FMC CORP
Form 10-Q
October 31, 2008
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2008**

**or**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from ______ to ______**

**Commission File Number 1-2376**

# FMC CORPORATION

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **94-0479804** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **1735 Market Street** | |
| **Philadelphia, Pennsylvania** | **19103** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: 215/299-6000**

**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 x NO ¨**

**INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER OR A SMALLER REPORTING COMPANY. SEE DEFINITIONS OF LARGE ACCELERATED FILER, ACCELERATED FILER, AND SMALLER REPORTING COMPANY IN RULE 12-B2 OF THE EXCHANGE ACT. (CHECK ONE):**

**LARGE ACCELERATED FILER x ACCELERATED FILER ¨ NON-ACCELERATED FILER ¨ SMALLER REPORTING COMPANY ¨**

**INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT) YES ¨ NO x**

**INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE**

| **Class** | **Outstanding at September 30, 2008** |
|---|---|
| Common Stock, par value $0.10 per share | 74,020,961 |

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**FMC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**
**FMC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| (in Millions, Except Per Share Data) | Three Months Ended September 30, 2008 | 2007 | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|---|---|
| | (unaudited) | | (unaudited) | |
| **Revenue** | $ 820.8 | $ 626.6 | $ 2,377.6 | $ 1,958.6 |
| **Costs and Expenses** | | | | |
| Costs of sales and services | 580.8 | 440.2 | 1,616.4 | 1,351.4 |
| Selling, general and administrative expenses | 81.9 | 73.8 | 255.6 | 229.1 |
| Research and development expenses | 23.4 | 20.5 | 68.2 | 67.4 |
| In-process research and development | 1.0 | 1.0 | 1.0 | 2.0 |
| Restructuring and other charges (income) | 14.6 | 23.0 | 17.0 | 140.0 |
| Total costs and expenses | 701.7 | 558.5 | 1,958.2 | 1,789.9 |
| Income from continuing operations before equity in (earnings) loss of affiliates, minority interests, interest expense, net, loss on extinguishment of debt and income taxes | 119.1 | 68.1 | 419.4 | 168.7 |
| Equity in (earnings) loss of affiliates | (2.3) | 0.4 | (2.9) | (2.3) |
| Minority interests | 4.7 | 2.9 | 11.4 | 6.1 |
| Interest expense, net | 7.5 | 8.6 | 24.5 | 27.0 |
| Loss on extinguishment of debt | | 0.3 | | 0.3 |
| Income from continuing operations before income taxes | 109.2 | 55.9 | 386.4 | 137.6 |
| Provision for income taxes | 23.3 | 14.5 | 108.0 | 26.8 |
| Income from continuing operations | 85.9 | 41.4 | 278.4 | 110.8 |
| Discontinued operations, net of income taxes | (5.9) | (4.3) | (20.1) | (19.3) |
| **Net income** | $ 80.0 | $ 37.1 | $ 258.3 | $ 91.5 |
| **Basic earnings (loss) per common share:** | | | | |
| Continuing operations | $ 1.16 | $ 0.55 | $ 3.75 | $ 1.47 |
| Discontinued operations | (0.08) | (0.06) | (0.27) | (0.26) |
| Net income | $ 1.08 | $ 0.49 | $ 3.48 | $ 1.21 |
| **Diluted earnings (loss) per common share:** | | | | |
| Continuing operations | $ 1.13 | $ 0.54 | $ 3.65 | $ 1.42 |
| Discontinued operations | (0.08) | (0.06) | (0.26) | (0.24) |
| Net income | $ 1.05 | $ 0.48 | $ 3.39 | $ 1.18 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FMC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| (in Millions, Except Share and Par Value Data) | September 30, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 95.0 | $ 75.5 |
| Trade receivables, net of allowance of $17.8 at September 30, 2008 and $18.0 at December 31, 2007 | 719.7 | 599.7 |
| Inventories | 361.1 | 275.0 |
| Prepaid and other current assets | 120.9 | 126.9 |
| Deferred income taxes | 136.2 | 117.0 |
| **Total current assets** | 1,432.9 | 1,194.1 |
| Investments | 23.4 | 20.6 |
| Property, plant and equipment, net | 930.8 | 934.7 |
| Goodwill | 192.4 | 180.2 |
| Other assets | 191.9 | 144.8 |
| Deferred income taxes | 159.0 | 259.0 |
| **Total assets** | $ 2,930.4 | $ 2,733.4 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current liabilities** | | |
| Short-term debt | $ 33.6 | $ 47.9 |
| Current portion of long-term debt | 0.3 | 77.7 |
| Accounts payable, trade and other | 364.5 | 327.4 |
| Accrued and other liabilities | 316.2 | 250.0 |
| Guarantees of vendor financing | 21.1 | 29.7 |
| Accrued pensions and other postretirement benefits, current | 10.6 | 10.6 |
| Income taxes | 14.5 | 8.1 |
| **Total current liabilities** | 760.8 | 751.4 |
| Long-term debt, less current portion | 542.1 | 419.6 |
| Accrued pension and other postretirement benefits, long-term | 89.3 | 100.2 |
| Environmental liabilities, continuing and discontinued | 164.7 | 160.1 |
| Reserve for discontinued operations | 39.0 | 33.5 |
| Other long-term liabilities | 126.9 | 145.9 |
| Minority interests in consolidated companies | 58.0 | 58.4 |
| Commitments and contingent liabilities (Note 19) | | |
| **Stockholders equity** | | |
| Preferred stock, no par value, authorized 5,000,000 shares; no shares issued in 2008 or 2007 | | |
| Common stock, $0.10 par value, authorized 130,000,000 shares in 2008 and 2007; 92,991,896 issued shares at September 30, 2008 and December 31, 2007, respectively | 9.3 | 9.3 |
| Capital in excess of par value of common stock | 395.1 | 407.5 |
| Retained earnings | 1,487.6 | 1,255.8 |
| Accumulated other comprehensive income (loss) | (50.7) | (9.9) |
| Treasury stock, common, at cost: 18,970,935 shares at September 30, 2008 and 17,862,495 shares at December 31, 2007 | (691.7) | (598.4) |
| Total stockholders equity | 1,149.6 | 1,064.3 |

