Huntsman CORP
Form 10-Q
November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from __________ to

Commission File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No.
001-32427	Huntsman Corporation 500 Huntsman Way Salt Lake City, Utah 84108 (801) 584-5700	Delaware	42-1648585
333-85141	Huntsman International LLC 500 Huntsman Way Salt Lake City, Utah 84108 (801) 584-5700	Delaware	87-0630358

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.

Huntsman Corporation	YES ý	NO o
Huntsman International LLC	YES ý	NO o

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

Huntsman Corporation	Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o
Huntsman International LLC	Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý

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

Huntsman Corporation	YES o	NO ý
Huntsman International LLC	YES o	NO ý

On November 6, 2007, 222,017,164 shares of common stock of Huntsman Corporation were outstanding and 2,728 units of membership interests of Huntsman International LLC were outstanding. There is no established trading market for Huntsman International LLC's units of membership interests. All of Huntsman International LLC's units of membership interests are held by Huntsman Corporation.

This Quarterly Report on Form 10-Q presents information for two registrants: Huntsman Corporation and Huntsman International LLC ("Huntsman International"). Huntsman International is a wholly owned subsidiary of Huntsman Corporation and is the principal operating company of Huntsman Corporation. The information reflected in this Quarterly Report on Form 10-Q is equally applicable to both Huntsman Corporation and Huntsman International, except where otherwise indicated. Huntsman International meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and, to the extent applicable, is therefore filing this form with a reduced disclosure format.

HUNTSMAN CORPORATION AND SUBSIDIARIES

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD

ENDED SEPTEMBER 30, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In Millions, Except Share and Per Share Amounts)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 150.7	$ 263.2
Accounts and notes receivables (net of allowance for doubtful accounts of $46.9 and $39.0, respectively)	1,294.0	1,243.2
Accounts receivable from affiliates	15.6	14.1
Inventories, net	1,459.3	1,520.1
Prepaid expenses	58.6	55.7
Deferred income taxes	69.6	64.6
Other current assets	122.7	175.7
Total current assets	3,170.5	3,336.6
Property, plant and equipment, net	4,006.4	4,059.4
Investment in unconsolidated affiliates	221.3	201.0
Intangible assets, net	177.9	187.6
Goodwill	92.5	90.2
Deferred income taxes	227.8	190.4
Other noncurrent assets	424.4	379.7
Total assets	$ 8,320.8	$ 8,444.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,046.3	$ 1,006.2
Accounts payable to affiliates	11.2	12.0
Accrued liabilities	896.3	857.6
Deferred income taxes	16.4	9.4
Current portion of long-term debt	152.2	187.9
Total current liabilities	2,122.4	2,073.1
Long-term debt	3,560.1	3,457.4
Deferred income taxes	59.9	192.6
Other noncurrent liabilities	930.0	955.8
Total liabilities	6,672.4	6,678.9
Minority interests in common stock of consolidated subsidiaries	21.3	29.4
Commitments and contingencies (Notes 15 and 16)		
Stockholders' equity:		
Common stock $0.01 par value, 1,200,000,000 shares authorized, 222,012,474 and 221,549,461 issued and 221,036,190 and 220,652,429 outstanding in 2007 and 2006, respectively	2.2	2.2

	September 30, 2007	December 31, 2006
Mandatory convertible preferred stock $0.01 par value, 100,000,000 shares authorized, 5,750,000 issued and outstanding	287.5	287.5
Additional paid-in capital	2,827.5	2,798.4
Unearned stock-based compensation	(13.8)	(12.5)
Accumulated deficit	(1,520.7)	(1,277.6)
Accumulated other comprehensive income (loss)	44.4	(61.4)
Total stockholders' equity	1,627.1	1,736.6
Total liabilities and stockholders' equity	$ 8,320.8	$ 8,444.9

See accompanying notes to condensed consolidated financial statements (unaudited).

HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(In Millions, Except Per Share Amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Trade sales, services and fees	$ 2,458.9	$ 2,291.8	$ 7,227.1	$ 6,929.5
Related party sales	21.1	21.3	57.4	71.6
Total revenues	2,480.0	2,313.1	7,284.5	7,001.1
Cost of goods sold	2,090.6	1,965.0	6,123.4	5,899.7
Gross profit	389.4	348.1	1,161.1	1,101.4
Operating expenses:				
Selling, general and administrative	216.6	202.2	646.2	534.7
Research and development	35.4	35.3	104.9	88.6
Other operating expense (income)	12.3	(27.7)	17.6	(122.0)
Restructuring, impairment and plant closing costs	9.1	3.6	33.5	20.7
Total expenses	273.4	213.4	802.2	522.0
Operating income	116.0	134.7	358.9	579.4
Interest expense, net	(71.5)	(83.4)	(215.3)	(264.8)
Loss on accounts receivable securitization program	(7.5)	(3.3)	(16.5)	(9.2)
Equity in income of investment in unconsolidated affiliates	1.6	0.5	8.9	2.6
Loss on early extinguishment of debt		(14.5)	(1.8)	(14.5)
Expenses associated with the Merger	(205.0)		(205.0)	
Other (expense) income	(2.4)	1.5	(2.7)	1.6
(Loss) income from continuing operations before income taxes and minority interest	(168.8)	35.5	(73.5)	295.1
Income tax benefit (expense)	13.5	17.5	9.1	(14.8)
Minority interest in subsidiaries' loss (income)	2.9	(0.4)	13.6	(1.1)
(Loss) income from continuing operations	(152.4)	52.6	(50.8)	279.2
Income (loss) from discontinued operations, net of tax	2.4	(242.1)	(117.0)	(187.3)
(Loss) income before extraordinary gain (loss)	(150.0)	(189.5)	(167.8)	91.9
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil		7.2	(6.5)	57.7
Net (loss) income	$ (150.0)	$ (182.3)	$ (174.3)	$ 149.6
Net (loss) income	$ (150.0)	$ (182.3)	$ (174.3)	$ 149.6
Other comprehensive income	62.9	57.7	105.8	138.0
Comprehensive (loss) income	$ (87.1)	$ (124.6)	$ (68.5)	$ 287.6

