ (142,755)	$ 735,443	$ (114,766)

(a) Patents gross cost increased $2.3 million due primarily to a $2.3 million increase related to a purchase accounting fair value adjustment, increases in capitalized patent re-registration costs of $2.0 million, capitalized legal costs of $3.1 million and favorable currency translation of $3.9 million, partially offset by a $6.0 million decrease related to the sale of IWA, and a $2.8 million decrease due to the asset impairment in the Fluorine business.

(b) Trademarks gross cost decreased $21.7 million due primarily to a $10.8 million decrease related to the sale of IWA, a $10.7 million decrease due to the asset impairment in the Fluorine business, a $9.9 million decrease related to a

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purchase accounting fair value adjustment, partially offset by an increase of $3.9 million related to the acquisition of Trace Chemicals, favorable currency translation of $5.3 million and increases in capitalized legal costs of $0.4 million.

(c) Customer relationships gross cost decreased $3.4 million due primarily to a $17.1 million decrease related to the sale of IWA and a $2.2 million decrease due to the asset impairment in the Fluorine business, partially offset by an increase of $14.0 million related to a purchase accounting fair value adjustment and favorable currency translation of $1.9 million.

(d) Production rights gross cost decreased $5.0 due to a purchase accounting fair value adjustment.

(e) Other intangible assets gross cost increased $2.2 million due to favorable currency translation.

Amortization expense from continuing operations related to intangible assets (excluding goodwill and equity investments) amounted to $9.3 million and $8.5 million for the third quarter ended September 30, 2006 and September 30, 2005, respectively, and $28.8 million and $16.4 million for the nine months ended September 30, 2006 and September 30, 2005, respectively. The increase in amortization expense was primarily due to the addition of intangible assets related to the Merger. Estimated amortization expense of intangible assets (excluding goodwill and equity investments) for the next five fiscal years is as follows: $37.3 million (2006), $35.4 million (2007), $34.8 million (2008), $32.8 million (2009) and $29.0 million (2010).

Also, included in amortization expense is the amortization of purchase accounting fair value adjustments of equity investments resulting from the Merger, which are included in other assets in the condensed consolidated balance sheets. Amortization of purchase accounting fair value adjustments amounted to $0.6 million and $2.8 million for the third quarter and nine months ended September 30, 2006, respectively. There was no amortization related to these items in 2005. Estimated amortization of purchase accounting fair value adjustments as of December 31, 2005 for the next five fiscal years is as follows: $3.3 million (2006), $1.6 million (2007), $1.6 million (2008), $0.4 million (2009) and $0.4 million (2010).

Goodwill by reportable segment is as follows:

(In thousands)	**December 31, 2005**	**Great Lakes Merger**	**Trace Acquisition**	**IWA Sale**	**Witco Acquisition Tax Adjustment**	**Reclass Liquibrom Assets**	**Foreign Currency Translation**	**Fluorine Impairment**	**September 30, 2006**
Plastic Additives	$ 318,194	$ 105,328	$	$	$ (5,455)	$ 6,729	$ 1,335	$	$ 426,131
Polymers	51,730				(1,093)		26		50,663
Specialty Additives	49,462	1,488			(943)		77		50,084
Crop Protection	162,896	(75,113)	376				207		88,366
Consumer Products	556,523	13,587					3,613		573,723
Other	72,654	19,353		(33,636)		(6,729)	303	(51,945)	
	$ 1,211,459	$ 64,643	$ 376	$ (33,636)	$ (7,491)	$	$ 5,561	$ (51,945)	$ 1,188,967

Goodwill decreased $22.5 million for the nine months ended September 30, 2006 due primarily to a goodwill impairment in the Fluorine business of $51.9 million, a $33.6 million write-off resulting from the sale of IWA and a $7.5 million decrease from a tax adjustment related to the 1999 Witco acquisition, partially offset by a $64.6 million increase from purchase accounting adjustments related to the Merger, a $0.4 million increase from the Trace acquisition and a favorable foreign currency translation of $5.6 million. The goodwill of the Liquibrom business, which was excluded from the sale of IWA, was re-allocated to the Plastic Additives business at the asset value of $6.7 million.

The $64.6 million of purchase accounting adjustments related to the Merger include an increase to goodwill of $25.8 million to record adjustments to deferred tax assets for tax periods prior to the Merger resulting from an examination by the Internal Revenue Service and the filing of the corporation s pre-Merger income tax return, as well as a refund of pre-merger related income taxes received during the third quarter of 2006. The purchase accounting adjustments also include a reallocation of goodwill, primarily between the Plastic Additives and Crop Protection segments based upon final valuation information received from the independent appraisal company used to value the Great Lakes assets acquired through the Merger.