| | | |
|---|---|---|
| **Total liabilities and stockholders equity** | $ 2,930.4 | $ 2,733.4 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FMC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| (in Millions) | (unaudited) | |
| **Cash provided (required) by operating activities of continuing operations:** | | |
| Net Income | $ 258.3 | $ 91.5 |
| Discontinued operations | 20.1 | 19.3 |
| Income from continuing operations | $ 278.4 | $ 110.8 |
| Adjustments from income from continuing operations to cash (required) provided by operating activities of continuing operations: | | |
| Depreciation and amortization | 94.3 | 100.7 |
| Loss of extinguishment of debt | | 0.3 |
| Equity in (earnings) loss of affiliates | (2.9) | (2.3) |
| Restructuring and other charges (income) | 17.0 | 140.0 |
| In-process research and development | 1.0 | 2.0 |
| Deferred income taxes | 88.9 | 11.1 |
| Minority interests | 11.4 | 6.1 |
| Other | 12.3 | 5.4 |
| Changes in operating assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Trade receivables, net | (128.3) | (64.4) |
| Guarantees of vendor financing | (8.6) | (3.6) |
| Inventories | (50.1) | (24.1) |
| Other current assets and other assets | (31.1) | 3.3 |
| Accounts payable | 40.0 | (15.9) |
| Accrued and other current liabilities and other liabilities | 51.7 | 22.7 |
| Income taxes | 9.9 | 5.1 |
| Accrued pension and other postretirement benefits, net | (42.7) | (37.2) |
| Environmental spending, continuing | (9.8) | (4.0) |
| Restructuring and other spending | (14.2) | (25.9) |
| Cash provided (required) by operating activities | 317.2 | 230.1 |
| **Cash provided (required) by operating activities of discontinued operations:** | | |
| Environmental spending, discontinued | (24.2) | (15.7) |
| Payments of other discontinued reserves | (13.6) | (13.9) |
| Cash provided (required) by operating activities of discontinued operations | (37.8) | (29.6) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FMC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

| (in Millions) | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|
| | (unaudited) | |
| **Cash provided (required) by investing activities:** | | |
| Capital expenditures | $ (125.9) | $ (76.5) |
| Proceeds from disposal of property, plant and equipment | 3.5 | 1.3 |
| Proceeds from sale of Princeton property | 59.4 | |
| Proceeds from sale of sodium sulfate assets | 16.7 | |
| Acquisitions, net of cash acquired | (89.8) | |
| Distributions from Astaris | | 4.4 |
| In-process research and development expenditure | (1.0) | (1.0) |
| Other investing activities | (4.2) | (6.8) |
| Cash provided (required) by investing activities | (141.3) | (78.6) |
| **Cash provided (required) by financing activities:** | | |
| Net borrowings (repayments) under committed credit facilities | 147.3 | |
| Increase (decrease) in other short-term debt | (12.5) | 12.0 |
| Financing fees | | (0.7) |
| Repayments of long-term debt | (99.0) | (82.2) |
| Distributions to minority partners | (12.5) | (10.2) |
| Issuances of common stock, net | 12.8 | 12.7 |
| Dividends paid | (25.1) | (21.8) |
| Repurchases of common stock | (126.6) | (84.5) |
| Cash provided (required) by financing activities | (115.6) | (174.7) |
| Effect of exchange rate changes on cash and cash equivalents | (3.0) | 3.2 |
| Increase (Decrease) in cash and cash equivalents | 19.5 | (49.6) |
| Cash and cash equivalents, beginning of period | 75.5 | 165.5 |
| Cash and cash equivalents, end of period | $ 95.0 | $ 115.9 |