	Three months ended September 30,		Nine months ended September 30,	
Basic (loss) income per share:				
(Loss) income from continuing operations	$ (0.69)	$ 0.24	$ (0.23)	$ 1.27
Income (loss) from discontinued operations, net of tax	0.01	(1.10)	(0.53)	(0.85)
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil		0.03	(0.03)	0.26
Net (loss) income	$ (0.68)	$ (0.83)	$ (0.79)	$ 0.68
Weighted average shares	221.0	220.6	220.9	220.6
Diluted (loss) income per share:				
(Loss) income from continuing operations	$ (0.69)	$ 0.23	$ (0.23)	$ 1.20
Income (loss) from discontinued operations, net of tax	0.01	(1.04)	(0.53)	(0.80)
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil		0.03	(0.03)	0.24
Net (loss) income	$ (0.68)	$ (0.78)	$ (0.79)	$ 0.64
Weighted average shares	221.0	233.2	220.9	233.1
Dividends per share	$ 0.10	$	$ 0.30	$

See accompanying notes to condensed consolidated financial statements (unaudited).

HUNTSMAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Millions)

	Nine months ended September 30,	
	2007	**2006**
Operating Activities:		
Net (loss) income	$ (174.3)	$ 149.6
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Extraordinary loss (gain) on the acquisition of a business, net of tax	6.5	(57.7)
Equity in income of investment in unconsolidated affiliates	(8.9)	(2.6)
Depreciation and amortization	313.3	353.2
Provision for losses on accounts receivable	3.4	3.5
Loss on disposal of discontinued operations	228.9	280.2
Gain on disposal of business/assets	(1.4)	(92.4)
Loss on early extinguishment of debt	1.8	14.5
Noncash interest expense (income)	2.6	(5.9)
Noncash restructuring, impairment and plant closing costs	12.6	16.8
Deferred income taxes	(109.8)	2.0
Net unrealized gain on foreign currency transactions	(3.2)	(8.7)
Stock-based compensation	18.5	13.0
Minority interest in subsidiaries' (loss) income	(13.6)	1.1
Other, net	(0.8)	(0.2)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(14.0)	182.2
Inventories, net	(49.5)	(18.6)
Prepaid expenses	(2.9)	(39.2)
Other current assets	51.3	(13.0)
Other noncurrent assets	(74.0)	(20.0)
Accounts payable	(49.9)	68.5
Accrued liabilities	(97.4)	(204.5)
Other noncurrent liabilities	4.1	(10.9)
Net cash provided by operating activities	43.3	610.9
Investing Activities:		
Capital expenditures	(466.7)	(327.0)
Acquisition of businesses, net of cash acquired and post-closing adjustments	12.9	(173.2)
Proceeds from sale of business/assets	364.3	209.0
Investment in unconsolidated affiliates, net	(12.0)	(13.6)
Proceeds from government securities, restricted as to use	10.8	10.8
Other, net		(1.0)
Net cash used in investing activities	(90.7)	(295.0)

(Continued)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Financing Activities:		
Net borrowings under revolving loan facilities	$ 43.5	$ 62.8
Net borrowing (repayments) from overdraft facilities and other short-term debt	9.0	(4.7)
Repayments of long-term debt	(318.9)	(422.4)
Proceeds from long-term debt	266.1	137.2
Repayments on notes payable	(49.4)	(40.9)
Proceeds from notes payable	57.6	73.6
Dividends paid to common stockholders	(66.3)	
Dividends paid to preferred stockholders	(10.8)	(10.8)
Contribution from minority shareholder		6.2
Call premiums related to early extinguishment of debt	(1.2)	(12.5)
Debt issuance costs paid	(4.6)	(3.3)
Other, net	1.0	
Net cash used in financing activities	(74.0)	(214.8)
Effect of exchange rate changes on cash	8.9	1.9
(Decrease) increase in cash and cash equivalents	(112.5)	103.0
Cash and cash equivalents at beginning of period	263.2	142.8
Cash and cash equivalents at end of period	$ 150.7	$ 245.8
Supplemental cash flow information:		
Cash paid for interest	$ 217.6	$ 314.6
Cash paid for income taxes	52.9	27.8
Change in capital expenditures included in accounts payable	43.5	

See accompanying notes to condensed consolidated financial statements (unaudited).

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in Millions)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 150.6	$ 246.0
Accounts and notes receivables (net of allowance for doubtful accounts of $46.9 and $39.0, respectively)	1,294.0	1,243.2
Receivables from affiliates	175.8	19.5
Inventories, net	1,459.3	1,520.1
Prepaid expenses	57.8	55.7
Deferred income taxes	75.6	70.7
Other current assets	115.6	161.7
Total current assets	3,328.7	3,316.9
Property, plant and equipment, net	3,794.2	3,829.5
Investment in unconsolidated affiliates	221.3	201.0
Intangible assets, net	182.3	192.6
Goodwill	92.5	90.2
Deferred income taxes	226.1	188.7
Other noncurrent assets	424.4	376.6
Total assets	$ 8,269.5	$ 8,195.5
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,046.3	$ 1,006.2
Accounts payable to affiliates	16.8	16.7
Accrued liabilities	786.7	841.7
Deferred income taxes	16.4	9.4
Current portion of long-term debt	151.4	187.9
Total current liabilities	2,017.6	2,061.9
Long-term debt	3,560.1	3,457.4
Deferred income taxes	79.7	161.6
Other noncurrent liabilities	929.6	952.1
Total liabilities	6,587.0	6,633.0
Minority interests in common stock of consolidated subsidiaries	21.3	29.4
Commitments and contingencies (Notes 15 and 16)		
Members' equity:		
Members' equity, 2,728 units issued and outstanding	2,837.8	2,811.8
Accumulated deficit	(1,157.0)	(1,150.4)
Accumulated other comprehensive loss	(19.6)	(128.3)

	September 30, 2007	December 31, 2006
Total members' equity	1,661.2	1,533.1
Total liabilities and members' equity	$ 8,269.5	$ 8,195.5

See accompanying notes to condensed consolidated financial statements (unaudited).