The Company has elected to perform its annual goodwill impairment procedures for all of its reporting units in accordance with Statement No. 142, Goodwill and Other Intangible Assets as of July 31, or sooner, if events occur or circumstances change that could reduce the value of a reporting unit below its carrying value.

During the third quarter of 2006, in accordance with the goodwill impairment provisions of Statement No. 142, the Company performed its annual impairment test on the recoverability of goodwill. The Company tested goodwill for impairment and recorded an impairment charge of $51.9 million related to the Fluorine business, which is included in the Other segment. The amount of the charge was determined based on an estimate of the fair value of the Fluorine business. The projected loss of revenue of the Fluorine business, resulting from the

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loss of a customer, was a significant consideration in the determination that the carrying value of Fluorine goodwill was impaired. The Company concluded that no impairment existed in any of its other reporting units at July 31, 2006.

INDEBTEDNESS

On July 1, 2005, concurrent with the consummation of the Merger, the Company entered into a $600 million five-year credit facility available through July 2010, which included a $300 million letter of credit facility (the Credit Facility). On December 12, 2005, the Company exercised its option to expand its borrowing capacity under the Credit Facility by $125 million, thereby increasing the availability under the Credit Facility to $725 million. There was no cost associated with the exercise of this option. The Credit Facility allows the Company to increase availability up to $750 million. In July 2006, the Company expanded availability under this facility to $740 million and is evaluating the expansion of up to $750 million. Borrowings under the Credit Facility bear interest at the EURIBO Rate (as defined in the credit agreement governing the Credit Facility) plus a margin ranging from 0% to 1.6%. A facility fee is payable on unused commitments at a rate ranging from 0.125% to 0.4%. The Credit Facility is guaranteed by certain domestic subsidiaries of the Company (the Subsidiary Guarantors). Although it is currently unsecured, during any time in which the Company s non-credit enhanced long-term senior unsecured debt is rated BB or lower by Standard & Poors or Ba2 or lower by Moody s Investors Service, Inc., the Company and the Subsidiary Guarantors are required to pledge all owned stock and other equity interests (limited to 66% of the voting stock of first-tier foreign subsidiaries). At September 30, 2006, there were no borrowings under the Credit Facility. The Company s current credit rating is BB+ by Standard & Poors and Ba1 by Moody s Investors Services, Inc.

During the first quarter of 2006, the Company obtained a $50 million uncommitted working capital facility due on September 1, 2006. The borrowings of $50 million were repaid on September 1, 2006.

On April 19, 2006, the Company and certain of its consolidated subsidiaries entered into an underwriting agreement with several financial institutions for the sale by the Company of $500 million aggregate principal amount of 6.875% Senior Notes due 2016 (2016 Notes). The offering was made under the Company s shelf registration statement on Form S-3 filed with the Securities and Exchange Commission on April 19, 2006 and by a prospectus supplement dated April 19, 2006. The underwriters purchased the 2016 Notes from the Company at 98.452% (a 6.95% effective rate) of their principal amount, plus accrued interest from April 24, 2006. The offering closed on April 24, 2006 and the Company received net proceeds from the offering of $492.3 million after expenses. The proceeds were utilized to repay the outstanding balance on the Company s revolving credit facility of $364 million, the outstanding balance on uncommitted lines of credit of $50 million and to repurchase receivables under the domestic receivable securitization programs of $60 million, with the remaining proceeds used for general corporate purposes.

On May 24, 2006, the Company completed a tender offer to repurchase the remaining $164.8 million of its outstanding Senior Floating Rate Notes due 2010 (2010 Notes). The purchase price to tender the 2010 Notes was $1,095.83 per $1,000 in principal amount. As a result of the tender, the Company recorded a pre-tax loss on early extinguishment of debt of $19.5 million during the second quarter of 2006. The loss included a premium of $15.8 million and the write-off of unamortized deferred costs of $3.7 million.

In May 2006, certain covenants in the Company s Credit Facility were amended for the balance of 2006 and beyond, in response to higher than planned merger related expenses, higher antitrust legal fees and weaker earnings.

In May 2006, the Company obtained a $25 million uncommitted working capital facility due on May 12, 2007. At September 30, 2006, borrowings under this facility amounted to $10 million with an interest rate of 6.16%.

In July 2006, the Company obtained a $50 million uncommitted working capital facility due on July 31, 2007. At September 30, 2006, borrowings under this facility amounted to $25 million with an interest rate of 6.21%.