Supplemental disclosure of cash flow information: Cash paid for interest was $28.9 million and $32.2 million, and income taxes paid, net of refunds were $12.9 million and $9.8 million for the nine months ended September 30, 2008 and 2007, respectively. In the first nine months of 2007, we made a non-cash contribution of approximately 2,000 shares of treasury stock to our employee benefit plans having a cost of $0.1 million.

See Note 16 regarding quarterly cash dividend.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FMC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**Note 1: Financial Information and Accounting Policies**

In our opinion the condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ( GAAP ) applicable to interim period financial statements and reflect all adjustments necessary for a fair statement of results of operations and cash flows for the three and nine months ended September 30, 2008 and 2007, and our financial position as of September 30, 2008. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2008 and 2007 are not necessarily indicative of the results of operations for the full year. The condensed consolidated balance sheet as of September 30, 2008 and the related condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007, and condensed consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007, have been reviewed by our independent registered public accountants. The review is described more fully in their report included herein.

Our accounting policies are set forth in detail in Note 1 to the consolidated financial statements included with our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (the 2007 10-K ).

**Note 2: Recently Issued and Adopted Accounting Pronouncements**

**New accounting standards**

*SFAS No. 141(R)*

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141(revised), Business Combinations . Statement No. 141(R) applies to all business combinations. Under SFAS No. 141(R) an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair values on the acquisition date. We are required to adopt this Statement starting in 2009 and it is to be applied to business combinations occurring in 2009 and thereafter. Early adoption of this Statement is prohibited.

*SFAS No. 160*

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements . Statement No. 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. We are required to adopt this Statement starting in 2009. Early adoption of this Statement is prohibited and we are currently in the process of evaluating the effect that this Statement will have on our consolidated financial statements.

*SFAS No. 161*

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities . Statement No. 161 applies to the disclosure requirements for all derivative instruments and hedged items accounted for under SFAS No. 133 and its related interpretations. This Statement amends and expands the disclosure requirements of Statement 133, requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about the credit risk related contingent features in derivative agreements. We are required to adopt this Statement starting in 2009. We are currently in the process of evaluating the effect that this Statement will have on the disclosures in our consolidated financial statements.

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*FSP EITF 03-6-1*

In June 2008, the FASB issued FASB Staff Position ( FSP ) EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities . This FSP requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents to be treated as *participating securities* as defined in EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, Earnings per Share . Upon adoption, all previously reported EPS data should be adjusted retrospectively to conform with the requirements of the FSP. We are required to adopt this FSP starting in 2009. Early adoption is prohibited. We are currently in the process of evaluating the effect that this FSP will have on our consolidated financial statements.

**Recently adopted accounting standards in 2008**

*SFAS No. 159*

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . Statement No. 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. We adopted SFAS 159 on January 1, 2008. Upon adoption, we did not elect the fair value measurement option for any of our financial assets or liabilities; therefore, the adopted Statement did not have an impact on our consolidated financial statements.

*SFAS No. 157*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . Statement No. 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and enhances disclosures about fair value measurements. The Statement applies when other accounting pronouncements require fair value measurements; it does not require new fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 , which amends FAS No. 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We adopted SFAS No. 157 for financial assets and liabilities on January 1, 2008. Other than new disclosure, there was no impact to our condensed consolidated financial statements upon adoption of SFAS No. 157. SFAS No. 157-2 for nonfinancial assets and liabilities is effective for us starting in 2009. We currently do not have any non-financial assets or non-financial liabilities that are required to be measured at fair value on a recurring basis. See Note 5 for additional information regarding the adoption of this Statement.