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Dollars in Millions)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Trade sales, services and fees	$ 2,458.9	$ 2,291.8	$ 7,227.1	$ 6,929.5
Related party sales	21.1	21.3	57.4	71.6
Total revenues	2,480.0	2,313.1	7,284.5	7,001.1
Cost of goods sold	2,086.5	1,959.7	6,111.2	5,887.1
Gross profit	393.5	353.4	1,173.3	1,114.0
Operating expenses:				
Selling, general and administrative	216.4	203.6	645.8	534.6
Research and development	35.4	35.3	104.9	88.6
Other operating expense (income)	12.3	(27.7)	17.6	(122.0)
Restructuring, impairment and plant closing costs	9.1	3.6	33.5	20.7
Total expenses	273.2	214.8	801.8	521.9
Operating income	120.3	138.6	371.5	592.1
Interest expense, net	(71.8)	(84.6)	(216.2)	(268.3)
Loss on accounts receivable securitization program	(7.5)	(3.3)	(16.5)	(9.2)
Equity in income of investment in unconsolidated affiliates	1.6	0.5	8.9	2.6
Loss on early extinguishment of debt		(18.1)	(2.2)	(18.1)
Other (expense) income	(2.4)	1.4	(2.8)	1.5
Income from continuing operations before income taxes and minority interest	40.2	34.5	142.7	300.6
Income tax benefit (expense)	2.3	21.4	(39.8)	(57.0)
Minority interest in subsidiaries' loss (income)	2.9	(0.4)	13.6	(1.1)
Income from continuing operations	45.4	55.5	116.5	242.5
Income (loss) from discontinued operations, net of tax	2.4	(222.1)	(117.0)	(167.3)
Income (loss) before extraordinary gain (loss)	47.8	(166.6)	(0.5)	75.2
Extraordinary gain (loss) on the acquisition of a business, net of tax of nil		8.9	(6.5)	55.0
Net income (loss)	$ 47.8	$ (157.7)	$ (7.0)	$ 130.2
Net income (loss)	$ 47.8	$ (157.7)	$ (7.0)	$ 130.2

	Three months ended September 30,		Nine months ended September 30,	
Other comprehensive income	63.4	59.8	108.7	151.3
Comprehensive income (loss)	$ 111.2	$ (97.9)	$ 101.7	$ 281.5

See accompanying notes to condensed consolidated financial statements (unaudited).

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Millions)

	Nine months ended September 30,	
	2007	**2006**
Operating Activities:		
Net (loss) income	$ (7.0)	$ 130.2
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Extraordinary loss (gain) on acquisition of a business, net of tax	6.5	(55.0)
Equity in income of investment in unconsolidated affiliates	(8.9)	(2.6)
Depreciation and amortization	296.2	332.9
Provision for losses on accounts receivable	3.4	3.5
Loss on disposal of discontinued operations	228.9	260.2
Gain on disposal of business/assets	(1.4)	(92.4)
Loss on early extinguishment of debt	2.2	18.1
Noncash interest expense (income)	2.8	(2.9)
Noncash restructuring, impairment and plant closing costs	12.6	16.8
Deferred income taxes	(60.9)	44.2
Net unrealized gain on foreign currency transactions	(3.2)	(8.7)
Noncash compensation	18.5	13.0
Minority interest in subsidiaries' (loss) income	(13.6)	1.1
Other, net	(0.7)	(0.1)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(14.0)	183.4
Inventories, net	(49.5)	(18.6)
Prepaid expenses	(2.2)	(39.2)
Other current assets	44.3	(13.0)
Other noncurrent assets	(77.5)	(30.7)
Accounts payable	(50.0)	68.5
Accrued liabilities	(191.1)	(211.8)
Other noncurrent liabilities	13.1	7.7
Net cash provided by operating activities	148.5	604.6
Investing Activities:		
Capital expenditures	(466.7)	(327.0)
Acquisition of businesses, net of cash acquired and post-closing adjustments	12.9	(173.2)
Proceeds from sale of business/assets	364.3	209.0
Receivables from affiliate	(151.4)	
Investment in unconsolidated affiliates, net	(12.0)	(13.6)
Other, net		(1.0)
Net cash used in investing activities	(252.9)	(305.8)
Financing Activities:		
Net borrowings under revolving loan facilities	43.5	62.8
Net borrowings (repayments) from overdraft facilities and other short-term debt	9.0	(4.7)
Repayments of long-term debt	(318.9)	(422.4)
Proceeds from long-term debt	266.1	137.2
Repayments on notes payable	(47.5)	(38.3)
Proceeds from notes payable	54.9	71.3
Call premiums related to early extinguishment of debt	(1.2)	(12.5)
Debt issuance costs paid	(4.6)	(3.3)
Contribution from minority shareholder		6.2
Other, net	(1.2)	

	Nine months ended September 30,	
Net cash provided by (used in) financing activities	0.1	(203.7)
Effect of exchange rate changes on cash	8.9	1.9
(Decrease) increase in cash and cash equivalents	(95.4)	97.0
Cash and cash equivalents at beginning of period	246.0	132.5
Cash and cash equivalents at end of period	$ 150.6	$ 229.5
Supplemental cash flow information:		
Cash paid for interest	$ 218.5	$ 315.2
Cash paid for income taxes	52.9	27.8
Change in capital expenditures included in accounts payable	43.5	

See accompanying notes to condensed consolidated financial statements (unaudited).

HUNTSMAN CORPORATION AND SUBSIDIARIES

HUNTSMAN INTERNATIONAL LLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

CERTAIN DEFINITIONS

"Company," "our," "us," or "we" may be used to refer to Huntsman Corporation and, unless the context otherwise requires, its subsidiaries and predecessors. Any references to our "Company," "we," "us" or "our" as of a date prior to October 19, 2004 (the date of our formation) are to Huntsman Holdings, LLC and its subsidiaries (including their respective predecessors). In this report, "Huntsman International" refers to Huntsman International LLC (our 100% owned subsidiary) and, unless the context otherwise requires, its subsidiaries; "Huntsman Advanced Materials" refers to Huntsman Advanced Materials Holdings LLC (our 100% owned indirect subsidiary, the membership interests of which we contributed to Huntsman International on December 20, 2005) and, unless the context otherwise requires, its subsidiaries; "HPS" refers to Huntsman Polyurethanes Shanghai Ltd. (our consolidated splitting joint venture with Shanghai Chlor-Alkali Chemical Company, Ltd); "SLIC" refers to Shanghai Liengheng Isocyanate Investment BV (our unconsolidated manufacturing joint venture with BASF AG and three Chinese chemical companies); "HMP Equity Trust" refers to HMP Equity Trust (the holder of approximately 22% of our common stock), and "MatlinPatterson" refers to MatlinPatterson Global Opportunities Partners L.P., MatlinPatterson Global Opportunities Partners (Bermuda) L.P. and MatlinPatterson Global Opportunities Partners B, L.P. (collectively, an owner of HMP Equity Trust).

