

CROMPTON CORP
Form 10-K
March 16, 2005
U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 0-30270

Crompton 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)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed as of February 25, 2005 was \$1,577,707,508.

The number of voting shares of Common Stock of the registrant outstanding as of February 25, 2005 was 117,185,760.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of Stockholders on April 26, 2005 Part III

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PART I.

ITEM 1. BUSINESS

When we use the terms the Corporation, Company, Crompton, Registrant, we, us and our, unless otherwise indicated or the context otherwise requires, we are referring to Crompton Corporation and its consolidated subsidiaries. Certain disclosures included in this Annual Report on Form 10-K constitute forward-looking statements that are subject to risk and uncertainty. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements.

(a) General Development of Business

Crompton Corporation, formerly known as CK Witco Corporation, was incorporated in Delaware in 1999 in connection with the merger of Crompton & Knowles Corporation and Witco Corporation on September 1, 1999 (the Merger).

Crompton & Knowles Corporation (Crompton & Knowles) was incorporated in Massachusetts in 1900. Crompton & Knowles engaged in the manufacture and sale of specialty chemicals beginning in 1954 and, beginning in 1961, in the manufacture and sale of polymer processing equipment. Crompton & Knowles substantially expanded both its specialty chemical and its polymer processing equipment businesses through a number of acquisitions in both the United States and Europe, including the acquisition in 1996 of Uniroyal Chemical Company, Inc., now known as Crompton Manufacturing Inc. (Uniroyal), a multinational manufacturer of performance chemicals, including additives for rubber, plastics and lubricants, crop protection chemicals, and polymers, which include Royalene® EPDM rubber and Adiprene®/Vibrathane® urethane prepolymers.

Witco Corporation (Witco) was incorporated in Delaware in 1958 as Witco Chemical Company, Inc., at which time it succeeded by merger to the business of Witco Chemical Company, an Illinois corporation formed in 1920. Witco was a global manufacturer and marketer of specialty chemical products for use in a wide variety of industrial and consumer applications.

Today, we are a global diversified producer of specialty chemicals (including agricultural chemicals), polymer products, and polymer processing equipment. Our products are used in a wide variety of end-use markets, principally including transportation, construction, packaging, agriculture, lubricants, plastics for durable and non-durable goods, and personal care products. Most of our chemical products are sold to industrial manufacturing customers for use as additives, ingredients, or intermediates that add value to their end products. We are a market leader in many of our key product lines, including polyvinyl chloride (PVC) additives, aluminum alkyl catalysts, high-performance castable urethanes, and single-screw extrusion equipment. We manufacture and sell more than 3,500 products and formulations. Of our \$2.5 billion 2004 net sales, 53% were to customers in the United States and Canada, 28% to Europe and Africa, 12% to Asia/Pacific, and 7% to Latin America.

During 2004, the Company completed a voluntary severance program and an activity-based restructuring initiative intended to structure the Company's operations in a more efficient and cost effective manner. As a result of this initiative, the Company expects to achieve annual pre-tax cost savings of at least \$50 million. For the year ended December 31, 2004, the Company realized approximately \$6.3 million of these savings. The full extent of the savings are expected to be realized in 2005. All cost savings, both estimated and actual, are reported net of any increased expenses or the impact of reduced revenues. During 2004, the Company recorded pre-tax charges of \$54 million for facility closures, severance and related costs related to the voluntary severance program and activity-based initiative.

On March 22, 2004, the Company entered into an agreement with Bayer CropScience LP in the U.S. and Bayer CropScience Inc. in Canada to sell its 50 percent interest in the Gustafson seed treatment joint venture for \$128.9 million, of which \$122 million was received in the first quarter of 2004, a deferred payment of \$4.9 million was received in the third quarter of 2004, and \$2 million was contingent upon a licensing consent and the execution of a related supply agreement. The transaction closed on March 31, 2004 and resulted in a pre-tax gain of \$90.9 million in the first quarter of 2004. The licensing consent and related supply agreement were finalized in December 2004 and resulted in an additional pre-tax gain of \$2 million in the fourth quarter of 2004. The

Company expects to receive the \$2 million of proceeds from this additional gain in the first quarter of 2005.

On July 31, 2003, the Company sold certain assets and assigned certain liabilities of its OrganoSilicones business unit to the Specialty Materials division of General Electric (GE) and acquired GE's Specialty Chemicals business. The transaction resulted in a gain of \$111.7 million (net of income taxes of \$175.3 million). The Company received net cash proceeds in 2003 of \$633.4 million. In 2004, the Company and GE settled various purchase price adjustments, which resulted in a \$14 million payment to GE. As a result of this settlement, the adjustment of certain reserves and the resolution of certain tax matters related to the transaction, the Company recorded a \$2.1 million (after-tax) gain on sale of discontinued operations in 2004. Additionally, during 2004 the Company received \$40.3 million of earn-out proceeds, \$35 million as required in the sale agreement and \$5.3 million based on the combined performance of GE's existing Silicones business and the OrganoSilicones business. The Company will continue to receive a minimum of \$8.75 million of quarterly earn-out payments through September of 2006. Depending on the combined performance of GE's existing Silicones business and the OrganoSilicones business, the Company may receive additional performance-based proceeds or could be required to refund all or part of the \$5.3 million of additional proceeds received in 2004.

On March 9, 2005, the Company and Great Lakes Chemical Corporation (Great Lakes) announced the signing of a definitive merger agreement for an all-stock merger transaction, which would create the third largest publicly traded U.S. specialty chemicals company. Under the terms of the agreement, the Great Lakes shareholders will receive 2.2232 shares of the Company's common stock for each share of Great Lakes common stock they hold. The transaction, which is subject to regulatory approval and approval by shareholders of both companies, is expected to close in mid-2005. The merger is estimated to result in annual pre-tax synergy cost savings of approximately \$90 to \$100 million, the majority of which are expected to be achieved in 2006. In addition, the merger is expected to result in one-time expenditures of approximately \$35 to \$40 million relating to the closing of the transaction and one-time expenditures of approximately \$90 to \$100 million relating to the integration of both companies.

(b) Financial Information About Industry Segments

Information as to the sales, operating profit (loss), depreciation and amortization, assets, capital expenditures and equity method investments attributable to each of the Corporation's business segments during each of its last three fiscal years is set forth in the Business Segment Data footnote included in the Notes to Consolidated Financial Statements on pages 88 through 90 of this Report.

The Corporation's businesses are grouped into two units, Polymer Products and Specialty Products. Polymer Products consists of separate reporting segments for Polymer Additives (plastic additives, rubber additives, urethane additives and petroleum additives), Polymers (EPDM and urethane polymers) and Polymer Processing Equipment (Davis-Standard). Specialty Products consists of separate reporting segments for Crop Protection and Other (refined products and industrial specialties, which was sold in June 2002).

(c) Narrative Description of Business

Products and Services

The Corporation manufactures and markets a wide variety of polymer and specialty products. Most of the Corporation's products are sold to industrial customers for use as additives, ingredients or intermediates that impart particular characteristics to the customers' end products. The Corporation's products are currently marketed in more than 100 countries and serve a wide variety of end-use markets including transportation, construction, packaging, agriculture, lubricants, plastics for durable and non-durable goods, and personal care products.

The principal products and services offered by the Corporation are described below.

POLYMER PRODUCTS

Polymer Additives

Polymer Additives, our largest business segment, supplies specialty additives used to manufacture plastic, rubber, urethane and petroleum products. Our additives are used to impart specific qualities in our customers' products, such as strength, durability, or flexibility. Our products are sold to formulators, compounders and fabricators of vinyl, olefins, styrenics, rubber, polyurethanes, and high performance lubricants, and are ultimately used in the transportation, packaging, construction, durable and non-durable goods, and telecom industries.

Polymer Additives are sold through a specialized sales force, including technical service professionals who address customer inquiries and problems. The technical service professionals generally have degrees in chemistry and/or chemical engineering and are knowledgeable in specific product application fields. The sales and technical service professionals identify and focus on customers' growth opportunities, working not only with the customers' headquarters staff, but also with their research and development and manufacturing personnel on a worldwide basis.

The Polymer Additives business, which had net sales for fiscal 2004 of \$1,465.6 million, has four principal product lines: plastic additives, rubber additives, urethane additives and petroleum additives.

Plastic Additives

The Corporation is a global leader in supplying a broad line of additives to the plastics industry. Our Plastic Additives business primarily serves two separate aspects of the specialty chemicals market, PVC and olefins/styrenics. Many of our products are specially developed and formulated in collaboration with customers for their specific manufacturing requirements. Customers use our plastic additives in their high-end manufacturing processes to impart such characteristics as stability, flexibility, and durability to their end products. The added stability, functionality and value of the finished products result in gains in customer productivity and cost effectiveness. We target particular applications and customers that require high-performance and specialty additives. For our PVC additives, for example, we seek high-value end uses that entail specialized, demanding manufacturing processes and aesthetic standards, such as window profiles.

Olefins and styrenics products improve the processing characteristics of resin as well as the performance of the polymer in end-use applications. Our product offerings include critical ingredients that initiate, catalyze, or inhibit a polymer reaction or enhance polymer performance, provide thermal stability, or impact strength. Our olefins and styrenics business is a global manufacturer and marketer of polymer products and specialty chemicals, and we offer a broad portfolio of products, including well-known branded products. Our olefins and styrenics products are essential to the manufacture of resins, which are used in applications such as plastic bags, food packaging, plastic packaging for compact discs, wire and cable, automotive parts, and fiberglass.

In addition, with the acquisition of GE's Specialty Chemicals business in 2003, we expanded our plastics additives business by adding a manufacturing facility, increasing our antioxidant product offerings, and adding impact modifiers and processing aids to our range of products.

The Corporation is also backward integrated in fatty acids for use in the plastic additives business. Fatty acids and glycerin are produced for internal consumption and the merchant market. Derivatives of fatty acids (esters, stearates and amides) are produced for surface modification as direct lubricants, emulsifiers or as intermediates for ingredients that modify surfaces. Fatty acids are used as lubricants in polymers (rubber and plastic), for personal care products and in curing systems for rubber. Glycerin is used to provide lubrication in pharmaceutical and personal care applications.

Net sales of plastic additives during fiscal 2004, 2003 and 2002 were 35%, 32.4% and 28.3% of the Corporation's net sales, respectively.