**Note 3: Acquisitions**

During the third quarter 2008, we acquired the two businesses described below for approximately $97 million. We paid $89.8 million in cash for these two businesses which represents the purchase price of approximately $97 million less cash acquired. The businesses will be integrated into our Specialty Chemicals segment s BioPolymer Division. The purchase price is not considered final due to working capital adjustments expected to occur in the fourth quarter of 2008.

In August 2008, we acquired the hydrocolloids ingredients business of International Specialty Products (ISP). This acquisition is intended to strengthen our position in hydrocolloids and enhance service to the global customers in food, pharmaceutical and specialty industries. Under the agreement, we acquired ISP s alginates and food blends business (other than ISP s Germinal blending business based in Brazil), including ISP s Girvan, Scotland, manufacturing facility and employees. The results of operations of the ISP business are included in the Specialty Chemicals segment beginning on the acquisition date of August 18, 2008.

In September 2008, we entered into an agreement with CoLiving Food Ingredients (CoLiving) based in Guangzhou, China. As part of the agreement, we acquired 100% of the shares of CoLiving International Company Limited ( BVI ). In acquiring the shares of BVI, we assumed a 75% ownership interest in Guangzhou CoLiving International Biology Technology Co., Ltd. ( CoLiving Biology ). We also purchased all of the business assets of Guangzhou CoLiving Co., Ltd. with the exception of the

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remaining minority interest in CoLiving Biology. The acquisition is intended to enhance our position in supplying specialty hydrocolloid products and services to the rapidly growing food ingredients market in China. The results of operations of the CoLiving business are included in the Specialty Chemicals segment beginning on the acquisition date of September 27, 2008.

We are currently in the process of finalizing the purchase price allocation of the acquisitions. This may result in additional adjustments to the initial purchase price allocation. The following table presents the initial purchase price allocation of our Specialty Chemical segment acquisitions described above:

| (in Millions) | |
|---|---|
| Current Assets (primarily inventory) | $ 47.6 |
| Property, Plant & Equipment | 18.8 |
| Intangible Assets (primarily customer relationships) | 18.4 |
| Goodwill | 17.1 |
| Deferred Income Taxes | 5.8 |
| Total Assets Acquired | $ 107.7 |
| Current Liabilities | 7.8 |
| Long Term Liabilities | 3.0 |
| Net Assets Acquired | $ 96.9 |

Pro forma revenue results had the acquisitions of ISP and CoLiving occurred on January 1, 2007 and January 1, 2008, would have been $836.9 million and $2,439.7 million for the three and nine months ended September 30, 2008 and $638.1 million and $2,012.7 million for the three and nine months ended September 30, 2007, respectively. This information is based on historical results of operations, and, in the opinion of management, is not necessarily indicative of what the results would have been had we operated the entities acquired since such dates. Pro forma net income and earnings per share information related to these acquisitions is not presented because the impact of these acquisitions on these measures in our condensed consolidated statements of operations is not considered to be significant.

**Note 4: Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill by business segment for the nine months ended September 30, 2008 are presented in the table below:

| (in Millions) | Agricultural Products | Specialty Chemicals | Industrial Chemicals | Total |
|---|---|---|---|---|
| Balance, December 31, 2007 | $ 2.7 | $ 176.9 | $ 0.6 | $ 180.2 |
| Acquisitions | | 17.1 | | 17.1 |
| Foreign Currency Adjustments | | (4.9) | | (4.9) |
| Balance, September 30, 2008 | $ 2.7 | $ 189.1 | $ 0.6 | $ 192.4 |

Acquisitions for the nine months ended September 30, 2008 relate to the ISP and CoLiving acquisitions described in Note 3.

Our definite life intangibles totaled $26.1 million and $11.2 million at September 30, 2008 and December 31, 2007, respectively. At September 30, 2008, these definite life intangibles were allocated among our business segments as follows: $6.3 million in Agricultural Products, $18.6 million in Specialty Chemicals and $1.2 million in Industrial Chemicals. Definite life intangible assets consist primarily of patents, customer relationships, access rights, industry licenses and other intangibles and are included in Other assets in the condensed consolidated balance sheets. The increase in definite life intangibles during the nine months ended September 30, 2008 was due to the intangible assets acquired in connection with the acquisitions described in Note 3. Amortization was not significant in the periods presented.

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**Note 5: Financial Instruments and Risk Management**

The portion of derivative gains or (losses) excluded from assessments of hedge effectiveness, related to our outstanding cash flow hedges which were recorded to earnings during the three and nine months ended September 30, 2008, was $(0.7) million and $(0.1) million, respectively, and was $(0.2) million and $(0.2) million for the three and nine months ended September 30, 2007, respectively.