In this report, we may use, without definition, the common names of competitors or other industry participants. We may also use the common names or abbreviations for certain chemicals or products.

DESCRIPTION OF BUSINESS

We are among the world's largest global manufacturers of differentiated chemical products and we also manufacture inorganic chemical products. Our products comprise a broad range of chemicals and formulations and are used in a wide range of applications.

COMPANY

Our Company was formed in 2004 to hold the Huntsman businesses. Jon M. Huntsman founded the predecessor to our Company in the early 1970s as a small packaging company. Since then, we have grown through a series of significant acquisitions and now own a global portfolio of differentiated, inorganic and commodity businesses.

Huntsman International was formed in 1999 in connection with the acquisition of ICI's polyurethane chemicals, selected petrochemicals and titanium dioxide businesses and BP's 20% ownership interest in an olefins facility located at Wilton, U.K. and certain related assets.

PENDING SALE OF OUR COMPANY

On July 12, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Hexion Specialty Chemicals, Inc. ("Hexion") and its wholly-owned merger subsidiary ("Merger Sub"). Hexion is owned by an affiliate of Apollo Management L.P. Under the Merger Agreement, Hexion has agreed to acquire all of the issued and outstanding shares of our common stock in a merger under Delaware law (the "Merger"), pursuant to which Merger Sub will be merged with and into our Company and our Company will continue as the surviving corporation and a wholly-owned subsidiary of Hexion.

Upon completion of the Merger, our stockholders will receive $28.00 in cash per share of common stock they own. In addition, if the Merger is not completed by April 5, 2008 (the "Adjustment Date"), then for each day after the Adjustment Date, through and including the closing date of the Merger, the merger consideration per share will increase by an amount in cash equal to the excess, if any, of $0.006137 per day (8% per annum) over the amount of any dividends or distributions declared, made or paid from and after the Adjustment Date through and including the closing date of the Merger (rounding to the nearest cent). The merger consideration will be paid without interest and reduced by any applicable tax withholding.

On October 16, 2007, our stockholders holding a majority of the shares entitled to vote thereon approved a proposal to adopt the Merger Agreement. Nevertheless, the Merger cannot be completed until each other closing condition specified in the Merger Agreement has been satisfied or waived. We cannot predict whether the Merger will be consummated or, if it is consummated, the exact timing of the effective time of the Merger because it is subject to conditions which are not within our control, such as expiration of waiting periods or grants of approvals under competition laws in the United States, Europe and certain other jurisdictions. The Merger Agreement may be terminated by either party if the Merger is not consummated by April 5, 2008, subject to certain extensions for approximately six months or more under certain circumstances. The entire time period allowable under the Merger Agreement may be required to satisfy all closing conditions and to complete the Merger.

For more information regarding expenses associated with the Merger, see "Note 14. Expenses Associated with the Merger" below.

HUNTSMAN CORPORATION AND HUNTSMAN INTERNATIONAL FINANCIAL STATEMENTS

Except where otherwise indicated, these notes relate to the condensed consolidated financial statements (unaudited) for each of our Company and Huntsman International. The differences between our financial statements and Huntsman International's financial statements relate primarily to the following:

- expenses associated with the Merger;
- purchase accounting recorded at our Company for the step-acquisition of Huntsman International in May 2003; and
- the different capital structures.

PRINCIPLES OF CONSOLIDATION

Our condensed consolidated financial statements (unaudited) and Huntsman International's condensed consolidated financial statements (unaudited) include the accounts of our wholly-owned and majority-owned subsidiaries and any variable interest entities for which we are the primary beneficiary. All intercompany accounts and transactions have been eliminated, except for intercompany sales between discontinued and continuing operations.

INTERIM FINANCIAL STATEMENTS

Our interim condensed consolidated financial statements (unaudited) and Huntsman International's interim condensed consolidated financial statements (unaudited) were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") and in management's opinion, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of results of operations, financial position and cash flows for the periods presented. Results for interim periods are not necessarily indicative of those to be expected for the full year. These condensed consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2006 for our Company and Huntsman International and in Exhibit 99.1 to our Current Report on Form 8-K filed on September 28, 2007 and Exhibit 99.1 to our Current Report on Form 8-K filed on November 6, 2007.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the condensed consolidated financial statements (unaudited) for prior periods have been reclassified to conform with the current presentation. The most significant of these reclassifications was to reclassify the results of operations from our North American polymers business to discontinued operations. See "Note 3. Discontinued Operations." In addition, beginning in the second quarter of 2007, our Australian styrenics business was transferred from our Polymers segment to Corporate and other. All segment information for prior periods has been restated to reflect this transfer.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

We adopted Emerging Issues Task Force ("EITF") Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43,* on January 1, 2007. This pronouncement concludes that an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement accumulates; therefore, such benefits should be accrued over the required service period. The adoption of this pronouncement did not have a significant impact on our consolidated financial statements.

We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes,* by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We recorded a credit of $0.3 million to accumulated deficit as of January 1, 2007 for the cumulative effect of a change in accounting principle. See "Note 19. Income Taxes."

We adopted EITF Issue 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation),* on January 1, 2007. This pronouncement concludes that the presentation of taxes within its scope is an accounting policy decision that should be disclosed. If the taxes are reported on a gross basis, companies are required to disclose the amounts of those taxes if such amounts are deemed significant. We present taxes within the scope of this issue on a net basis.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are reviewing SFAS No. 157 to determine the statement's impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Effective for December 31, 2008, SFAS No. 158 will require us to measure the funded status of our plans as of December 31. We currently use a November 30 measurement date for our plans.