Rubber Additives

Our rubber additives business includes approximately 100 products for use in processing rubber. These products include accelerators, antioxidants, antiozonants, chemical foaming agents, and specialty waxes. Accelerators are used for curing natural and synthetic rubber and have a wide range of activation temperatures, curing ranges, and use forms which give our customers the flexibility to make many different products. Antiozonants protect rubber compounds from flex cracking and ozone, oxygen and heat degradation. Antioxidants provide rubber compounds with protection against oxygen, light, and heat. Foaming agents produce gas by thermal decomposition or via a chemical reaction with other components of a polymer system and are mixed with rubber to produce sponge rubber products. Waxes inhibit static atmospheric ozone cracking in rubber. We are a global supplier of rubber additives, and we believe our customers value our ability to provide high quality, consistent products world-wide to complement their international expansion. Tire manufacturers accounted for approximately 60% of our rubber additives sales in fiscal 2004, with the balance going to manufacturers of industrial rubber goods, including hoses, belting, sponges, and a wide variety of other engineered rubber products.

Urethane Additives

Our urethane additives business provides key products to global polyurethane processors. Urethane additives is comprised of three product lines: Fomrez® saturated polyester polyols, Witcobond® polyurethane dispersions, and Witcothane® polyurethane systems. Polyester polyols are employed in industrial applications such as flexible foam for seating. Our polyurethane dispersions are sold to a larger and more diverse customer base primarily for coating applications such as flooring, fiberglass sizing, and textiles. Polyurethane systems are used in applications such as the soles of workboots to provide resistance against harsh and corrosive environments. The major markets served by our urethane additives business are automotive, construction, surface coatings, leather, and textile finishing. Sub-markets include coatings, adhesives, sealants, elastomers, and insulation.

Baxenden Chemicals Limited, the Corporation's 53.5% owned subsidiary (Croda Inc. owns 46.5%), is engaged in the manufacture and marketing of isocyanate derivatives, polyester polyols and specialty polymer systems used in a wide range of applications. The major markets served by Baxenden are transportation, construction, surface coatings, leather and textile finishing. Baxenden is focused on specialty polymer and resin chemistry and novel curing mechanisms for such polymers. The core technology is urethane and acrylic chemistry and also includes novel polyesters and esterification processes.

Petroleum Additives

We are a global manufacturer and marketer of high-performance additive components used in transport and industrial lubricant applications. The component product line includes overbased and neutral calcium sulfonates used in motor oils and marine lubricants. These sulfonates, marketed as Hybase® and Lobase®, are oil-soluble surfactants and their properties include detergency and corrosion protection to help lubricants keep car, truck, and ship engines clean with minimal wear.

We provide a variety of other highly specialized, high value products. Foremost, our high-viscosity polyalphaolefins (PAOs), marketed as Synton®, are used in the production of synthetic lubricants for automotive, aviation, and industrial applications. We are also the global leader for alkylated diphenalamines antioxidants (ADPAs), marketed as Naugalubes®, used predominantly in motor oils. Additionally, we manufacture barium and sodium sulfonates, which provide corrosion protection and emulsification in metalworking fluids and antioxidants, which are widely used by our customers in engine oils, gear oils, industrial oils, and greases.

Polymers

The Polymers business, which had net sales for fiscal 2004 of \$334.0 million, has two principal product lines: Royalene® EPDM rubber and Adiprene®/Vibrathane® urethane prepolymers.

EPDM

Ethylene propylene diene monomer rubber (EPDM), commonly known as crackless rubber, is a material that is able to retain elasticity despite exposure to elements such as sunlight and ozone. Over 40% of our EPDM is used in new and replacement automotive parts, including tires, hoses, belts, weatherstripping, brake components, and seals and gaskets. Other applications range from high density, long-lasting commercial roofing membranes to low density, liquified viscosity modifiers for better performing lubricants.

We have a large and flexible manufacturing facility, which gives us the ability to manufacture over 30 grades of EPDM that provide our customers with cost effective performance polymers. Although a significant portion of the materials used in the production of EPDM are commodities, these specialized elastomers are marketed and sold on the basis of their value and performance in specified applications. Many of our products are adapted to the needs of our customers and provide high performance and technical and customer service, supported by specialists with extensive field and rubber processing experience.

Royalene® products are primarily sold through a dedicated sales force. However, in order to better serve a diverse customer base, in certain geographic areas, including the United States, Royalene® products are sold through distributors.

Urethane Polymers

We are a leading supplier of high-performance castable urethanes, with more than 200 prepolymers in our product offering. Our urethanes offer high abrasion resistance and durability in industrial and performance-specific applications. These characteristics allow us to market our urethanes to niche manufacturers where such qualities are imperative, including for industrial and printing rolls, mining machinery and equipment, mechanical goods, solid industrial tires and wheels, and sporting and recreational goods, including golf ball covers and skate wheels. The relatively low capital costs of this business provide us with the ability to operate cost effectively. We differentiate ourselves in these markets by tailoring our products to these specialized businesses, which sets us apart from our competitors.

Adiprene®/Vibrathane® urethane prepolymers are sold directly by a dedicated sales force in the United States, Canada and Australia and through direct sales distributorships in Europe, Latin America and the Far East. Adiprene®/Vibrathane® customers are serviced worldwide by a dedicated technical staff. Technical service personnel support field sales, while a research and development staff is dedicated to support new product and process development to meet rapidly changing customer needs. Technical support is a critical component of the product offering.

Polymer Processing Equipment

The Corporation's wholly-owned subsidiary, Davis-Standard Corporation, is a global leader in the manufacture of integrated polymer processing equipment, including rubber and plastic single-screw extrusion equipment and industrial blow-molding machines. We also provide installation, training, and maintenance services for our equipment, and we refurbish and upgrade polymer processing equipment manufactured by others. Integrated polymer processing systems, which include extruders in combination with other equipment, are used to process polymers into various products such as plastic sheets, extruded shapes, extruded coating, and cast and blown film.

Our customers for rubber and plastic single-screw extrusion equipment are processors of extruded products, including plastic sheets and profiles used in appliances, automobiles, home construction, and furniture; extruded shapes used as window profiles, vinyl house siding, and substitutes for wood molding; and cast and blown film used to package many consumer products. Our industrial blow-molding equipment is sold to manufacturers of non-disposable plastic items such as tool cases and beverage coolers.

In the United States, most of the Corporation's sales of polymer processing equipment are made by its own dedicated sales force and sales agents. In other parts of the world, and for export sales from the United States, the Corporation's sales of such equipment are made largely through agents.

The Polymer Processing Equipment segment had net sales for fiscal 2004 of \$180.0 million.

SPECIALTY PRODUCTS

Crop Protection

The Crop Protection segment had record net sales for fiscal 2004 of \$320.6 million compared to \$270.9 million for 2003 and \$240.1 million for 2002. Our Crop Protection business focuses on specific niches in four major product lines: fungicides, miticides and other insecticides, growth regulants, and herbicides. We have primarily developed our products for use on high-value cash crops, such as tree and vine fruits, ornamentals, nuts and turf, and secondarily for commodity crops, such as soybeans and corn. Our dedicated sales force works with growers and distributors to coordinate the use of our products throughout a crop's growth cycle and to address selective regional, climate, and growth challenges. We expand our presence in worldwide niche markets by developing new crop protection products and obtaining registrations for new uses and geographies, where demand for our products and services has potential for growth. We develop and sell our own products, and we also sell and register products manufactured by others on a licensed basis.

Our fungicides and insecticides are also used to coat seeds in order to protect the seed during germination and initial growth phases. Seed treatment is an environmentally attractive form of crop protection, involving localized use of agricultural chemicals at much lower use rates than other agrichemical treatments. We anticipate growth in seed treatment resulting from the expanded use of higher value genetically modified seed, which provides better protection during germination.

A central factor to the success of our Crop Protection business is our ability to work closely with our customers, both distributors and individual growers, as part of an on-the-ground coordinated effort. We develop products in response to ongoing customer demands, drawing upon existing technologies and tailoring them to match immediate needs. For example, a grower's crops may require varying levels of treatment depending on weather conditions and the degree of infestation. Our research and technology is therefore geared towards responding to threats to crops around the world as they emerge under a variety of conditions.

Our Crop Protection business benefits from nearly 50 years of experience in the field, along with product registrations in more than 100 countries. Our experience with registering products is a valuable asset, as registration is a significant barrier to entry, particularly in developed countries. Registration of products is a complex process in which we have developed proficiency over time. The breadth of our distribution network and the depth of our experience enable us to focus on profitable market niches that are less sensitive to competitive pricing pressures than broad commodity segments of the market.

The Crop Protection business markets its products in North America through a direct sales force selling to a distribution network consisting of more than 100 distributors and direct customers. In the international market, the Crop Protection business' direct sales force services over 1,400 distributors, dealers, cooperatives, seed companies and large grower customers.

Gustafson Joint Venture

In November 1998, the Corporation formed joint ventures with Bayer Corporation to serve the agricultural seed treatment markets in North America. The Corporation and Bayer each held a 50 percent interest in the seed treatment business operated by Gustafson LLC and Gustafson Partnership (collectively, Gustafson). In March 2004, the Corporation sold its 50 percent interest in Gustafson to Bayer Corporation for proceeds of \$128.9 million.

Other

The Other segment, with net sales for fiscal 2004 of \$264.5 million, consists of our Refined Products business in 2004.

Refined Products

The Refined Products business manufactures and markets a wide range of high-purity hydrocarbon products, including white oils, petrolatums, specialty waxes, and other refined products. Our products are used as emollients and moisture barriers in personal care products, such as baby oils and cosmetics; as lubricants in refrigerators and air conditioners; and as plasticizers and carriers in plastic products such as PVC pipe and

protective barriers for copper telecommunications cables.

In 1998, Petro-Canada Lubricants (Petro-Canada) of Mississauga, Ontario, Canada, became Refined Products' supplier for most grades of paraffinic white oils used in certain applications and Refined Products became Petro-Canada's exclusive distributor of these white oils in North America, Latin America and Asia Pacific.

Refined products are sold primarily through our own specialized sales force, including technical service professionals who address customer inquiries.

Sources of Raw Materials

Chemicals, steel, castings, parts, machine components and other raw materials required in the manufacture of the Corporation's products are generally available from a number of sources, some of which are foreign. The Corporation uses significant amounts of ethylene, propylene, benzene, caustic, tin, soybean oil, and tallow in many of our chemical manufacturing processes. Large increases in the cost of such key raw materials, particularly for sustained periods of time, could adversely affect the Corporation's operating margins. While temporary shortages of raw materials used by the Corporation may occur occasionally, such raw materials are currently readily available. However, their continuing availability and price are subject to domestic and world market and political conditions and regulations. Major requirements for key raw materials are typically purchased pursuant to multi-year contracts. The Corporation is not dependent on any one supplier for a material amount of its raw material requirements, except one supplier provides the Corporation with approximately 10% to 15% of diverse raw materials sourced from the supplier's multiple manufacturing/processing locations.