At September 30, 2008, the net deferred hedging loss in accumulated other comprehensive income (loss) was $(11.4) million compared to a net loss of $(1.6) million at December 31, 2007. Approximately $8.7 million of net losses are expected to be recognized in earnings during the twelve months ending September 30, 2009, as the underlying hedged transactions are realized, and net losses of $2.7 million are expected to be recognized at various times subsequent to September 30, 2009 and continuing through December 31, 2009.

***Adoption of SFAS No. 157***

We adopted SFAS No.157 on January 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are defined as buyers or sellers in the principle or most advantageous market for the asset or liability that are independent of the reporting entity, knowledgeable and able and willing to transact for the asset or liability. Other than new disclosure, there was no impact to our condensed consolidated financial statements upon adoption of SFAS No. 157.

*Fair Value Hierarchy*

In accordance with SFAS No. 157, we have categorized our financial assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Our recurring financial assets and liabilities recorded on the condensed consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

**Level 1.** Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we have the ability to access (examples include active exchange-traded equity securities, exchange-traded derivatives and most U.S. Government and agency securities).

**Level 2.** Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Examples of Level 2 inputs include quoted prices for identical or similar assets or liabilities in non-active markets and pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate, currency swaps and energy derivatives).

**Level 3.** Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table presents our fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis in our condensed consolidated balance sheets as of September 30, 2008. We currently do not have non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis.

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| *(in Millions)* | 9/30/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets | | | | |
| Available-for-sale securities (1) | $ 0.2 | $ 0.2 | $ | $ |
| Derivatives Energy (2) | 0.6 | | 0.6 | |
| Derivatives Foreign Exchange (2) | 2.2 | | 2.2 | |
| Other (3) | 19.4 | 19.4 | | |
| Total Assets | $ 22.4 | $ 19.6 | $ 2.8 | $ |
| Liabilities | | | | |
| Derivatives Energy (4) | $ 12.9 | $ | $ 12.9 | $ |
| Derivatives Foreign Exchange (4) | | | | |
| Other (5) | 28.1 | 28.1 | | |
| Total Liabilities | $ 41.0 | $ 28.1 | $ 12.9 | $ |

(1) Amounts included in Investments in the condensed consolidated balance sheets.
(2) Amounts included in Prepaid and other current assets in the condensed consolidated balance sheets.
(3) Consists of a deferred compensation arrangement recognized on our balance sheet. Both the asset and liability are recorded at fair value. Asset amounts included in Other assets in the condensed consolidated balance sheets.
(4) Amounts included in Accrued and other liabilities in the condensed consolidated balance sheets.
(5) Consists of a deferred compensation arrangement recognized on our balance sheet. Both the asset and liability are recorded at fair value. Liability amounts included in Other long-term liabilities in the condensed consolidated balance sheets.

**Note 6: Inventories**

Inventories consisted of the following:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (in Millions) | |
| Finished goods and work in process | $ 237.1 | $ 201.1 |
| Raw materials | 124.0 | 73.9 |
| Net inventory | $ 361.1 | $ 275.0 |

**Note 7: Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (in Millions) | |
| Property, plant and equipment | $ 2,642.0 | $ 2,843.9 |
| Accumulated depreciation | 1,711.2 | 1,909.2 |

| | | |
|---|---|---|
| Property, plant and equipment, net | $ 930.8 | $ 934.7 |

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The decrease in the gross property, plant and equipment and related accumulated depreciation balances during the nine months ended September 30, 2008, was primarily due to the retirement of assets at the Baltimore facility. See Note 10 for related information on the Baltimore shutdown.

**Note 8: Asset Retirement Obligations**

As of September 30, 2008, the balance of our asset retirement obligations was $4.2 million. This amount decreased approximately $10.9 million from December 31, 2007 primarily due to payments against the reserve related to the Baltimore phase out. A more complete description of our asset retirement obligations can be found in Note 2 to our 2007 consolidated financial statements in our 2007 10-K.

**Note 9: In-process Research and Development**

***Proprietary Fungicide Agreement***

In the first quarter of 2007, our Agricultural Products segment acquired rights from a third-party company to develop their proprietary fungicide. In acquiring those rights, we paid $1.0 million. This fungicide project was terminated by the Company during the second quarter of 2008.

***Collaboration and License Agreement***

In the third quarter of 2007, our Agricultural Products segment entered into a collaboration and license agreement with a third-party company for the purpose of obtaining certain technology and intellectual property rights. We accrued an initial $1.0 million upon entering into this agreement. During the third quarter of 2008, we extended our rights under this agreement for $1.0 million.