In July 2006, the Company completed the redemption of the remaining $158.9 million of the Company s outstanding 9.875% Senior Notes due 2012 (2012 Notes), which was funded through borrowings under the Company s Credit Facility, the uncommitted working capital facilities and available cash. The purchase price to tender the 2012 Notes was $1,123.87 per $1,000 principal amount. As a result of the tender, the Company recorded a pre-tax loss on early extinguishment of debt of $24.3 million during the third quarter of 2006. The loss includes a premium of $19.7 million, the write-off of unamortized deferred costs of $3.8 million and the write-off of unamortized original issue discount of $0.8 million.

INCOME TAXES

The Company reported an income tax benefit from continuing operations for the third quarter ended September 30, 2006 of $15.9 million and income tax expense of $28.6 million for the quarter ended September 30, 2005. The effective tax rate from continuing operations for the third quarter 2006 was a benefit of 15.7%.

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The income tax benefit from continuing operations for the nine months ended September 30, 2006 was $3.3 million and the income tax expense for the nine months ended September 30, 2005 was $51.3 million. The effective rate of tax for the nine months ended September 30, 2006 was a benefit of 4.4%.

The lower-than-expected tax benefit for the nine months ended September 30, 2006 was attributable to the write-off of non-deductible goodwill associated with the IWA business, the goodwill impairment related to the Fluorine business and non-deductible antitrust costs, partially offset by favorable tax examination settlements and tax legislative changes.

COMMON STOCK

The Company is authorized to issue 500 million shares of $0.01 par value common stock. There were 252,165,522 and 251,480,684 common shares issued at September 30, 2006 and December 31, 2005, respectively, of which 11,490,491 shares were held as treasury stock at September 30, 2006 and December 31, 2005.

EARNINGS PER COMMON SHARE

The computation of basic earnings per common share is based on the weighted average number of common shares outstanding. The computation of diluted earnings per common share is based on the weighted average number of common and common equivalent shares outstanding. The computation of diluted earnings per common share equals the basic earnings per common share for the quarter ended September 30, 2006 and 2005, respectively, and the nine months ended September 30, 2006 and 2005, respectively, since the common stock equivalents were antidilutive. Common stock equivalents (in thousands) amounted to 257 and 5,175 for the quarter ended September 30, 2006 and 2005, respectively, and 715 and 3,705 for the nine months ended September 30, 2006 and 2005, respectively.

The following is a reconciliation of the shares used in the computations:

	Quarter ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2006**	**2005**	**2006**	**2005**
Weighted average common shares outstanding	240,624	237,152	240,414	157,668
Effect of dilutive stock options and other equivalents				
Weighted average common shares adjusted for dilution	240,624	237,152	240,414	157,668

The Company s outstanding stock options (in thousands) of 9,693 and 3,745 at September 30, 2006 and 2005, respectively, were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the Company s common stock, and therefore, the inclusion would have been antidilutive. These options could be dilutive if the average share price increases and is greater than the exercise price of these options. Company performance-based restricted shares (in thousands) of 1,496 and 418 at September 30, 2006 and 2005, respectively, were also excluded from the calculation of diluted earnings per share, because the specified performance criteria for the vesting of these shares had not yet been met. These restricted shares could be dilutive in the future if the specified performance criteria are met.

COMPREHENSIVE INCOME (LOSS)

An analysis of the Company s comprehensive income (loss) follows:

	Quarter ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2006**	**2005**	**2006**	**2005**
Net loss	$ (39,892)	$ (118,922)	$ (26,267)	$ (115,485)
Other comprehensive income (loss):				
Foreign currency translation adjustments	22,592	6,499	78,296	(70,618)
Minimum pension liability adjustments (net of tax)				5,090
Change in fair value of derivatives (net of tax)	(2,751)	8,371	(12,750)	10,435
Other	(1)		68	421
Comprehensive income (loss)	$ (20,052)	$ (104,052)	$ 39,347	$ (170,157)

The components of accumulated other comprehensive loss at September 30, 2006 and December 31, 2005 are as follows:

(In thousands)	September 30, 2006	December 31, 2005
Foreign currency translation adjustment	$ 77,630	$ (666)
Minimum pension liability adjustment (net of tax)	(145,803)	(145,803)
Fair value of derivatives (net of tax)	(7,286)	5,464
Other	21	(47)
Accumulated other comprehensive loss	$ (75,438)	$ (141,052)

Reclassifications from other comprehensive income (loss) to earnings related to the Company s natural gas price swap contracts aggregated $1.4 million pre-tax and $0.7 million pre-tax during the quarter ended September 30, 2006 and September 30, 2005, respectively, and $7.6 million pre-tax and $1.2 million pre-tax during the nine months ended September 30, 2006 and 2005, respectively.

PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Components of net periodic benefit cost (credit) for the quarter ended September 30, 2006 and 2005 are as follows:

(In thousands)	Qualified Domestic Defined Benefit Plans Quarter ended September 30, 2006	2005	International and Non-Qualified Defined Benefit Plans Quarter ended September 30, 2006	2005	Post-Retirement Health Care Plans Quarter ended September 30, 2006	2005
Service cost	$ 689	$ 3,303	$ 1,520	$ 2,183	$ 296	$ 330
Interest cost	10,854	12,231	5,379	4,998	2,521	3,217
Expected return on plan assets	(15,001)	(15,132)	(3,833)	(3,467)	(594)	(595)
Amortization of unrecognized transition obligation			28	31		
Amortization of prior service cost		2	150	105	(809)	162
Amortization of net (gain) loss	(153)	2,155	631	462	368	70
Curtailment gain recognized				(800)		
Settlement loss recognized				361		
Net periodic benefit cost (credit)	$ (3,611)	$ 2,559	$ 3,875	$ 3,873	$ 1,782	$ 3,184

Components of net periodic benefit cost (credit) for the nine months ended September 30, 2006 and 2005 are as follows:

(In thousands)	Qualified Domestic Defined Benefit Plans Nine months ended September 30, 2006	2005	International and Non Qualified Defined Benefit Plans Nine months ended September 30, 2006	2005	Post-Retirement Health Care Plans Nine months ended September 30, 2006	2005
Service cost	$ 1,049	$ 6,444	$ 4,443	$ 5,357	$ 886	$ 990
Interest cost	34,553	31,330	15,745	11,946	7,555	9,652
Expected return on plan assets	(44,161)	(39,052)	(11,189)	(7,284)	(1,783)	(1,786)
Amortization of unrecognized transition obligation		(2)	84	94		
Amortization of prior service cost		23	448	(9)	(2,426)	487
Amortization of net loss	3,254	6,516	1,850	1,598	1,102	208
Curtailment gain recognized				(19,616)		
Settlement (gain) loss recognized			(221)	5,586		
Net periodic benefit cost (credit)	$ (5,305)	$ 5,259	$ 11,160	$ (2,328)	$ 5,334	$ 9,551

The following table represents the allocation of net periodic benefit cost (credit) for the nine months ended September 30, 2006 and 2005, which reflects the Refined Products business as a discontinued operation:

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(In thousands)	Qualified Domestic Defined Benefit Plans Nine months ended September 30, 2006	2005	International and Non-Qualified Defined Benefit Plans Nine months ended September 30, 2006	2005	Post-Retirement Health Care Plans Nine months ended September 30, 2006	2005
Continuing operations	$ (5,305)	$ 5,259	$ 11,160	$ 11,339	$ 5,334	$ 9,551
Discontinued operations				(13,667)		
Net periodic benefit cost (credit)	$ (5,305)	$ 5,259	$ 11,160	$ (2,328)	$ 5,334	$ 9,551

The decrease in service cost for the qualified domestic defined benefit plans for the quarter and nine months ended September 30, 2006, as compared to the quarter and nine months ended September 30, 2005, is a result of the Company freezing its remaining domestic defined benefit plans for non-bargained employees as of January 1, 2006. The decrease in the post-retirement health-care plan expense for the quarter and nine months ended September 30, 2006 as compared to the quarter and nine months ended September 30, 2005 is a result of the company capping its financial contribution to the domestic post-retirement health care arrangements at the 2006 level for substantially all current retired employees which became effective as of January 1, 2006.

During the nine months ended September 30, 2006, the Company made lump sum payments under the provisions of its supplemental executive retirement programs of approximately $2.9 million. As a result of the 2006 payments, a settlement gain of approximately $0.2 million was recorded.

During the second quarter of 2006, the Company made a discretionary contribution of $40 million to its domestic qualified pension plans. As a result of this contribution, no additional cash contributions are required to be made to the domestic qualified plans for the remainder of 2006. The Company expects to contribute $14.5 million to its international and non-qualified pension plans during 2006, of which $11.0 million has been contributed as of September 30, 2006. The Company s funding assumptions for its domestic pension plans assume no significant change with regard to demographics, legislation, plan provisions, or actuarial assumptions or methods to determine the estimated funding requirements.