The Corporation holds a 50% interest in Rubicon Inc. (Rubicon), a manufacturing joint venture between Uniroyal and Huntsman Corporation, located in Geismar, Louisiana, which supplies both Huntsman and the Corporation with aniline, and the Corporation with diphenylamine (DPA). The Corporation believes that its aniline and DPA needs in the foreseeable future will be met by production from Rubicon.

Intellectual Property and Licenses

The Corporation has approximately 3,300 United States and foreign patents and pending applications and has trademark protection for approximately 500 product names. Patents, trade names, trademarks, know-how, trade secrets, formulae, and manufacturing techniques assist in maintaining the competitive position of certain of the Corporation's products. Patents, formulae, and know-how are of particular importance in the manufacture of a number of specialty chemicals manufactured and sold by the Corporation, and patents and know-how are also significant in the manufacture of certain wire insulating and polymer processing machinery product lines. The Corporation is licensed to use certain patents and technology owned by other companies, including some foreign companies, to manufacture products complementary to its own products, for which it pays royalties in amounts not considered material to the consolidated results of the Corporation. Products to which the Corporation has such rights include certain crop protection chemicals and polymer processing machinery.

Seasonal Business

With the exception of the Crop Protection business, no material portion of any segment of the business of the Corporation is significantly seasonal. The sales of our Crop Protection business are influenced by agricultural growing seasons, which causes the most notable decline in the fourth quarter as sales in our predominant Northern Hemisphere regions decline.

Customers

The Corporation does not consider any reporting segment of its business to be dependent on a single customer or a few customers, the loss of any one or more of whom would have a material adverse effect on the reporting segment. No one customer's business accounts for more than ten percent of the Corporation's consolidated revenues.

Backlog

Because machinery production schedules range from about 60 days to 11 months, backlog is significant to the Corporation's polymer processing equipment business. Firm backlog of customers' orders for this business at the end of 2004 totaled approximately \$86 million compared with \$62 million at the end of 2003. It is expected that most of the 2004 backlog will be shipped during 2005. Orders for specialty chemicals and polymers are generally filled from inventory stocks and thus are excluded from backlog.

Competitive Conditions

We produce a broad range of products for a wide variety of end-use markets, principally including transportation, construction, packaging, agriculture, lubricants, plastics for durable and non-durable goods, and personal care products. The breadth of our product offering provides multiple channels for growth and lessens our dependence on any one market. We sell our products in more than 100 countries, and this worldwide presence further reduces our exposure to any one country's or region's economy.

We have a broad client base and believe that our products, many of which we customize for the specific needs of our customers, allow us to enhance customer loyalty and attract customers that value product innovation and reliable supply.

Competition varies by product and by geographic region, except that in rubber chemicals the market is fairly concentrated. In that market, the Corporation believes that it is one of the three largest suppliers of rubber chemicals in the world. In addition, the EPDM market is fairly concentrated. The Corporation believes that it is one of the five largest suppliers of EPDM polymers in the world, and the third largest producer of EPDM in North America.

Product performance, quality, technical and customer service, and price are all important factors in competing in the polymer product and specialty product businesses.

Research and Development

Research and development expenditures by the Corporation totaled \$49.6 million for the year 2004, \$51.5 million for the year 2003, and \$54.3 million for the year 2002. We expect research and development expenditures to decrease in 2005 by approximately \$8 million as a result of the activity-based restructuring initiative. We have reorganized the research and development activities into a centrally managed function rather than embedded in each business. We believe this will provide a greater focus on the overall strategy, better project prioritization and more sharing of best practices within the Company. We will maintain a customer-driven approach to help us discover new products and applications while we continue to improve the technical refinement of our existing product offerings. As of December 31, 2004 the Company had approximately 300 research and other technology personnel.

Environmental Matters

Chemical companies are subject to extensive environmental laws and regulations concerning, among other things, emissions to the air, discharges to land, surface, subsurface strata and water and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. Chemical companies are also subject to other federal, state and local laws and regulations regarding health and safety matters.

Environmental Regulation. The Corporation believes that its business, operations and facilities have been and are being operated in substantial compliance in all material respects with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. The ongoing operations of chemical manufacturing plants, however, entail risks in these areas and there can be no assurance that material costs or liabilities will not be incurred. In addition, future developments, such as increasingly strict requirements of environmental and health and safety laws and regulations and enforcement policies thereunder, could bring into question the handling, manufacture, use, emission or disposal of substances or pollutants at facilities owned, used or controlled by the Corporation or the manufacture, use or disposal of

certain products or wastes by the Corporation and could involve potentially significant expenditures. To meet changing permitting and regulatory standards, the Corporation may be required to make significant site or operational modifications, potentially involving substantial expenditures and reduction or suspension of certain operations. The Corporation incurred \$15.5 million of costs for capital projects and \$44 million for operating and maintenance costs related to environmental compliance at its facilities during fiscal 2004. In fiscal 2005, the Corporation expects to incur approximately \$20.7 million of costs for capital projects and \$44.5 million for operating and maintenance costs related to environmental compliance at its facilities. During fiscal 2004, the Corporation paid \$18.7 million to clean up previously utilized waste disposal sites and to remediate current and past facilities. The Corporation expects to spend approximately \$24.3 million during fiscal 2005 to clean up such waste disposal sites and to remediate current and former facilities.

Pesticide Regulation. The Corporation's Crop Protection business is subject to regulation under various federal, state, and foreign laws and regulations relating to the manufacture, sales and use of pesticide products.

In August, 1996, Congress enacted the Food Quality Protection Act of 1996 (FQPA), which made significant changes to the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), governing U.S. sale and use of pesticide products, and the Federal Food, Drug, and Cosmetic Act (FFDCA), which limits pesticide residues on food. FQPA facilitated registrations and reregistrations of pesticides for special (so called "minor") uses under FIFRA and authorized collection of maintenance fees to support pesticide reregistrations. Coordination of regulations implementing FIFRA and FFDCA is now required. Food safety provisions of FQPA establish a single standard of safety for pesticide residue on raw and processed foods; require that information be provided through large food retail stores to consumers about the health risks of pesticide residues and how to avoid them; preempt state and local food safety laws if they are based on concentrations of pesticide residues below recently established federal residue limits (called "tolerances"); and ensure that tolerances protect the health of infants and children.

FFDCA, as amended by FQPA, authorizes the Environmental Protection Agency (EPA) to set a tolerance for a pesticide in or on food at a level, which poses "a reasonable certainty of no harm" to consumers. The EPA is required to review all tolerances for all pesticide products by August 2006. Some of the Corporation's products have successfully completed review, others are currently under review and other products will be reviewed under this standard in the future.

The European Commission (EC) has established procedures whereby all existing active ingredient pesticides will be reviewed. This EC regulation became effective in 1993 and will result in a review of all commercial products. The initial round of reviews covered ninety products, four of which are the Corporation's products. Data from the Corporation pertaining to these products was submitted for review in mid-2003. Other of the Corporation's products will be reviewed in future years. The process may lead to full reregistration in member states of the EC or may lead to some restrictions, or cancellation of registrations if adverse data is discovered.

Employees

The Corporation had approximately 4,800 employees on December 31, 2004.

Available Information

The Corporation's internet website address is www.cromptoncorp.com. The Corporation makes available free of charge on or through its internet website the Corporation's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after the Corporation electronically files such material with, or furnishes it to, the Securities and Exchange Commission (Commission).

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The Corporation's Corporate Governance Principles, Code of Business Conduct and charters for its Audit Committee and its Organization, Compensation and Governance Committee are available on the Corporation's website and will be available, free of charge, to any stockholder who requests them from the Corporate Secretary at Crompton Corporation, 199 Benson Road, Middlebury, CT 06749 USA. The information contained on the Corporation's website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

Geographic Information

The information with respect to sales and property, plant and equipment attributable to each of the major geographic areas served by the Corporation for each of the Corporation's last three fiscal years, is set forth in the Notes to Consolidated Financial Statements on page 91 of this Report.

The Corporation considers that the risks relating to operations of its foreign subsidiaries are comparable to those of other U.S. companies, which operate subsidiaries in developed countries. These risks include risks of political change, change in tax regulations, change in business climate, economic changes and foreign currency volatility.

ITEM 2. PROPERTIES

The following table sets forth information as to the principal operating properties and other significant properties of the Corporation and its subsidiaries. All properties are owned in fee except where otherwise indicated:

<u>Location</u>	<u>Facility</u>	<u>Reporting Segment</u>
UNITED STATES		
Alabama Bay Minette	Plant	Polymer Additives
Connecticut Bethany Middlebury Naugatuck Pawcatuck	Research Center Corporate Offices, Research Center* Research Center Office, Plant, Machine Shop, Tech Center	Crop Protection Corporate Headquarters Polymer Additives, Polymers Polymer Processing Equipment
Illinois Mapleton	Plant	Polymer Additives, Polymers, Other
Louisiana Geismar Taft	Plant Plant	Crop Protection, Polymer Polymer Additives
New Jersey Perth Amboy Somerville	Plant Office, Plant, Machine Shop	Polymer Additives Polymer Processing Equipment
New York Tarrytown	Research Center*	Polymer Additives, Other
North Carolina Gastonia	Plant	Crop Protection, Polymer Additives, Polymers
Pennsylvania Petrolia	Plant	Other
Tennessee Memphis	Plant	Polymer Additives, Other
Texas Marshall	Plant	Polymer Additives
West Virginia Morgantown	Plant, Research Center	Polymer Additives

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<u>Location</u>	<u>Facility</u>	<u>Reporting Segment</u>
INTERNATIONAL		
Australia Regency Park, S.A. Seven Hills	Office, Machine Shop* Office, Laboratory*	Crop Protection Polymers
Belgium Antwerp	Office*	Crop Protection, Polymer Additives, Polymers, Other
Brazil Rio Claro Sao Paulo	Plant Office*	Crop Protection, Polymer Additives, Polymers Crop Protection, Polymer Additives, Polymers
Canada Elmira Guelph Scarborough West Hill	Plant Research Center Plant* Plant	Crop Protection, Polymer Additives, Polymers Crop Protection, Polymer Additives, Polymers Polymer Additives Polymer Additives
Germany Bergkamen Erkrath Lampertheim	Plant* Office, Plant, Machine Shop, Tech Center Plant	Polymer Additives Polymer Processing Equipment Polymer Additives
Italy Latina	Plant	Crop Protection, Polymer Additives, Polymers
Korea Ansan	Plant	Polymer Additives
Mexico Altamira Cuautitlan	Plant Plant	Polymer Additives Polymer Additives
The Netherlands Ankerwag Amsterdam Haarlem Koog aan de Zaan	Plant Plant Plant Plant	Crop Protection Polymer Additives, Other Polymer Additives, Other Polymer Additives, Other
Republic of China Kaohsiung Nanjing	Plant** Plant	Polymer Additives Polymers
Singapore	Administrative, Research, Sales Office*	Polymer Additives, Polymers, Other
Thailand Mapthaphut	Plant*	Polymer Additives
United Kingdom Accrington Droitwich Evesham Langley Oldbury	Plant*** Plant*** Research Center Office* Office, Plant, Machine Shop	Polymer Additives Polymer Additives Crop Protection Crop Protection, Polymer Additives, Polymers, Other Polymer Processing Equipment

* Facility leased by the Corporation.