The above amounts for both agreements have been included as charges to   In process research and development   in the condensed consolidated statements of operations totaling $1.0 million for the three and nine months ended September 30, 2008 and $1.0 million and $2.0 million for the three and nine months ended September 30, 2007, respectively.

**Note 10: Restructuring and other charges (income)**

**Three and Nine Months Ended September 30, 2008**

***Princeton Property Sale***

On March 18, 2008, we completed the sale of our 158-acre Princeton research center to the Princeton HealthCare System. Gross proceeds from the sale were $62.5 million and net proceeds after offsets, commissions and fees totaled approximately $60 million. The gain on the sale was $29.6 million and is included in   Restructuring and other charges (income)   in the condensed consolidated statements of operations for the nine months ended September 30, 2008. The gain on sale was reduced by the sale-leaseback deferral described below.

We entered into a sale-leaseback as part of the sale under which certain of the buildings sold to the Princeton HealthCare System were leased back to us for a period up to approximately three years. The leaseback was accounted for as an operating lease and the present value of the lease payments was deferred as part of the gain on sale. We recorded a deferred gain on sale in the amount of $6.7 million. This is being recognized as a reduction of rent expense over the term of the lease. As of September 30, 2008, the remaining balance of the deferred gain is $5.2 million and is included in   Accrued and other liabilities   on the condensed consolidated balance sheets.

***Sodium Sulfate Assets Sale***

In February 2008, we completed the sale of Foret s sodium sulfate assets. Foret is part of our Industrial Chemicals segment. We recognized a gain on sale of these assets of $3.6 million which is included in   Restructuring and other charges (income)   in the condensed consolidated statements of operations for the nine months ended September 30, 2008. A portion of the gain includes

recognition of a $2.2 million gain related to foreign currency translation adjustment which was previously a component of Accumulated other comprehensive income on the condensed consolidated balance sheets. These assets were reported as long-lived assets held for sale in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets at December 31, 2007. These assets held for sale in the amount of $15.3 million were included in Prepaid and other current assets on our December 31, 2007 condensed consolidated balance sheets. Net proceeds from the transaction were $16.7 million.

The sodium sulfate co-generation facility was not part of the sale. We expect the sale of this asset to occur sometime in the fourth quarter of 2008. This asset is considered to be an asset held for sale and the amount of $3.5 million is included in Prepaid and other current assets on our September 30, 2008 condensed consolidated balance sheets.

***Baltimore Phase Out***

On June 15, 2007, we made the decision to phase out operations of our Baltimore, Maryland facility in our Agricultural Products segment. Our decision was consistent with our strategy to maintain globally cost-competitive manufacturing positions by sourcing raw materials, intermediates and finished products in lower-cost manufacturing locations. We ceased production at this facility in the second quarter of 2008.

We recorded charges totaling $0.6 million during the three months ended September 30, 2008. These charges consisted primarily of severance and employee benefits.

We recorded charges totaling $22.2 million during the nine months ended September 30, 2008. These charges consisted of (i) accelerated depreciation on fixed assets abandoned of approximately $19.6 million, (ii) severance and employee benefits of $1.3 million, and (iii) other shutdown charges of $1.3 million. As a result of the shutdown of the facility in the second quarter of 2008, we do not expect any remaining restructuring charges to be significant.

***Jacksonville Phase Out***

On May 7, 2008, we made the decision to phase out operations of our Jacksonville, Florida facility in our Agricultural Products segment by the third quarter of 2008. Our decision was consistent with our strategy to maintain globally cost-competitive manufacturing positions.

We recorded charges totaling $2.3 million during the three months ended September 30, 2008 which consisted of (i) accelerated depreciation on fixed assets to be abandoned of approximately $2.1 million, and (ii) severance and employee benefits of $0.2 million.

We recorded charges totaling $4.9 million during the nine months ended September 30, 2008 which consisted of (i) accelerated depreciation on fixed assets to be abandoned of approximately $4.0 million, and (ii) severance and employee benefits of $0.9 million.

***Other Items***

Additional restructuring and other charges (income) for the three months ended September 30, 2008 also included $2.7 million of severance costs due to workforce restructurings, of which $1.6 million related to our Agricultural Products segment, $0.8 million related to our Industrial Chemicals segment and $0.3 million related to our Specialty Chemicals segment. We recorded $4.2 million of asset abandonment charges, of which $0.6 million related to our Agricultural Products segment, $0.3 million related to our Industrial Chemicals segment and $3.3 million related to our Specialty Chemicals segment. Additionally, we recorded $0.5 million of other charges primarily related to our Industrial Chemicals segment and $4.3 million of charges relating to continuing environmental sites as a Corporate charge.