We adopted FASB Staff Position ("FSP") No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities,* on January 1, 2007. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities. The adoption of this FSP did not have a significant impact on our consolidated financial statements.

We adopted FSP EITF 00-19-2, *Accounting for Registration Payment Arrangements,* on January 1, 2007. This FSP requires that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, *Accounting for Contingencies*. In November 2006 and March 2007, we completed offerings of subordinated notes which contain registration payment arrangements. See "Note 7. Debt." We have evaluated the impact of this FSP as it relates to our note offerings, and the adoption of this FSP did not have a significant impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.* SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value, with changes in fair value reflected in earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are evaluating SFAS No. 159 to determine the statement's impact on our consolidated financial statements.

In May 2007, the FASB issued FSP FIN 48-1, *Definition of "Settlement" in FASB Interpretation No. 48,* to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Our initial adoption of

FIN 48 was consistent with the provisions of this FSP; therefore, this pronouncement did not have an impact on our consolidated financial statements.

In June 2007, the FASB issued EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF Issue No. 06-11 requires companies to recognize a realized tax benefit from dividends charged to retained earnings on affected securities as a credit to additional paid-in capital which should be included in the pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF Issue No. 06-11 will be applied prospectively to income tax benefits of dividends on share-based payment awards that are declared in fiscal years beginning after September 15, 2007. We do not expect that the adoption of this pronouncement will have a significant impact on our consolidated financial statements.

3. DISCONTINUED OPERATIONS

NORTH AMERICAN POLYMERS BUSINESS

On February 15, 2007, we entered into an Asset Purchase Agreement (the "Original Agreement") pursuant to which Flint Hills Resources ("FHR"), a wholly owned subsidiary of Koch, agreed to acquire our North American base chemicals and polymers business assets for approximately $456 million in cash, plus the value of inventory on the date of closing. We will retain other elements of working capital, including accounts receivable, accounts payable and certain accrued liabilities, which will be liquidated for cash in the ordinary course of business. On June 22, 2007, we entered into an Amended and Restated Asset Purchase Agreement (the "Amended and Restated Agreement") with FHR that amends certain terms of the Original Agreement to, among other things, provide for the closing of the sale of our North American polymers business assets on August 1, 2007 for $150.0 million plus the value of associated inventory on an average actual cost basis (the "North American Polymers Disposition"). We received total consideration for the North American Polymers Disposition of approximately $355 million, of which $348.3 million was received as of September 30, 2007. The net proceeds from the North American Polymers Disposition were used to repay debt and to reduce amounts under the A/R Securitization Program.

The Amended and Restated Agreement also provides for the separate closing of the sale of our U.S. base chemicals business for the remaining $306.0 million plus the value of associated inventory on an average actual cost basis (approximately $73 million at September 30, 2007), following the restart of our Port Arthur, Texas olefins manufacturing facility, which is expected to occur during the fourth quarter of 2007 (the "U.S. Base Chemicals Disposition" and together with the North American Polymers Disposition, the "U.S. Petrochemical Disposition"). For more information, see "Note 4. Business Dispositions and Combinations Agreement to Sell U.S. Base Chemicals Business," "Note 18. Casualty Losses and Insurance Recoveries Port Arthur, Texas Plant Fire" and "Note 23. Subsequent Events."

The North American Polymers Disposition included our polymers manufacturing assets located at four U.S. sites: Odessa and Longview, Texas; Peru, Illinois; and Marysville, Michigan. Pursuant to the Amended and Restated Agreement, we also shut down our Mansonville, Quebec expandable polystyrene manufacturing facility in June 2007.

The following results of our North American polymers business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$ 134.4	$ 372.9	$ 880.4	$ 1,086.6
Costs and expenses	(137.9)	(355.5)	(874.2)	(1,015.4)
Gain (loss) on disposal	11.1		(228.9)	
Operating income (loss)	7.6	17.4	(222.7)	71.2
Income tax (expense) benefit	(3.6)	(0.1)	72.3	(1.2)
Income (loss) from discontinued operations, net of tax	$ 4.0	$ 17.3	$ (150.4)	$ 70.0

During the second quarter of 2007, we recorded an impairment loss on the pending disposal of $240.0 million resulting from the write-down of the North American polymers business to the purchase price less cost to sell. In connection with the North American Polymers Disposition, we recognized a pretax gain on disposal of $11.1 million during the third quarter of 2007, resulting primarily from a pension curtailment gain of $13.4 million. The final sales price is subject to post-closing adjustments, including a post-closing adjustment for working capital. We have accrued a liability relating to the working capital adjustment of $1.3 million and expect to settle this obligation during the fourth quarter of 2007.

In connection with the North American Polymers Disposition, we agreed to indemnify FHR with respect to any losses resulting from (i) the breach of representations and warranties contained in the Amended and Restated Agreement, (ii) any pre-sale liabilities related to certain assets not assumed by FHR, and (iii) any unknown environmental liability related to the pre-sale operations of the assets sold. We are not required to pay under these indemnification obligations until claims against us, on a cumulative basis, exceed $10 million. Upon exceeding this $10 million threshold, we generally are obligated to provide indemnification for any losses up to a limit of $150 million. We believe that there is a remote likelihood that we will be required to pay any significant amounts under the indemnity provision.

The EBITDA of the North American polymers business is reported in our Polymers segment in the accompanying condensed consolidated financial statements (unaudited).

EUROPEAN BASE CHEMICALS AND POLYMERS BUSINESS

On December 29, 2006, we completed the sale of the outstanding equity interests of Huntsman Petrochemicals (UK) Limited for an aggregate purchase price of $685 million in cash plus the assumption by the purchaser of approximately $126 million in unfunded pension liabilities (the "U.K. Petrochemicals Disposition"). The final sales price was subject to adjustments relating to working capital, investment in the LDPE plant currently under construction in Wilton, U.K. and unfunded pension liabilities. The transaction did not include our Teesside, U.K.-based Pigments operations or the Wilton, U.K.-based aniline and nitrobenzene operations of our Polyurethanes segment.