** Facility owned by Uniroyal Chemical Taiwan Ltd., which is 80% owned by Uniroyal, a wholly-owned subsidiary of the Corporation.

*** Facility owned by Baxenden Chemicals Limited, which is 53.5% owned by the Corporation.

All facilities are considered to be in good operating condition, well maintained, and suitable for the Corporation's requirements.

ITEM 3. LEGAL PROCEEDINGS

The Corporation is involved in claims, litigation, administrative proceedings and investigations of various types in a number of jurisdictions. A number of such matters involve, or may involve, claims for a material amount of damages and relate to or allege environmental liabilities, including clean-up costs associated with hazardous waste disposal sites, natural resource damages, property damage and personal injury.

Environmental Liabilities

Each quarter, the Company evaluates and reviews estimates for future remediation and other costs to determine appropriate environmental reserve amounts. For each site, a determination is made of the specific measures that are believed to be required to remediate the site, the estimated total cost to carry out the remediation plan, the portion of the total remediation costs to be borne by the Company and the anticipated time frame over which payments toward the remediation plan will occur. The total amount accrued for such environmental liabilities at December 31, 2004, was \$114.5 million. The Company estimates the potential currently determinable environmental liability to range from \$103 million to \$131 million at December 31, 2004. The Company's reserves include estimates for determinable clean-up costs. At a number of these sites, the extent of contamination has not yet been fully investigated or the final scope of remediation is not yet determinable. The Company intends to assert all meritorious legal defenses and other equitable factors that are available with respect to these matters, and believes that the likelihood of a material adverse effect resulting from the currently indeterminable clean-up costs is remote. However, the final cost of clean-up at these sites could exceed the Company's present estimates, and could have, individually or in the aggregate, a material adverse effect on the Company's financial condition, results of operations and cash flows. It is reasonably possible that the Company's estimates for environmental remediation liabilities may change in the future should additional sites be identified, further remediation measures be required or undertaken, current laws and regulations be modified or additional environmental laws and regulations be enacted.

The Company and some of its subsidiaries have been identified by federal, state or local governmental agencies, and by other potentially responsible parties (a PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or comparable state statutes, as a PRP with respect to costs associated with waste disposal sites at various locations in the United States. Because these regulations have been construed to authorize joint and several liability, the EPA could seek to recover all costs involving a waste disposal site from any one of the PRPs for such site, including the Company, despite the involvement of other PRPs. In many cases, the Company is one of several hundred PRPs so identified. In a few instances, the Company is one of only a handful of PRPs, and at one site, the Company is the only PRP performing investigation and remediation. Where other financially responsible PRPs are involved, the Company expects that any ultimate liability resulting from such matters will be apportioned between the Company and such other parties. In addition, the Company is involved with environmental remediation and compliance activities at some of its current and former sites in the United States and abroad. The more significant of these matters are described below.

Laurel Park - The EPA, the State of Connecticut, and the Laurel Park Coalition (consisting of Uniroyal and a number of other parties) have entered into a Consent Decree governing the design and implementation of the selected remedy for the Laurel Park site. Remedial construction began at the Laurel Park site in July 1996, and was completed in 1998. Operation and maintenance activities at the site are ongoing.

Litigation brought by the Laurel Park Coalition seeking contribution to the costs from the owner/operators of the site and later from other identified generator parties has resulted in substantial recoveries from a number of parties. In December 2000 and January 2001, the United States District Court for the District of Connecticut (District Court) issued final judgment allowing recovery against various municipalities by the Laurel Park Coalition in the aggregate amount of approximately \$1 million and declaring that the defendants at the Laurel Park site are liable for certain stated percentages of future response costs. As a result of a settlement with one municipality, the aggregate amount of the outstanding judgment has been reduced to approximately \$0.8 million. In October 2002, the United States Second Circuit Court of Appeals (Second Circuit) generally affirmed the recoveries adopted by the District Court with respect to the municipal defendants. In November 2002, the municipal defendants filed a Petition for Rehearing En Banc with the Second Circuit which was denied in January

2003. Immediately following this denial, the same defendants filed a Motion to Stay Mandate for 90 days to allow them to petition the United States Supreme Court for a writ of certiorari. In June 2003, the Petition for Writ of Certiorari was denied and the matter was remanded to the District Court to perform a calculation concerning interest due on response costs. The District Court subsequently ordered mediation that was unsuccessful. The District Court then directed the parties to submit calculations of interest in accordance with the Second Circuit's decision. On August 14, 2004, the District Court issued a ruling awarding the Laurel Park Coalition a total of approximately \$0.6 million against the towns of Middlebury and Orange, Connecticut, the two remaining defendants in this action. The Laurel Park Coalition believes that the District Court's calculations were not in accord with the terms of the remand and accordingly, the Laurel Park Coalition filed a notice of appeal to the Second Circuit on December 17, 2004, and is awaiting an order setting the schedule for briefing and argument.

Vertac - Uniroyal (a wholly-owned subsidiary of the Company) and its Canadian subsidiary, Uniroyal Chemical Co./Cie (formerly known as Uniroyal Chemical Ltd./Ltee) were joined with others as defendants in consolidated civil actions brought in the United States District Court, Eastern District of Arkansas, Western Division (Court) by the United States of America, the State of Arkansas and Hercules Incorporated (Hercules), relating to a Vertac Chemical Corporation site in Jacksonville, Arkansas. Uniroyal has been dismissed from the litigation. However, on May 21, 1997, the Court entered an order finding that Uniroyal Chemical Co./Cie is jointly and severally liable to the United States, and finding that Hercules and Uniroyal Chemical Co./Cie are liable to each other in contribution. On October 23, 1998, the Court entered an order granting the United States' motion for summary judgment against Uniroyal Chemical Co./Cie and Hercules as to the amount of its claimed removal and remediation costs of \$102.9 million at the Vertac site. Trial on the allocation of these costs as between Uniroyal Chemical Co./Cie and Hercules was concluded on November 6, 1998, and on February 3, 2000, the Court entered an Order finding Uniroyal Chemical Co./Cie liable to the United States for approximately \$2.3 million and liable to Hercules in contribution for approximately \$0.7 million. On April 10, 2001, the United States Court of Appeals for the Eighth Circuit (Appeals Court) (i) reversed a decision in favor of the United States and against Hercules with regard to the issue of divisibility of harm and remanded the case back to the Court for a trial on the issue; (ii) affirmed the finding of arranger liability against Uniroyal Co./Cie; and (iii) set aside the findings of contribution between Hercules and Uniroyal Co./Cie by the Court pending a decision upon remand. The Appeals Court also deferred ruling on all constitutional issues raised by Hercules and Uniroyal Co./Cie pending subsequent findings by the Court. On June 6, 2001, the Appeals Court denied Uniroyal Co./Cie's petition for rehearing by the full Appeals Court on the Appeals Court's finding of arranger liability against Uniroyal Co./Cie and on December 10, 2001, Uniroyal Co./Cie's Petition for a Writ of Certiorari to the United States Supreme Court with regard to the issue of its arranger liability was denied. On December 12, 2001, the Court concluded hearings pursuant to the April 10, 2001 remand by the Appeals Court and briefing on the issue of divisibility was completed in January 2003. A decision from the Court is expected during the second quarter of 2005. If Hercules prevails in its divisibility argument on remand, the Company might become liable under a joint and several liability theory for a significant share of the liability that had previously been allocated to Hercules.

Petrolia - In April 2004, the Company and other owners of property near our Petrolia, Pennsylvania facility were named as defendants in a toxic tort class action lawsuit alleging contamination in and around the named areas that gave rise to certain property damage and personal injuries. The plaintiffs also seek clean-up by the defendants of the alleged contamination. This action is in the early procedural stages of litigation, and the Company cannot predict its outcome.

The Company intends to assert all meritorious legal defenses and other equitable factors that are available with respect to these matters, and believes that the likelihood of a material adverse effect resulting from the currently indeterminable remedial costs or damages is remote. However, the resolution of the environmental matters now pending or hereafter asserted against the Company or any of its subsidiaries could require the Company to pay remedial costs or damages in excess of its present estimates, and as a result could, either individually or in the aggregate, have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Antitrust Investigations and Related Matters

Antitrust Investigations

Rubber Chemicals

On May 27, 2004, the Company pled guilty to a one-count information charging the Company with participating in a combination and conspiracy to suppress and eliminate competition by maintaining and increasing the price of certain rubber chemicals sold in the United States and elsewhere during the period between July 1995 to 2001. The U.S. federal court imposed a fine of \$50.0 million, payable in six annual installments, without interest, beginning in 2004. In light of the Company's cooperation with the U.S. Department of Justice (the DOJ), the court did not impose any period of corporate probation. On May 28, 2004, the Company pled guilty to one count of conspiring to lessen competition unduly in the sale and marketing of certain rubber chemicals in Canada. The Canadian federal court imposed a sentence requiring the Company to pay a fine of CDN \$9.0 million (approximately U.S. \$7 million), payable in six annual installments, without interest, beginning in 2004. The Company paid \$2.3 million in cash in 2004 for the U.S. and Canadian fines. Remaining cash payments for the U.S. and Canadian fines are expected to equal approximately \$2.3 million in 2005; \$6.5 million in 2006; \$11.2 million in 2007; \$16.2 million in 2008; and \$18.5 million in 2009. The Company recorded a pre-tax charge of \$45.2 million against results of operations for its fiscal year ended December 31, 2003, as a reserve for the payment of the U.S. and Canadian fines.

The Company and certain of its subsidiaries continue to be the subject of a coordinated civil investigation by the European Commission (the EC) with respect to the sale and marketing of rubber chemicals. At this time, the Company cannot predict the timing or outcome of that investigation, including the amount of any fine that may be imposed by the EC.