As a result of the sale of the Refined Products business during the second quarter of 2005, the Company recorded a curtailment gain of $18.7 million, partially offset by a settlement loss of $3.9 million relating to the Company s defined benefit plans in The Netherlands. The net gain of $14.8 million is included as a component of the loss on sale of discontinued operations.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company s activities expose its earnings, cash flows and financial position to a variety of market risks, including the effects of changes in foreign currency exchange rates, interest rates and energy prices. The Company maintains a risk-management strategy that uses derivative instruments as needed to mitigate risk against foreign currency movements and to manage interest rate and energy price volatility. In accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and FASB Statement No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities, the Company recognizes in earnings changes in the fair value of all derivatives designated as fair value hedging instruments that are highly effective and recognizes in accumulated other comprehensive loss (AOCL) changes in the fair value of all derivatives designated as cash flow hedging instruments that are highly effective. The Company does not enter into derivative instruments for trading or speculative purposes.

The Company uses price swap contracts as cash flow hedges to convert a portion of its forecasted natural gas purchases from variable price to fixed price purchases. These contracts are designated as hedges of a portion of the Company s forecasted natural gas purchases. The Company s hedge contracts cover a gradually decreasing percentage of its purchase requirements over a rolling two-year period. These contracts involve the exchange of payments over the life of the contracts without an exchange of the notional amount upon which the payments are based. The differential paid or received as natural gas prices change is recognized as an adjustment to cost of products sold.

The Company used interest rate swap contracts as fair value hedges to convert $125 million of the $400 million 7% fixed rate debt to variable rate debt. Each interest rate swap contract was designated with the principal balance and the term of the specific debt obligation. These contracts involved the exchange of interest payments over the life of the contract without the exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change was recognized as an adjustment to interest expense. In May 2006, the Company terminated the

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interest rate swap conracts resulting in a loss of $2.8 million. The loss upon terminating the swaps was recorded as an adjustment to the carrying amount of debt. The Company will amortize the adjustment to the carrying amount of the debt to interest expense over the remaining life of the $400 million fixed rate debt.

The following table summarizes the unrealized (gains) and losses related to certain cash flow hedging for the quarter and nine months ended September 30, 2006 and 2005.

	Quarter ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2006**	**2005**	**2006**	**2005**
Cash flow hedges (in AOCL):				
Balance at beginning of period	$ 4,535	$ (4,833)	$ (5,464)	$ (2,769)
Price swap contracts natural gas	2,751	(8,371)	12,750	(10,435)
Balance at end of period	$ 7,286	$ (13,204)	$ 7,286	$ (13,204)

ASSET RETIREMENT OBLIGATIONS

The Company applies the provisions of FASB Statement No. 143, Accounting for Asset Retirement Obligations, and FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, (FIN 47), which require companies to make estimates regarding future events in order to record a liability for asset retirement obligations in the period in which a legal obligation is created. Such liabilities are recorded at fair value, with an offsetting increase to the carrying value of the related long-lived assets. The fair value is estimated by discounting projected cash flows over the estimated life of the assets using the Company s credit adjusted risk-free rate applicable at the time the obligation is initially recorded. In future periods, the liability is accreted to its present value and the capitalized cost is depreciated over the useful life of the related asset. The Company also adjusts the liability for changes resulting from revisions to the timing or the amount of the original estimate. Upon retirement of the long-lived asset, the Company either settles the obligation for its recorded amount or incurs a gain or loss.

The Company s asset retirement obligations include estimates for all asset retirement obligations identified for its worldwide facilities. The Company s asset retirement obligations are primarily the result of legal obligations for the removal of leasehold improvements and restoration of premises to their original condition upon termination of leases at approximately 32 facilities, legal obligations to close approximately 97 brine supply, brine disposal, waste disposal, and hazardous waste injection wells and the related pipelines at the end of their useful lives, and decommissioning and decontamination obligations that are legally required to be fulfilled upon closure of approximately 34 of the Company s manufacturing facilities.

The Company adopted FIN 47 in the fourth quarter of 2005, effective January 1, 2005. The effect of this adoption resulted in a cumulative effect of accounting change of $0.5 million (net of taxes of $0.3 million) as of December 31, 2005.

The following is a summary of the change in the carrying amount of the asset retirement obligations for the nine months ended September 30, 2006 and 2005, the net book value of assets related to the asset retirement obligations at September 30, 2006 and 2005 and the related depreciation expense recorded for the nine months ended September 30, 2006 and 2005.

	Nine months ended September 30,	
(In thousands)	**2006**	**2005**
Asset retirement obligation balance at beginning of year	$ 10,560	$ 717
Accretion expense cost of products sold	2,149	149
Accretion expense selling, general and administrative	31	
Great Lakes purchase accounting adjustments	1,685	
Great Lakes liability assumed at July 1, 2005		5,775
Revisions to accruals	10	607
Loss on sale of discontinued operation		364
Cumulative translation adjustment	56	