In connection with the U.K. Petrochemical Disposition, we agreed to make payments to SABIC of up to £18 million (approximately $36 million) related to the transfer of pension plan assets and liabilities and we accrued this liability in 2006 in connection with the sale transaction. During the second quarter of 2007, the valuation of the related pension assets and liabilities was refined and on October 17, 2007, we made payments to SABIC of approximately £0.2 million (approximately $0.5 million) and have adjusted the accrual accordingly. Therefore, during the nine months ended September 30, 2007, we recorded a pretax credit related to the U.K. Petrochemicals Disposition of $34.0 million resulting primarily from the reversal of this pension funding accrual.

The final sales price of the U.K. Petrochemical Disposition was also subject to adjustments relating to working capital and investment in the LDPE plant under construction in Wilton U.K. During the third quarter of 2007, we finalized these and other adjustments and recorded an additional loss on disposal of $1.6 million and funded the related obligation of $15.3 million on October 1, 2007. Also, we and Huntsman International expect to incur a non-cash pension settlement loss of approximately $1 million and $12 million, respectively, during the fourth quarter of 2007.

The following results of our European base chemicals and polymers business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

Huntsman Corporation

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenues	$	$ 711.3	$	$ 1,841.1
Costs and expenses		(678.5)		(1,806.1)
Loss on pending disposal		(280.2)		(280.2)
Post-closing adjustments to (loss) income on disposal	(1.6)		34.0	
Operating (loss) income	(1.6)	(247.4)	34.0	(245.2)
Income tax expense		(11.2)		(10.5)
(Loss) income from discontinued operations, net of tax	$ (1.6)	$ (258.6)	$ 34.0	$ (255.7)

Huntsman International

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues	$	$ 711.1	$	$ 1,841.1
Costs and expenses		(678.2)		(1,806.0)
Loss on pending disposal		(260.2)		(260.2)
Post-closing adjustments to (loss) income on disposal	(1.6)		34.0	
Operating (loss) income	(1.6)	(227.3)	34.0	(225.1)
Income tax expense		(11.3)		(10.6)
(Loss) income from discontinued operations, net of tax	$ (1.6)	$ (238.6)	$ 34.0	$ (235.7)

The loss on pending disposal recorded during 2006 represents the impairment of long-lived assets resulting from the write-down of the European base chemicals and polymers assets to the purchase price, less cost to sell.

In connection with the sale, we agreed to indemnify the buyer with respect to any losses resulting from any environmental liability related to the pre-sale operations of the assets sold. These indemnities have various payment thresholds and time limits depending on the site and type of claim. Generally, we are not required to pay under these indemnification obligations until claims against us exceed £0.1 million (approximately $0.2 million) individually or £1.0 million (approximately $2.0 million), in the aggregate. We also agreed to indemnify the buyer with respect to certain tax liabilities. Our maximum exposure generally shall not exceed $600 million in the aggregate. We believe that there is a remote likelihood that we will be required to pay any significant amounts under the indemnity provision.

The EBITDA of our former European base chemicals business is reported in our Base Chemicals operating segment in the accompanying condensed consolidated financial statements (unaudited).

TDI BUSINESS

On July 6, 2005, we sold our TDI business. The sale involved the transfer of our TDI customer list and sales contracts. We discontinued the use of our remaining TDI assets. Our former TDI business has been accounted for as a discontinued operation under SFAS No. 144 and is reported in our Polyurethanes segment. Accordingly, the following results of TDI have been presented as discontinued operations in the accompanying condensed consolidated statements of operations (unaudited) (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Costs and expenses	$	$ (0.8)	$ (1.0)	$ (1.6)
Operating loss		(0.8)	(1.0)	(1.6)
Income tax benefit			0.4	
Loss from discontinued operations, net of tax	$	$ (0.8)	$ (0.6)	$ (1.6)

4. BUSINESS DISPOSITIONS AND COMBINATIONS

AGREEMENT TO SELL U.S. BASE CHEMICALS BUSINESS

The Amended and Restated Agreement provides, among other things, for the separate closing of our U.S. base chemicals business for $306.0 million plus the value of associated inventory on an average actual cost basis (approximately $73 million at September 30, 2007), following the restart of our Port Arthur, Texas olefins manufacturing facility which is expected to occur during the fourth quarter of 2007. For more information, see "Note 3. Discontinued Operations North American Polymers Business," "Note 18. Casualty Losses and Insurance Recoveries Port Arthur, Texas Plant Fire" and "Note 23. Subsequent Events." As of September 30, 2007, these assets were classified as held and used in accordance with SFAS No. 144 because these assets were not immediately available for sale in their present condition due to the required repair and restart of the Port Arthur, Texas facility. We tested these assets for recoverability using expected future cash flows, including the expected proceeds from the Port Arthur fire insurance recovery, and concluded that the expected future cash flows were in excess of the carrying value of the business expected to be sold. Therefore, we did not recognize an impairment charge as of September 30, 2007. We will continue to assess these assets for recoverability during 2007 through the sale date. Upon the restart of the Port Arthur facility, we expect that the carrying value of the business to be sold, which will increase as we rebuild the plant, will exceed the sales price and we expect to recognize a loss on disposal of approximately $150 million. For more information, see "Note 23. Subsequent Events."

The U.S. Base Chemicals Disposition includes our olefins manufacturing assets located at Port Arthur, Texas. The captive ethylene unit at our retained Port Neches, Texas site of our Performance Products segment operations is not included in the sale. This asset, along with a long-term post-closing arrangement for the supply of ethylene and propylene from FHR to us, will continue to provide feedstock for our downstream derivative units.

SALE OF U.S. BUTADIENE AND MTBE BUSINESS

On June 27, 2006, we sold the assets comprising our U.S. butadiene and MTBE business operated by our Base Chemicals segment and recognized a gain on disposal of $90.3 million. The total sales price was $274.0 million, of which $204.0 million was paid to us during 2006. The additional $70.0 million will be payable to us after the successful restart (which requires meeting certain criteria) of our Port Arthur, Texas olefins unit that was damaged in a fire (see "Note 18. Casualty Losses and Insurance Recoveries Port Arthur, Texas Plant Fire") and the related resumption of crude butadiene supply; provided that we achieve certain intermediate steps toward restarting the plant. We expect to recognize an additional pre-tax gain of approximately $69 million upon completion of the conditions referenced above.