Other Product Areas

The Company and certain of its subsidiaries are subjects of, and continue to cooperate in, coordinated criminal and civil investigations being conducted by the DOJ, the Canadian Competition Bureau and the EC (collectively, the Governmental Authorities) with respect to possible antitrust violations relating to the sale and marketing of certain other products, including ethylene propylene diene monomer (EPDM); heat stabilizers, including tin-based stabilizers and precursors, mixed metal stabilizers and epoxidized soybean oil (ESBO); nitrile rubber; and urethanes and urethane chemicals. Such investigations concern anticompetitive practices, including price fixing and customer or market allocations, undertaken by the Company and such subsidiaries and certain of their officers and employees. The Company and its subsidiaries that are subject to the investigations have received from each of the Governmental Authorities verbal or written assurances of conditional amnesty from prosecution and fines. The EC's grant of conditional amnesty with respect to heat stabilizers is presently limited to tin-based stabilizers and their precursors, but the Company expects to be granted conditional amnesty by the EC with respect to mixed metal stabilizers and ESBO. The assurances of amnesty are conditioned upon several factors, including continued cooperation with the Governmental Authorities. The Company is actively cooperating with the Governmental Authorities regarding such investigations.

Internal Investigation

The Company has completed its internal investigation of the Company's business and products to determine compliance with applicable antitrust law and with the Company's antitrust guidelines and policies. During the course of its internal investigation, the Company strengthened its training and compliance programs and took certain actions with respect to certain employees, including termination of employment and other disciplinary actions.

Impact upon the Company

The Company does not expect the previously described resolution of the rubber chemicals investigations by the United States and Canada to have a material adverse effect on its cash flows. However, the resolution of any other possible antitrust violations against the Company and certain of its subsidiaries and the resolution of any civil claims now pending or hereafter asserted against them may have a material adverse effect on the Company's financial condition, results of operations, cash flows and prospects. No assurances can be given regarding the outcome or timing of these matters.

The Company's antitrust costs increased from \$8.4 million (pre-tax) during the immediately prior fiscal quarter ended September 30, 2004 to \$96.9 million (pre-tax) for the fiscal quarter ended December 31, 2004, as a result of a charge of \$93.1 million in connection with the anticipated settlement of three direct purchaser class action lawsuits against the Company and certain of its subsidiaries relating to rubber chemicals, EPDM and nitrile rubber (as described below). The Company expects to continue to incur substantial costs until all antitrust investigations are concluded and civil claims are resolved.

Civil Lawsuits

U.S. Federal Antitrust Actions

Plastics Additives Settlement Agreement. On August 11, 2004, the Company and plaintiff class representatives entered into a Settlement Agreement (the *Plastics Additives Settlement Agreement*) that resolves, with respect to the Company, a single, consolidated direct purchaser class action lawsuit that was filed in the United States District Court, Eastern District of Pennsylvania, against the Company and other companies, by plaintiffs on behalf of themselves and a class consisting of all persons and entities who purchased plastics additives in the United States directly from any of the defendants or from any predecessors, parents, subsidiaries or affiliates thereof at any time during the period from January 1, 1990 through January 31, 2003. The complaint in this action principally alleged that the defendants conspired to fix, raise, maintain or stabilize prices for plastics additives sold in the United States in violation of Section 1 of the Sherman Act and that this caused injury to the plaintiffs who paid artificially inflated prices for such products as a result of such alleged anticompetitive activities. Under the *Plastics Additives Settlement Agreement*, the Company paid \$5.0 million to a settlement fund in exchange for the final dismissal with prejudice of the lawsuit as to the Company and a complete release of all claims against the Company set forth in the lawsuit. The court granted final approval of the *Plastics Additives Settlement Agreement* in January 2005.

Global Settlement Agreement. On January 11, 2005, the Company and plaintiff class representatives entered into a Settlement Agreement (the *Global Settlement Agreement*) that is intended to resolve, with respect to the Company, three consolidated direct purchaser class action lawsuits that were filed in the United States District Courts in the District of Connecticut, Western District of Pennsylvania and Northern District of California, respectively, against the Company, its subsidiary Uniroyal Chemical Company, Inc., now known as Crompton Manufacturing, Inc. (referred to as *Uniroyal* for purposes of the description of the Company's civil lawsuits), and other companies, by plaintiffs on behalf of themselves and classes consisting of all persons or entities who purchased EPDM, nitrile rubber and rubber chemicals, respectively, in the United States directly from one or more of the defendants or any predecessor, parent, subsidiary or affiliates thereof, at any time during various periods, with the earliest commencing on January 1, 1995. The complaints in the consolidated actions principally alleged that the defendants conspired to fix, raise, maintain or stabilize prices for EPDM, nitrile rubber and rubber chemicals, as applicable, sold in the United States in violation of Section 1 of the Sherman Act and that this caused injury to the plaintiffs who paid artificially inflated prices for such products as a result of such alleged anticompetitive activities.

Under the *Global Settlement Agreement*, the Company agreed to pay \$97.0 million to a settlement fund in exchange for the final dismissal with prejudice of the foregoing three lawsuits as to the Company and a complete release of all claims against the Company set forth in the lawsuits. The plaintiffs, with the assistance of a neutral party, will determine the allocation of the settlement funds, or if the plaintiffs fail to achieve agreement, the neutral party will establish the allocation. When the allocation of the settlement funds has been determined, the parties will enter into *Implementing Settlement Agreements* for the applicable affected actions. Following an initial payment of \$500,000 to an escrow account, the Company will pay the settlement funds to an escrow account in three installments, without interest, beginning at preliminary approval of the *Implementing Settlement Agreements* by the applicable courts and continuing through the later of 20 days following final approval of the settlement by each applicable court or June 30, 2006. The Company has the right to rescind the *Global Settlement Agreement* in its entirety if (i) the court for the rubber chemicals action or the court for the EPDM action refuses to approve the *Implementing Settlement Agreements* for the applicable product area without modification, or does not enter the final judgment, or (ii) the court for the rubber chemicals action and the court for the EPDM action enter the final judgment and appellate review is sought and, on such review, either or both of those final judgments is modified or set aside on appeal. Under certain circumstances relating to persons requesting exclusion from the applicable

class, the Company has the option to terminate the Global Settlement Agreement in whole or in part.

ParaTec Elastomers Cross-Claims. A defendant in the class action lawsuit relating to nitrile rubber, ParaTec Elastomers LLC, a former joint venture in which the Company previously owned a majority interest but now has no interest, has asserted cross claims against the Company in this class action, seeking damages that ParaTec Elastomers LLC has allegedly suffered or may suffer as a result of the Company's actions. On August 6, 2004, the Company filed a motion to dismiss the cross claims, or in the alternative to compel arbitration, which remains pending.

Remaining Direct Purchaser Lawsuits. The Company, individually or together with its subsidiary Uniroyal, and other companies, continues to be or has become a defendant in certain direct purchaser lawsuits filed in federal courts during the period from May 2004 through December 2004 involving the sale of rubber chemicals, EPDM, polychloroprene, nitrile rubber, plastics additives and urethanes and urethane chemicals.

With respect to rubber chemicals, the Company, Uniroyal and other companies are defendants in two single direct purchaser lawsuits, one filed on July 15, 2004, in the United States District Court, Western District of Pennsylvania, by RBX Industries, Inc., and the other filed on July 16, 2004, in the United States District Court, Northern District of Ohio, by Goodyear Tire & Rubber Company, in each case, with respect to purchases of rubber chemicals from one or more of the defendants. Both actions have been transferred to the Northern District of California for pre-trial purposes by the Judicial Panel on Multidistrict Litigation. With respect to EPDM, the Company, Uniroyal and other companies are defendants in a single direct purchaser lawsuit filed on May 7, 2004, in the United States District Court, Northern District of Ohio, by Goodyear Tire & Rubber Company with respect to purchases of EPDM and polychloroprene from one or more of the defendants. The Company, Uniroyal and other companies are also defendants in a single direct purchaser lawsuit filed on July 28, 2004, in the United States District Court, Eastern District of Pennsylvania, by RBX Industries, Inc. Both actions have been transferred to the District of Connecticut for pre-trial purposes by the Judicial Panel on Multidistrict Litigation.

With respect to nitrile rubber, the Company, Uniroyal and other companies are defendants in a direct purchaser class action lawsuit filed on November 30, 2004, in the United States District Court, Western District of Pennsylvania, by Quabaug Corporation on behalf of itself and a class consisting of all persons or entities who purchased nitrile rubber directly from one or more of the defendants or any predecessor, successor, subsidiary, or affiliate of any of the defendants in the United States during the period from January 1, 1995 through June 30, 2003.

The Company, Uniroyal and other companies are defendants in a direct purchaser lawsuit filed on November 14, 2004, in the United States District Court, Northern District of Ohio, by Parker Hannifin Corporation and PolyOne Corporation with respect to purchases of EPDM, nitrile rubber and polychloroprene from one or more of the defendants.

With respect to plastics additives, the Company and other companies are defendants in a single direct purchaser lawsuit, filed on December 28, 2004, in the United States District Court, Northern District of Ohio, by PolyOne Corporation with respect to purchases of plastics additives from one or more of the defendants. In February 2005, the Company filed an unopposed motion with the Judicial Panel on Multidistrict Litigation for the transfer of this action to the Eastern District of Pennsylvania for coordination with the consolidated class action pending there.

With respect to urethanes and urethane chemicals, the Company, Uniroyal and other companies are defendants in a consolidated direct purchaser class action lawsuit filed on November 19, 2004, in the United States District Court, District of Kansas, by plaintiffs on behalf of themselves and a class consisting of all persons and entities who purchased urethanes and urethane chemicals in the United States directly from any of the defendants or from any present or former parent, subsidiary or affiliate thereof at any time during the period from January 1, 1998 to the present. This action consolidates twenty-six direct purchaser class action lawsuits previously described in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2004.

The complaints in these actions principally allege that the defendants conspired to fix, raise, maintain or stabilize prices for rubber chemicals, EPDM, polychloroprene, nitrile rubber, plastics additives or urethanes and urethane chemicals, as applicable, sold in the United States in violation of Section 1 of the Sherman Act and that this caused injury to the plaintiffs who paid artificially inflated prices for such products as a result of such alleged anticompetitive activities. With respect to the complaints relating to the sale of polychloroprene, although the Company does not sell or market polychloroprene, the complaints allege that the Company and producers of polychloroprene conspired to raise prices with respect to polychloroprene and the other products included in the complaint collectively in one conspiracy. In each of the foregoing actions, the plaintiffs seek, among other things, treble damages of unspecified amounts, costs (including attorneys' fees) and injunctive relief preventing further violations of the Sherman Act.