Additional restructuring and other charges (income) for the nine months ended September 30, 2008 also included $6.7 million of severance costs due to workforce restructurings, of which $3.4 million related to our Agricultural Products segment, $2.8 million related to our Industrial Chemicals segment and $0.5 million related to our Specialty Chemicals segment. We recorded $4.6 million of asset abandonment charges, of which $0.6 million related to our Agricultural Products segment, $0.7 million related to our Industrial Chemicals segment and $3.3 million related to our Specialty Chemicals segment. We also recorded $1.5 million of other charges, primarily related to our Industrial Chemicals segment. Additionally, we recorded $10.3 million of charges for the nine months ended September 30, 2008 relating to continuing environmental sites as a Corporate charge. Approximately $1.8 million of these continuing environmental charges was triggered as a result of the sale of our Princeton property discussed previously within this Note.

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**Three and Nine Months Ended September 30, 2007**

***Baltimore Phase Out***

We recorded charges totaling $14.5 million during the three months ended September 30, 2007. These charges consisted of (i) accelerated depreciation on fixed assets to be abandoned of approximately $13.1 million and (ii) severance and employee benefits of $1.4 million.

We recorded charges totaling $89.7 million during the nine months ended September 30, 2007. These charges consisted of (i) plant and equipment charges and accelerated depreciation on fixed assets to be abandoned of approximately $84.1 million and (ii) severance and employee benefits of $5.6 million.

***Abandonment of Foret Co-Generation Facility***

In the second quarter of 2007, we committed to the abandonment of a Foret co-generation facility and recorded an impairment charge of $7.9 million. This facility, which is part of our Industrial Chemicals segment, produced electric power and thermal energy by co-generation for use at one of Foret s production properties. Historically, excess electricity produced from this facility was sold into the Spanish market. We own 75% of this co-generation facility and have recorded minority interest associated with this charge of $1.4 million as part of Minority interests in the condensed consolidated statements of operations for the nine months ended September 30, 2007.

During the third quarter of 2007, we committed to the abandonment of certain fixed assets at various Foret facilities and recorded impairment charges of $4.0 million.

***Solutia Legal Settlement***

We reached an agreement to settle all claims relating to the Solutia litigation in return for a payment of $22.5 million. This litigation is associated with our Industrial Chemicals business. This amount has been reflected in Restructuring and other charges (income) in our condensed consolidated statements of operations for the nine months ended September 30, 2007.

***Other Items***

Additional restructuring and other charges (income) for the three months ended September 30, 2007 included $2.7 million of severance costs due to workforce restructuring, of which $1.4 million related to our Industrial Chemicals segment and $1.3 million related to our Agricultural Products segment. We recorded $0.8 million of other charges primarily related to our Industrial Chemicals segment. Additionally, we recorded $1.0 million relating to continuing environmental sites as a Corporate charge.

Additional restructuring and other charges (income) for the nine months ended September 30, 2007 included $5.0 million of severance costs due to workforce restructurings, of which $3.7 million related to our Industrial Chemicals segment and $1.3 million related to our Agricultural Products segment. We also recorded $1.1 million of asset abandonment charges and $2.3 million of other charges primarily related to our Industrial Chemicals segment. We recorded $6.2 million relating to continuing environmental sites as a Corporate charge. We also recorded $1.3 million of charges in our Specialty Chemicals segment related to an agreement to settle state court cases alleging violations of antitrust law involving MCC, as discussed in Note 19.

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**Rollforward of Restructuring and Other Reserves**

Restructuring spending during the nine months ended September 30, 2008 was primarily severance payments for previously announced workforce reductions. The following table shows a rollforward of restructuring and other reserves for the first nine months of 2008 and the related spending and other changes:

| (in Millions) | Total (1) |
|---|---|
| Balance at 12/31/2007 | $ 12.1 |
| Increase in reserves (1) | 10.3 |
| Cash payments | (14.2) |
| Balance at 9/30/2008 (2) | $ 8.2 |

(1) Primarily severance costs related to workforce reductions and facility shutdowns. The impairment charges noted above impacted our property, plant and equipment balances and are not included in the above table. Additionally, the deferred gain associated with the Princeton property sale is not included in the above table.

(2) Included in Accrued and other liabilities and Other long-term liabilities on the condensed consolidated balance sheets.