The results of operations of this business were not classified as a discontinued operation under applicable accounting rules because of the expected continuing cash flows from the MTBE business we continue to operate in our Polyurethanes segment.

In connection with the sale, we indemnified the buyer with respect to any losses resulting from (i) the breach of representations and warranties contained in the asset purchase agreement, (ii) pre-sale liabilities related to the pre-sale operations of the assets sold not assumed by the buyer, and (iii) environmental liability related to the pre-sale operations of the assets sold. We are not required to pay under these indemnification obligations until claims against us exceed $5 million. Upon exceeding this $5 million threshold, we generally are obligated to provide indemnification for any losses in excess of $5 million, up to a limit of $137.5 million. We believe that there is a remote likelihood that we will be required to pay any significant amounts under the indemnity provision.

TEXTILE EFFECTS ACQUISITION

On June 30, 2006, we acquired Ciba's textile effects business for $172.1 million (CHF 215 million) in cash (the "Textile Effects Acquisition"). This purchase price was subject to finalization of post-closing working capital adjustments, which resulted in a reduction to the purchase price of $26.9 million. The operating results of the textile effects business have been consolidated with our operating results beginning on July 1, 2006 and are reported with our advanced materials operations as part of our Materials and Effects segment.

We have accounted for the Textile Effects Acquisition using the purchase method in accordance with SFAS No. 141, *Business Combinations.* As such, we analyzed the fair value of tangible and intangible assets acquired and liabilities assumed, and we determined the excess of fair value of net assets acquired over cost. Because the fair value of the acquired assets and liabilities assumed exceeded the acquisition price, the valuation of the long-lived assets acquired was reduced to zero in accordance with SFAS No. 141. Accordingly, no basis was assigned to property, plant and equipment or any other non-current non-financial assets and the remaining excess was recorded as an extraordinary gain, net of taxes (which were not applicable because the gain was recorded in purchase accounting). The final allocation of the purchase price to the assets and liabilities acquired is summarized as follows (dollars in millions):

Acquisition cost:		
Acquisition payment, exclusive of post-closing working capital adjustment	$	172.1
Post-closing working capital adjustment		(26.9)
Direct costs of acquisition		13.0
Total acquisition costs		158.2
Fair value of assets acquired and liabilities assumed:		
Cash		7.7
Accounts receivable		255.1
Inventories		233.4
Prepaid expenses and other current assets		13.1
Noncurrent assets		2.2
Deferred taxes		2.1
Accounts payable		(94.1)
Accrued liabilities		(35.1)
Short-term debt		(5.0)
Noncurrent liabilities		(171.8)
Total fair value of net assets acquired		207.6
Extraordinary gain on the acquisition of a business excess of fair value of net assets acquired over cost	$	49.4

During 2006, we recorded an extraordinary gain on the acquisition of $55.9 million based on the preliminary purchase price allocation. During the six months ended June 30, 2007, we adjusted the preliminary purchase price allocation for, among other things, the finalization of restructuring plans, estimates of asset retirement obligations, the determination of related deferred taxes and finalization of the post-closing working capital adjustments, resulting in a reduction to the extraordinary gain of $6.5 million.

We plan to exit certain activities of the textile effects business and expect to involuntarily terminate the employment of, or relocate, certain textile effects employees. We estimate that we will eliminate 650 positions and will create approximately 200 new positions, globally. These plans include the exit of various manufacturing, sales and administrative activities throughout the business through 2009. This purchase price allocation includes recorded liabilities for workforce reductions and other business exit costs of $81.1 million and $11.2 million, respectively.

PENDING METROCHEM ACQUISITION

On June 29, 2007, we signed an agreement to acquire the Baroda division of Metrochem Industries Ltd for $46.5 million in cash. The division to be acquired by us is a textile dyes and intermediates manufacturer based in Baroda, India. The transaction, which is subject to regulatory approvals, is expected to close in April 2008.

DUPONT FLUOROCHEMICAL ACQUISITION

On July 23, 2007, we acquired DuPont's global fluorochemical business for the nonwovens industry for $8.4 million in cash. The transaction with DuPont included all existing contracts and business records. All manufacturing assets, cash, accounts receivable, inventory, employees, offices, laboratories and other assets were specifically excluded from the purchase. The entire value of this acquisition was assigned to intangible assets with useful lives of 15 years.

5. INVENTORIES

Inventories consisted of the following (dollars in millions):

	September 30, 2007	December 31, 2006
Raw materials and supplies	$ 323.7	$ 320.1
Work in progress	91.9	109.8
Finished goods	1,143.5	1,204.3
Total	1,559.1	1,634.2
LIFO reserves	(99.8)	(114.1)
Net	$ 1,459.3	$ 1,520.1

As of September 30, 2007 and December 31, 2006, approximately 13% and 18%, respectively, of inventories were recorded using the last-in, first-out cost method.

In the normal course of operations, we at times exchange raw materials and finished goods with other companies for similar inventories for the purpose of reducing transportation costs. The net open exchange positions are valued at our cost. The amount included in inventory under open exchange agreements payable by us at September 30, 2007 was $4.2 million (8.1 million pounds of feedstock and products). The amount included in inventory under open exchange agreements receivable by us at December 31, 2006 was $9.7 million (30.9 million pounds of feedstock and products).

6. RESTRUCTURING, IMPAIRMENT AND PLANT CLOSING COSTS

As of September 30, 2007 and December 31, 2006, accrued restructuring costs by type of cost and initiative consisted of the following (dollars in millions):

	Workforce reductions(1)	Demolition and decommissioning	Non-cancelable lease costs	Other restructuring costs	Total(2)
Accrued liabilities as of December 31, 2006	$ 76.4	$ 0.3	$ 8.7	$ 16.7	$ 102.1
Adjustment to Textile Effects opening balance sheet accrual	14.0	2.2	(2.1)	4.5	18.6
2007 charges for 2003 initiatives	0.3				0.3
2007 charges for 2004 initiatives	3.9		0.6	0.1	4.6
2007 charges for 2005 initiatives	0.3				0.3
2007 charges for 2007 initiatives	0.8			17.9	18.7
Reversal of reserves no longer required	(1.8)		(1.2)		(3.0)
2007 payments for 2003 initiatives	(2.4)		(0.6)	(0.2)	(3.2)
2007 payments for 2004 initiatives	(3.9)	(0.6)	(0.6)	(0.1)	(5.2)
2007 payments for 2005 initiatives	(3.8)				(3.8)
2007 payments for 2006 initiatives	(7.9)			(0.6)	(8.5)
2007 payments for 2007 initiatives	(0.2)			(17.9)	(18.1)
Net activity of discontinued operations	0.6				0.6
Foreign currency effect on reserve balance	5.2		0.1	(0.5)	4.8
Accrued liabilities as of September 30, 2007	$ 81.5	$ 1.9	$ 4.9	$ 19.9	$ 108.2