State Court Antitrust Class Actions

Rubber Chemicals. With respect to rubber chemicals, the Company, certain of its subsidiaries and other companies remain defendants in ten pending putative indirect purchaser class action lawsuits filed during the period from October 2002 through February 2005 in state courts in eight states.

Seven of the outstanding ten lawsuits were filed in California, Florida, Minnesota, South Dakota, Tennessee, Vermont and West Virginia, and the putative class in each lawsuit comprises all persons within each of the applicable states who purchased tires other than for resale that were manufactured using rubber processing chemicals sold by the defendants since 1994. The complaints principally allege that the defendants agreed to fix, raise, stabilize and maintain the price of rubber processing chemicals used as part of the tire manufacturing process in violation of the laws of these states and that this caused injury to individuals who paid more to purchase tires as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, treble damages of an unspecified amount, interest and attorneys' fees and costs.

The eighth lawsuit was filed in Massachusetts, and the putative class comprises all natural persons within Massachusetts who purchased for non-commercial purposes any product containing rubber chemicals sold by the defendants or any subsidiary or affiliate thereof, or any co-conspirator, since January 1, 1994 and who are residents of Massachusetts. The complaint principally alleges that the defendants agreed to fix, raise, stabilize and maintain the price of rubber chemicals distributed or sold in Massachusetts and throughout the United States in violation of the laws of that state and that the plaintiff and the alleged class were injured. The plaintiff seeks, among other things, double or treble damages of an unspecified amount, interest and attorneys' fees and costs.

The ninth lawsuit was filed in Tennessee, and the putative class comprises all individuals and entities in Tennessee, 22 other states and the District of Columbia, who purchased rubber chemicals indirectly from the defendants or any of their co-conspirators, parents, predecessors, successors, subsidiaries and affiliates at any time from at least January 1, 1994. The complaint principally alleges that the defendants agreed to fix, raise, stabilize and maintain the price of rubber chemicals and to allocate markets and customers for the sale of rubber chemicals in violation of the laws of these states and that this caused the members of the class to pay inflated prices for products manufactured using rubber chemicals. The plaintiffs seek, among other things, to recover single or treble damages of an unspecified amount, attorneys' fees and costs.

The remaining lawsuit, filed in Florida, is a multi-product lawsuit and is described under that heading below.

The Company and its defendant subsidiaries have filed motions to dismiss on substantive and personal jurisdictional grounds or answers with respect to eight of the lawsuits, and intends to file motions to dismiss the remaining two lawsuits. Certain motions to dismiss remain pending, and other motions to dismiss have been denied by the applicable court, which are being, or will be, appealed by the Company and its defendant subsidiaries.

EPDM. With respect to EPDM, the Company, its subsidiary Uniroyal, and other companies are defendants in fourteen pending putative indirect purchaser class action lawsuits filed during the period of October 2003 through February 2005 in state courts in twelve states.

Ten of the outstanding fourteen lawsuits were filed in California, North Carolina, Florida, New York, Iowa, New Mexico, New Jersey, Vermont, Arizona and Nebraska, respectively, and the putative class of each action comprises all persons or entities in each of the applicable states who purchased indirectly EPDM at any time from the defendants or any predecessors, parents, subsidiaries, or affiliates thereof from at least January 1, 1994. The complaints principally allege that the defendants conspired to fix, raise, stabilize, and maintain the price of EPDM and allocate markets and customers in the United States, including the foregoing states, respectively, in violation of the laws of those states and that this caused injury to purchasers who paid more to purchase indirectly EPDM as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, single or treble damages of an unspecified amount, costs (including attorneys' fees), and disgorgement of profits. The Company and its defendant subsidiaries have filed motions to dismiss on substantive and personal jurisdictional grounds or answers with respect to most of the foregoing actions.

The eleventh lawsuit was filed in Tennessee, and the putative class comprises all persons or business entities in Tennessee, 24 other states and the District of Columbia that purchased indirectly EPDM manufactured, sold or distributed by the defendants, other than for resale, from January 1994 to December 2002. The complaint principally alleges that the defendants conspired to fix, raise, stabilize, and maintain the price of EPDM and allocate markets and customers in the United States, including the foregoing states, respectively, in violation of the laws of those states and that this caused injury to purchasers who paid more to purchase indirectly EPDM as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, single or treble damages of an unspecified amount, costs (including attorneys' fees), and disgorgement of profits. The Company and its defendant subsidiary have filed motions to dismiss on substantive and personal jurisdictional grounds in this action.

The twelfth lawsuit was filed in Tennessee, and the putative class comprises all persons or entities in 23 states and the District of Columbia who purchased EPDM indirectly from the defendants or any of their co-conspirators, parents, predecessors, successors, subsidiaries and affiliates at any time from January 1, 1999 to the present. These lawsuits principally allege that the defendants conspired to fix, raise, stabilize, and maintain the price of EPDM and allocate markets and customers in the United States, including the foregoing states, respectively, in violation of the laws of those states and that this caused injury to purchasers who paid more to purchase indirectly EPDM as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, single or treble damages of an unspecified amount, costs (including attorneys' fees), and disgorgement of profits.

The two remaining lawsuits, filed in Massachusetts and Florida, respectively, are multi-product lawsuits and are described under that heading below.

Plastics Additives. With respect to plastics additives, the Company and other companies are defendants in six pending putative indirect purchaser class action lawsuits filed during the period of May 2004 through February 2005 in state courts in six states.

Five of the outstanding six lawsuits were filed in California, Vermont, Arizona, Ohio and Nebraska, respectively, and the putative class of each action comprises all persons or entities in each of the applicable states who purchased indirectly plastics additives at any time from any of the defendants, other than for resale, during various periods, each commencing on January 1, 1990.

The sixth lawsuit was filed on January 5, 2005 in Tennessee. The putative class in this action comprises all individuals and entities in 23 states and the District of Columbia who purchased indirectly plastics additives from any of the defendants or any of their predecessors, parents, subsidiaries or affiliates at any time from January 1, 1990 to January 31, 2003.

Each of the foregoing lawsuits principally alleges that the defendants and co-conspirators agreed to fix, raise, stabilize and maintain the price of plastics additives in violation of the laws of jurisdictions named in the complaints, as applicable, and that this caused injury to purchasers who paid more to purchase plastics additives as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, treble damages of an unspecified amount, costs (including attorneys' fees) and/or injunctive relief preventing the defendants from continuing the unlawful activities alleged in the complaint.

Nitrile Rubber. With respect to nitrile rubber, the Company, its subsidiary Uniroyal, and other companies are defendants in twelve pending putative indirect purchaser class action lawsuits in state courts in seven states.

Six of the outstanding twelve lawsuits were filed from March 2004 to August 2004 in California. The putative classes in these actions comprise all persons or entities in California who purchased indirectly nitrile rubber from any of the defendants at various times from January 1, 1994. The complaints principally allege that the defendants conspired to fix, raise, stabilize and maintain the price of nitrile rubber and allocate markets and customers in the United States and California in violation of the laws of that state and that this caused injury to purchasers who paid more to purchase, indirectly, nitrile rubber as a result of such alleged anticompetitive activities. The plaintiffs in these actions seek, among other things, treble damages of an unspecified amount, costs (including attorneys' fees), and disgorgement of profits. By agreement, plaintiffs in the six California actions will file a consolidated amended complaint.

One of the outstanding lawsuits was filed on January 5, 2005 in Tennessee. The putative class comprises all individuals and entities in 23 states and the District of Columbia who purchased indirectly nitrile rubber from the defendants or any of their co-conspirators, parents, predecessors, successors, subsidiaries and affiliates from January 1, 1994 to the present. The complaint principally alleges that the defendants conspired to fix, raise, stabilize and maintain the price of nitrile rubber and allocate markets and customers in Tennessee and the other named jurisdictions in violation of the Tennessee Trade Practices Act and the Tennessee Consumer Protection Act of 1977, as well as the common law of the other named jurisdictions, and that this caused injury to purchasers in the foregoing states who paid more to purchase, indirectly, nitrile rubber as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, treble damages of unspecified amounts and costs (including attorneys' fees).

Three of the outstanding lawsuits were filed in Vermont, Arizona and Nebraska, respectively, and the putative class of each action comprises all persons or entities in each of the applicable states who purchased indirectly nitrile rubber manufactured, sold or distributed by the defendants, other than for resale, during January 1, 1995 through June 30, 2003. The complaints principally allege that the defendants conspired to fix, raise, stabilize and maintain the price of nitrile rubber in violation of the laws of these states. The plaintiffs seek, among other things, damages of unspecified amounts and costs (including attorneys' fees).

The two remaining outstanding lawsuits, filed in Florida and Massachusetts, respectively, are multi-product lawsuits and are described under that heading below.

Urethanes and Urethane Chemicals. With respect to urethanes and urethane chemicals, the Company, its subsidiary Uniroyal, and other companies are defendants in fifteen pending putative indirect purchaser class action lawsuits in four states.

Eleven of the outstanding fifteen lawsuits were filed during the period from March through June 2004 in California. The putative class in the California actions comprises all persons or entities in California who purchased indirectly urethanes and urethane chemicals from any of the defendants at any time during various periods with the earliest commencing on January 1, 1990. Two of the lawsuits were each filed in Tennessee on December 22, 2004. The putative class in the first Tennessee action comprises all natural persons who purchased indirectly urethanes and urethane chemicals during the period from January 1, 1994 to April 2004. The putative class in the second Tennessee action comprises all individuals and entities in 23 states and the District of Columbia who purchased indirectly urethanes and urethane chemicals from the defendants or any of their co-conspirators, parents, predecessors, successors, subsidiaries and affiliates from March 19, 2000 through the present. The two remaining lawsuits, filed in Massachusetts and Florida, respectively, are multi-product lawsuits and are described under that heading below.

The foregoing lawsuits principally allege that the defendants conspired to fix, raise, stabilize and maintain the price of urethanes and urethane chemicals and allocate markets and customers in violation of the laws of the applicable jurisdictions, and that this caused injury to purchasers who paid more to purchase, indirectly, urethanes and urethane chemicals as a result of such alleged anticompetitive activities. The plaintiffs seek, among other things, treble damages of an unspecified amount, costs (including attorneys' fees), and/or disgorgement of profits.

Multi-Product Lawsuits. The Company, its subsidiary Uniroyal, and other companies are defendants in two pending putative indirect purchaser class action lawsuits in two states that each involve multiple products.