**Note 11: Debt**

**Debt maturing within one year:**

Debt maturing within one year consists of the following:

| (in Millions) | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Short-term debt | $ 33.6 | $ 47.9 |
| Current portion of long-term debt | 0.3 | 77.7 |
| Total debt maturing within one year | $ 33.9 | $ 125.6 |

Short-term debt consisted of foreign credit lines at September 30, 2008 and December 31, 2007. We provide parent-company guarantees to lending institutions providing credit to our foreign subsidiaries.

**Long-term debt:**

Long-term debt consists of the following:

| | September 30, 2008 | | | |
|---|---|---|---|---|
| (Dollars in Millions) | Interest Rate Percentage | Maturity Date | September 30, 2008 | December 31, 2007 |
| Pollution control and industrial revenue bonds (less unamortized discounts of $0.3 million and $0.3 million, respectively) | 1.65-10.00% | 2009-2035 | $ 190.7 | $ 202.8 |
| Debentures (less unamortized discounts of $0.1 million and $0.1 million, respectively) | 7.75% | 2011 | 45.4 | 45.3 |
| Medium-term notes | 7.00% | 2008 | | 77.5 |
| European credit agreement | 5.33-5.64% | 2010 | 153.4 | 171.7 |
| Domestic credit agreement | 2.84-5.00% | 2012 | 152.9 | |

| | | | | |
|---|---|---|---|---|
| Total debt | | 542.4 | | 497.3 |
| Less: debt maturing within one year | | 0.3 | | 77.7 |
| Total long-term debt | $ | 542.1 | $ | 419.6 |

At September 30, 2008, we had $153.4 million in U.S. dollar equivalent revolving credit facility borrowings under the European Credit Agreement compared to $171.7 million at December 31, 2007. Available funds under this facility were $156.3 million and $147.1 million at September 30, 2008 and December 31, 2007, respectively.

We had $152.9 million of borrowings under our Domestic Credit Agreement at September 30, 2008 compared to no borrowings at December 31, 2007. Letters of credit outstanding under the Domestic Credit Agreement totaled $142.6 million and $146.9 million at September 30, 2008 and December 31, 2007, respectively. As such, available funds under the Domestic Credit Agreement were $304.5 million and $453.1 million at September 30, 2008 and December 31, 2007, respectively.

Among other restrictions, the Domestic Credit Agreement and the European Credit Agreement contain financial covenants applicable to FMC and its consolidated subsidiaries related to leverage (measured as the ratio of debt to adjusted earnings) and interest coverage (measured as the ratio of adjusted earnings to interest expense). We were in compliance with all covenants at September 30, 2008.

A more complete description of our credit agreements are included in Note 11 to our 2007 consolidated financial statements in our 2007 10-K.

**Note 12: Discontinued Operations**

Our results of discontinued operations comprised the following:

| (in Millions) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| **Income/(Expense)** | | | | |
| Adjustment for workers compensation, product liability, and other postretirement benefits related to previously discontinued operations (net of income tax expense of $0.1 million and $0.2 million and $0.1 million and $0.5 million for the three and nine months ended September 30, 2008 and 2007, respectively) | $ 0.2 | $ 0.3 | $ 0.5 | $ 1.0 |
| Provision for environmental liabilities and legal reserves and expenses related to previously discontinued operations (net of income tax benefit of $3.8 million and $12.7 million and $2.8 million and $12.3 million for the three and nine months ended September 30, 2008 and 2007, respectively) | (6.1) | (4.6) | (20.6) | (20.3) |
| Discontinued operations, net of income taxes | $ (5.9) | $ (4.3) | $ (20.1) | $ (19.3) |

***2008***

During the three and nine months ended September 30, 2008, we recorded a $9.9 million ($6.1 million after-tax) charge and a $33.3 million ($20.6 million after-tax) charge, respectively, to discontinued operations related to environmental issues and legal reserves and expenses. Environmental charges of $5.0 million ($3.1 million after-tax) and $15.2 million ($9.4 million after-tax) for the three and nine months ended September 30, 2008, respectively, related to a provision to increase our reserves for environmental issues primarily at our Front Royal and Middleport sites as well as for operating and maintenance activities. We also recorded increases to legal reserves and expenses in the amount of $4.9 million ($3.0 million after-tax) and $18.1 million ($11.2 million after-tax) for the three and nine months ended September 30, 2008, respectively. (See a rollforward of our environmental reserves in Note 13.)

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At September 30, 2008 and December 31, 2007, substantially all other discontinued operations reserves recorded on our condensed consolidated balance sheets were related to other post-retirement benefit liabilities, self-insurance and other long-term obligations associated with operation