One of the outstanding multi-product lawsuits was filed in Florida, and the putative class comprises all natural persons who, within Florida, 19 other states and the District of Columbia, purchased for non-commercial purposes any product containing rubber and urethane products (defined to include rubber chemicals, EPDM, nitrile rubber and urethanes and urethane chemicals) manufactured or sold by any of the defendants, and which were the subject of price-fixing by any of the defendants or any co-conspirator, at any time from January 1, 1994 through December 31, 2004. The complaint principally alleges that the defendants agreed to fix, raise, stabilize and maintain the price of rubber chemicals distributed or sold in Florida, 19 other states and the District of Columbia in violation of the laws of these states and the District of Columbia, and that the plaintiff and the alleged class were injured. The plaintiff seeks, among other things, damages of an unspecified amount, interest and attorneys' fees and costs.

The other outstanding multi-product lawsuit was filed in Massachusetts, and the putative class comprises all natural persons who, within Massachusetts, purchased for non-commercial purposes any product containing rubber and urethane products (defined to include EPDM, nitrile rubber, urethanes and urethane chemicals) manufactured or sold by any of the defendants, and which were the subject of price-fixing by any of the defendants or any co-conspirator, at any time from January 1, 1994 through December 31, 2004. The complaint principally alleges that the defendants agreed to fix, raise, stabilize and maintain the price of rubber chemicals distributed or sold in Massachusetts and throughout the United States in violation of the laws of that state, and that the plaintiff and the alleged class were injured. The plaintiff seeks, among other things, damages of an unspecified amount, interest and attorneys' fees and costs.

Canadian Antitrust Actions

Two motions for authorization to commence a class action were filed in May 2004, in the Superior Court of the District of St. Francois and the Superior Court of the District of Montreal, in Quebec, Canada, against the Company, Crompton Co./Cie (with respect to the motion filed in the Superior Court of the District of St. Francois only) and other companies. The motions were filed on behalf of persons and certain entities that purchased in Quebec rubber chemicals directly or indirectly from the parties respondent during various periods commencing in July 1995. The motions principally allege that the Company conspired with other defendants to restrain unduly competition in the sale of rubber chemicals and to inflate artificially the sale price of the rubber chemicals in

violation of Canada's Competition Act, and that this caused injury to purchasers who paid artificially inflated prices for such rubber chemicals. The plaintiffs in both motions seek, among other things, authorization to commence their respective class actions, recovery of the additional revenues generated by the artificial inflation of the price of rubber chemicals, attorneys' fees and costs. The plaintiff in the motion filed in the District of Montreal also seeks exemplary and punitive damages. Both motions have been suspended pending determination of the constitutionality of certain Quebec civil procedure rules involving class actions.

A motion for authorization to commence a class action was filed in February 2005, in the Superior Court of the District of Quebec, in Quebec, Canada, against the Company, its subsidiaries Crompton Canada Corporation, Crompton Co./Cie and Uniroyal, and other companies. The motion was filed on behalf of all residents of Quebec who purchased, used or received EPDM or who purchased products containing EPDM between January 1, 1994 and December 31, 2002. The motion principally alleges that the Company conspired with other defendants to restrain unduly competition in the sale of EPDM and to inflate artificially the sale price of EPDM in violation of Canada's Competition Act, and that this caused injury to purchasers who paid artificially inflated prices for EPDM or products containing EPDM. The plaintiffs seek, among other things, authorization to commence a class action, recovery of the additional revenues generated by the artificial inflation of the price of EPDM, exemplary and punitive damages, attorneys' fees and costs.

A Statement of Claim was filed in October 2004, in the Ontario Superior Court of Justice in London, Ontario in Canada, against the Company, its subsidiaries Crompton Canada Corporation, Crompton Co./Cie and Uniroyal, and other companies. The Statement of Claim was filed on behalf of a proposed class of persons and entities in Canada who purchased EPDM manufactured by the defendants or products containing such EPDM during the period from at least January 1994 to December 2002. The Statement of Claim principally alleges that the Company conspired with other defendants to restrain unduly competition in the sale of EPDM and to inflate artificially the sale price of EPDM in violation of Canada's Competition Act, and that this caused injury to purchasers who paid artificially inflated prices for EPDM. The plaintiff seeks, among other things, general and punitive damages, interest and costs on behalf of the proposed class. This case will proceed as a class action only if, when and to the extent it is certified as a class proceeding by the Ontario Court.

A Statement of Claim was filed in February 2005, in the Ontario Superior Court of Justice in London, Ontario in Canada, against the Company, its subsidiaries Crompton Canada Corporation, Crompton Co./Cie and Uniroyal, and other companies. The Statement of Claim was filed on behalf of a proposed class of persons and entities in Canada who purchased rubber chemicals (including accelerants and antidegradants) manufactured by the defendants or products containing such rubber chemicals from at least July 1995 to 2001. The Statement of Claim principally alleges that the Company conspired with other defendants to coordinate the timing and amounts of price increases for certain rubber chemicals and to allocate customers and sales volumes amongst themselves in violation of Canada's Competition Act, and that this caused injury to purchasers who paid artificially inflated prices for rubber chemicals or products containing rubber chemicals. The plaintiff seeks, among other things, general and punitive damages, interest and costs on behalf of the proposed class. This case will proceed as a class action only if, when and to the extent it is certified as a class proceeding by the Ontario Court.

Federal Securities Class Actions

The Company, certain of its former officers and directors (the Crompton Individual Defendants), and certain former directors of the Company's predecessor Witco Corp. are defendants in a consolidated class action lawsuit, filed on July 20, 2004, in the United States District Court, District of Connecticut, brought by plaintiffs on behalf of themselves and a class consisting of all purchasers or acquirers of the Company's stock between October 1998 and October 2002. The consolidated amended complaint principally alleges that the Company and the Crompton Individual Defendants caused the Company to issue false and misleading statements that violated the federal securities laws by reporting inflated financial results resulting from an alleged illegal, undisclosed price-fixing conspiracy. The putative class includes former Witco Corp. shareholders who acquired their securities in the Crompton-Witco merger pursuant to a registration statement that allegedly contained misstated financial results. The complaint asserts claims against the Company and the Crompton Individual Defendants under Section 11 of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Plaintiffs also assert claims for control person liability under Section 15 of the Securities Act of 1933 and Section 20 of the Securities Exchange Act of 1934 against the Crompton Individual Defendants. The complaint also asserts claims for breach of fiduciary duty against certain former directors of Witco Corp. for

actions they allegedly took as Witco Corp. directors in connection with the Crompton-Witco merger. The plaintiffs seek, among other things, unspecified damages, interest, and attorneys' fees and costs. The Company and the Crompton Individual Defendants filed a motion to dismiss on September 17, 2004, which is now fully briefed and pending. The former directors of Witco Corp. filed a motion to dismiss in February 2005, which is pending.

Shareholder Derivative Lawsuit

Certain current directors and one former director and officer of the Company (the Individual Defendants) are defendants in a shareholder derivative lawsuit filed on August 25, 2003 in Connecticut state court, nominally brought on behalf of the Company. The Company is a nominal defendant in the lawsuit. The plaintiff filed an amended complaint on November 19, 2004. The amended complaint principally alleges that the Individual Defendants breached their fiduciary duties by causing or allowing the Company to issue false and misleading financial statements by inflating financial results resulting from an alleged illegal, undisclosed price-fixing conspiracy. The plaintiff contends that this wrongful conduct caused the Company's financial results to be inflated, cost the Company its credibility in the marketplace and market share, and has and will continue to cost the Company millions of dollars in investigative and legal fees. The plaintiff seeks, among other things, compensatory and punitive damages against the director defendants in unspecified amounts, prejudgment interest, and attorneys' fees and costs. The Company filed a motion to strike all counts of the complaint on January 12, 2005 for failure to allege adequately that a pre-lawsuit demand on the Company's Board of Directors by the plaintiff would have been futile and was thus excused.

The actions described above are in early procedural stages of litigation and, accordingly, the Company cannot predict their outcome. The Company will seek cost-effective resolutions to the various pending and threatened legal proceedings and governmental investigations regarding its operations; however, the resolution of any civil claims now pending or hereafter asserted against the Company or any of its subsidiaries could have a material adverse effect on the Company's financial condition, results of operations and prospects. The Company has not recorded a charge for potential liabilities and expenses in connection with the civil claims not subject to any settlement agreement, because it is not yet able to reasonably estimate a reserve for such potential costs.

Other

The Company is routinely subject to other civil claims, litigation and arbitration, and regulatory investigations, arising in the ordinary course of its present business as well as in respect of its divested businesses. Some of these claims and litigations relate to product liability claims, including claims related to the Company's current products and asbestos-related claims concerning premises and historic products of its corporate affiliates and predecessors. The Company believes that it has strong defenses to these claims. These claims have not had a material impact on the Company to date and the Company believes the likelihood that a future material adverse outcome will result from these claims is remote. However, the Company cannot be certain that an adverse outcome of one or more of these claims would not have a material adverse effect on its business or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Corporation are as follows:

Robert L. Wood, age 50, has served as President and Chief Executive Officer of the Company since January 2004 and Chairman since April 2004. Previously, Mr. Wood served for 27 years with The Dow Chemical Company in a variety of executive capacities, most recently as business group President for Thermosets and Dow Automotive.

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Robert W. Ackley, age 63, has served as Executive Vice President, Polymer Processing Equipment of the Registrant since 1999. Mr. Ackley served as Vice President, Polymer Processing Equipment, of Crompton & Knowles from 1998 to 1999 and has served as President of Davis-Standard Corporation (prior to 1995, Davis-Standard Division) since 1983.

John T. Ferguson II, age 58, has served as Senior Vice President, Legal Affairs since 2004, and Senior Vice President and General Counsel of the Registrant from 1999 to 2004. Mr. Ferguson also served as Secretary of the Registrant from 1999 to 2000.

David P. Godfrey, age 48, has served as Vice President, Human Resources since 2004 and Director of Human Resources from 2002 to 2004. Previously, Mr. Godfrey served for 22 years with Millennium Chemicals, Inc., in a variety of executive capacities, most recently as Director, Human Resources - Americas.

Gregory E. McDaniel, age 53, has served as Senior Vice President, Strategy & New Business Development since 2004. Previously, Mr. McDaniel served for 28 years with The Dow Chemical Company in a variety of executive capacities, most recently as Vice President and Director of New Business Development and Mergers and Acquisitions within the Polyurethane and Thermosets Group.

Marcus Meadows-Smith, age 43, has served as Executive Vice President, Crop Protection since 2005, and Business Director, Crop Protection, Europe, the Middle East and Africa, from 2000 to 2004.

Myles S. Odaniell, age 46, has served as Executive Vice President, Specialty Chemicals since 2004 and Executive Vice President, Plastics and Petroleum Additives from 2002 to 2004. Previously, Mr. Odaniell served for more than 20 years with Cytec Industries/American Cyanamid Company in a variety of executive capacities, most recently as President, Coating and Performance Chemicals and President, Cytec Latin America.

Karen R. Osar, age 55, has served as Executive Vice President and Chief Financial Officer since 2004. Previously, Ms. Osar served as Senior Vice President and Chief Financial Officer of MeadWestvaco Corporation and of Westvaco Corporation, and as Treasurer of Tenneco, Inc. Ms. Osar also spent 19 years in banking at J. P. Morgan and Company.

Walter K. Ruck, age 62, has served as Senior Vice President, Europe, Africa and Middle East since 2003, and Senior Vice President, Operations, of the Registrant from 1999 to 2003.

Lynn A. Schefsky, age 56, has served as Senior Vice President and General Counsel since 2004. Previously, Mr. Schefsky served for 19 years with The Dow Chemical Company in a variety of legal positions, most recently as Global Managing Counsel for Thermosets and Dow Automotive.

Barry J. Shainman, age 62, has served as Secretary of the Registrant since 2000 and has served as Assistant General Counsel of the Registrant since 1999. Mr. Shainman served as Secretary of Uniroyal from 1998 to 2000 and has served as Senior Corporate Counsel of Uniroyal since 1990.

Michael F. Vagnini, age 48, has served as Senior Vice President and Controller of the Registrant since 2005; Vice President and Controller from 2002 to 2005; and Corporate Controller of the Registrant from 1999 to 2002. Mr. Vagnini has served as Corporate Controller of Uniroyal since 1995.

Robert B. Weiner, age 53, has served as Executive Vice President, Supply Chain Operations since 2004. Previously, Mr. Weiner spent three years at Exide Technologies where he served as Executive Vice President, Product Delivery; seven years in executive operations positions at United Technology Corporation's Pratt & Whitney division; and 16 years in manufacturing and quality control positions at General Electric Company.

Eric C. Wisniefsky, age 34, has served as Vice President, Corporate Finance and Treasurer since 2004, and Director of Financial Planning and Analysis from 2002 to 2004. Mr. Wisniefsky served as Manager, Financial Planning and Analysis from 2000 to 2002, and as Manager of External Reporting from 1998 to 2000.

The term of office of each of the above-named executive officers is until the first meeting of the Board of Directors following the next annual meeting of stockholders and until the election and qualification of his or her successor.

There is no family relationship between any of such officers, and there is no arrangement or understanding between any of them and any other person pursuant to which any such officer was selected as an officer.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table summarizes the range of market prices for Crompton Corporation's common stock on the New York Stock Exchange and the amount of dividends per share by quarter during the past two years:

	2004			
	First	Second	Third	Fourth
Dividends per common share	\$ 0.05	0.05	0.05	0.05
Market price per common share:				
High	\$ 7.85	6.98	9.63	11.80
Low	\$ 5.77	5.35	5.02	8.09
	2003			
	First	Second	Third	Fourth
Dividends per common share	\$ 0.05	0.05	0.05	0.05
Market price per common share:				
High	\$ 6.90	7.75	7.63	7.37
Low	\$ 3.63	3.75	5.10	5.31

The number of registered holders of common stock of the Company on December 31, 2004 was 5,411.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for the Company for each of its last five fiscal years follows:

<i>(In millions of dollars, except per share data)</i>	2004	2003	2002	2001	2000
Summary of Operations					
Net sales	\$ 2,549.8	2,185.0	2,090.3	2,286.5	2,554.0
Gross profit	\$ 642.5	569.0	622.0	659.9	763.6
Selling, general and administrative	\$ 364.1	353.0	354.5	378.9	371.1
Depreciation and amortization	\$ 126.1	115.4	111.4	150.8	148.8
Research and development	\$ 49.5	51.5	54.3	56.0	59.2
Equity income	\$ (14.1)	(13.2)	(7.9)	(9.2)	(11.4)
Facility closures, severance and related costs	\$ 63.1	19.6	18.0	101.5	20.2
Antitrust costs	\$ 113.7	77.7	6.3		
Impairment of long-lived assets (a)	\$			80.4	
Operating profit (loss)	\$ (59.9)	(35.0)	85.4	(98.5)	175.7
Interest expense	\$ 78.4	89.7	101.7	109.9	120.4
Loss on early extinguishment of debt	\$ 20.1	24.7			
Other (income) expense, net (b)	\$ (75.0)	5.4	38.0	27.2	7.1
Earnings (loss) from continuing operations before income taxes and cumulative effect of accounting change	\$ (83.4)	(154.8)	(54.3)	(235.6)	48.2
Income taxes (benefit)	\$ (46.7)	(36.1)	(18.9)	(79.9)	22.8
Earnings (loss) from continuing operations before cumulative effect of accounting change	\$ (36.7)	(118.7)	(35.4)	(155.7)	25.4
Earnings from discontinued operations	\$	26.3	50.9	31.8	63.9
Gain on sale of discontinued operations	\$ 2.1	111.7			
Cumulative effect of accounting change (c)	\$	(0.4)	(299.0)		
Net earnings (loss)	\$ (34.6)	19.0	(283.5)	(123.9)	89.3
Per Share Statistics					
Basic and Diluted					
Earnings (loss) from continuing operations before cumulative effect of accounting change	\$ (0.32)	(1.05)	(0.31)	(1.38)	0.22
Earnings from discontinued operations	\$	0.23	0.44	0.28	0.56
Gain on sale of discontinued operations	\$ 0.02	0.99			
Cumulative effect of accounting change	\$		(2.63)		
Net earnings (loss)	\$ (0.30)	0.17	(2.50)	(1.10)	0.78
Dividends	\$ 0.20	0.20	0.20	0.20	0.20
Book value	\$ 2.84	2.64	1.76	4.84	6.69
Common stock trading range: High	\$ 11.80	7.75	13.00	12.19	14.19
Low	\$ 5.02	3.63	5.44	6.20	6.94
Average shares outstanding (in thousands)-Basic	114,736	112,531	113,568	113,061	113,644
Average shares outstanding (in thousands)-Diluted	114,736	112,531	113,568	113,061	115,165
Financial Position					
Working capital	\$ 287.2	109.2	365.6	412.7	624.4
Current ratio	1.4	1.2	1.5	1.6	1.9
Total assets	\$ 2,678.7	2,529.2	2,840.8	3,232.2	3,528.3
Total debt	\$ 866.5	814.7	1,256.8	1,412.0	1,493.9
Stockholders' equity	\$ 329.0	302.7	199.9	547.5	754.0
Total capital employed	\$ 1,195.5	1,117.4	1,456.7	1,959.5	2,247.9
Debt to total capital %	72.5	72.9	86.3	72.1	66.5

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(In millions of dollars, except for number of employees)

	2004	2003	2002	2001	2000
Other Statistics					
Net cash provided by (used in) operations	\$ 36.3	(14.8)	201.8	205.0	210.6
Capital spending from continuing operations	\$ 65.2	81.7	84.3	92.3	107.1
Depreciation from continuing operations	\$ 108.0	100.8	99.9	119.0	116.8
Amortization from continuing operations	\$ 18.1	14.5	11.6	31.8	32.0
Number of employees at end of year	4,773	5,521	6,777	7,340	8,306

- (a) During the fourth quarter of 2001, as a result of changes in the marketplace, the Company evaluated the recoverability of the long-lived assets of its rubber chemicals business (included in the Polymer Additives reporting segment) and the trilene business (included in the Polymers reporting segment). Based on projected cash flows, the Company determined that the carrying values of the long-lived assets of these businesses were impaired and recorded impairment charges of \$66.7 million and \$13.7 million related to the long-lived assets of the rubber chemicals and trilene businesses, respectively.
- (b) Other (income) expense, net includes divestment gains of \$96.6 million in 2004, which includes the \$92.9 million gain on the sale of the Company's 50 percent interest in the Gustafson seed treatment joint venture and a \$3.6 million gain on the completion of the sale of the assets of the Company's Brooklyn, New York facility in March 2004, a loss of \$34.7 million on the sale of the industrial specialties business unit in 2002, and losses of \$17.3 million and \$1.8 million on the sale of the industrial colors business unit and the nitrile rubber joint venture, respectively, in 2001.
- (c) 2003 includes a cumulative effect of accounting change of \$0.4 million, related to the implementation of Financial Accounting Standards Board (FASB) Statement No. 143, Accounting for Asset Retirement Obligations and 2002 includes a cumulative effect of accounting change of \$299 million, or \$2.63 per common share, related to the implementation of FASB Statement No. 142, Goodwill and Other Intangible Assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The Company is a global diversified producer of specialty chemicals (including agricultural chemicals), polymer products and polymer processing equipment. The Company has approximately 4,800 employees worldwide and sells its products in more than 100 countries. The Company is headquartered in Middlebury, Connecticut. The Company operates in various markets, principally automotive, transportation, construction, agriculture, packaging, lubricants, plastics for durable and non-durable goods, personal care products and industrial rubber. Most of its chemical products are sold to industrial manufacturing customers for use as additives, ingredients or intermediates that add value to their end products.

The primary economic factors that influence the Company's operations and sales are industrial production, residential and commercial construction, auto production and resin production. In addition, the Company's crop protection business is influenced by worldwide weather, disease and pest infestation conditions and its polymer processing equipment business is influenced by capital spending cycles. The Company also monitors the Gross National Product for key foreign economies. During 2004, the Company continued to experience an increase in unit sales volume across most business units as compared to 2003, due in part to continued improvement in worldwide economic conditions.

Net sales for the year ended December 31, 2004 of \$2.5 billion were 17% above the \$2.2 billion for the year ended December 31, 2003. This increase was due to improved unit volume of 5%, sales attributable to the GE Specialty Chemicals business that the Company acquired on July 31, 2003 of 5%, improved selling prices of 4%, and favorable foreign currency translation of 3%.

Other major factors affecting the Company's financial performance include raw material and energy costs, selling prices and the impact of changes in foreign exchange rates. In 2004, the Company has been focusing on pricing and is beginning to see meaningful results, with increases in selling prices during the second half of 2004 exceeding raw material and energy cost increases. The third quarter of 2004 was the first time in nine quarters that the relationship of the change in selling prices to the change in raw material and energy costs was favorable, with selling price increases exceeding raw material and energy cost increases by \$2.4 million. The favorable trend continued in the fourth quarter of 2004 with selling price increases exceeding raw material and energy cost increases by \$9 million. For the year ended 2004, selling prices increased by \$93.5 million, while raw material and energy costs increased by \$102.8 million from the comparable period in 2003. This is a significant improvement from the year ended 2003, which had raw material and energy costs increases of approximately \$62.6 million from