(1) With the exception of liabilities recorded in connection with business combinations, accrued liabilities classified as workforce reductions consist primarily of restructuring programs involving ongoing termination benefit arrangements and restructuring programs involving special termination benefits. Accordingly, the related liabilities were accrued as a one-time charge to earnings in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, respectively. The remaining accrued liabilities related to these charges of $3.7 million represent workforce reductions to be paid by the end of 2011. Liabilities for workforce reductions recorded in connection with business combinations were accrued in accordance with EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, and are expected to be paid through 2009. The total workforce reduction reserves of $81.5 million relate to 689 positions that have not been terminated as of September 30, 2007.

(2)

Accrued liabilities by initiatives were as follows (dollars in millions):

	September 30, 2007	December 31, 2006
2001 initiatives	$ 1.4	$ 1.4
2003 initiatives	12.0	15.8
2004 initiatives	9.8	12.2
2005 initiatives		1.4
2006 initiatives	84.1	76.2
2007 initiatives	1.0	
Foreign currency effect on reserve balance	(0.1)	(4.9)
Total	$ 108.2	$ 102.1

Details with respect to our restructuring reserves are provided below by segment and initiative (dollars in millions):

	Polyurethanes	Materials and Effects	Performance Products	Pigments	Polymers	Base Chemicals	Total
Accrued liabilities as of December 31, 2006	$ 6.6	$ 78.5	$ 7.4	$ 7.9	$	$ 1.7	$ 102.1
Adjustment to Textile Effects opening balance sheet accrual		18.6					18.6
2007 charges for 2003 initiatives		0.1		0.2			0.3
2007 charges for 2004 initiatives			0.3	4.3			4.6
2007 charges for 2005 initiatives				0.3			0.3
2007 charges for 2007 initiatives		18.7					18.7
Reversal of reserves no longer required		(0.2)		(2.8)			(3.0)
2007 payments for 2003 initiatives	(1.7)	(0.4)		(1.1)			(3.2)
2007 payments for 2004 initiatives	(0.2)		(2.7)	(2.3)			(5.2)
2007 payments for 2005 initiatives	(0.2)	(0.2)	(1.8)			(1.6)	(3.8)
2007 payments for 2006 initiatives		(8.5)					(8.5)
2007 payments for 2007 initiatives		(18.1)					(18.1)
Net activity of discontinued operations					0.6		0.6
Foreign currency effect on reserve balance	0.4	3.9	0.2	0.3			4.8
Accrued liabilities as of September 30, 2007	$ 4.9	$ 92.4	$ 3.4	$ 6.8	$ 0.6	$ 0.1	$ 108.2
Current portion of restructuring reserve	$ 2.2	$ 66.0	$ 2.5	$ 5.1	$ 0.6	$	$ 76.4
Long-term portion of restructuring reserve	2.7	26.4	0.9	1.7		0.1	31.8
Estimated additional future charges for current restructuring projects:							
Estimated additional charges within one year	$	$	$	$ 0.1	$	$	$ 0.1
Estimated additional charges beyond one year							

Details with respect to cash and non-cash restructuring charges by initiative are provided below (dollars in millions):

Cash charges:	
2007 charges for 2003 initiatives	$ 0.3
2007 charges for 2004 initiatives	4.6
2007 charges for 2005 initiatives	0.3
2007 charges for 2007 initiatives	18.7
Reversal of reserves no longer required	(3.0)
Non-cash charges	12.6
Total 2007 restructuring, impairment and plant closing costs	$ 33.5

During the nine months ended September 30, 2007, our Materials and Effects segment recorded a cash charge for 2007 initiatives of $14.2 million related to redundant service contracts and integration costs for information technology services and $3.7 million related to supply chain integration processes.

During the nine months ended September 30, 2007, our Pigments segment recorded a cash charge for 2004 initiatives primarily related to workforce reductions at our Huelva, Spain operations.

During the nine months ended September 30, 2007, our Polymers segment recorded a non-cash impairment charge of $240.0 million related to an impairment loss on our North American polymers business. For further information regarding the impairment of the North American polymers long-lived assets, see "Note 3. Discontinued Operations North American Polymers Business."

During the nine months ended September 30, 2007, we recorded a non-cash impairment charge of $12.0 million in Corporate and Other related to capital expenditures and turnaround costs associated with our Australian styrenics business that was previously impaired. The long-lived assets of our Australian styrenics business were determined to be impaired in accordance with SFAS No. 144 and an impairment charge was recorded in 2005. Capital expenditures and turnaround costs in this business, which are necessary to maintain operations, are also considered to be impaired immediately after they are incurred.

7. DEBT

Outstanding debt consisted of the following (dollars in millions):

	September 30, 2007	December 31, 2006
Senior Credit Facilities:		
Revolving Facility	$ 61.0	$
Term Loans	1,640.0	1,711.2
Secured Notes	294.1	294.0
Senior Notes	198.0	198.0
Subordinated Notes	1,283.2	1,228.3
Australian Credit Facilities	50.4	61.4
HPS (China) debt	107.3	90.3
Other	77.5	62.1
Total debt Huntsman International	3,711.5	3,645.3
Other debt Huntsman Corporation	0.8	
Total debt Huntsman Corporation	$ 3,712.3	$ 3,645.3
Huntsman Corporation		
Current portion	$ 152.2	$ 187.9
Long-term portion	3,560.1	3,457.4
Total debt	$ 3,712.3	$ 3,645.3
Huntsman International		
Current portion	$ 151.4	$ 187.9
Long-term portion	3,560.1	3,457.4
Total debt	$ 3,711.5	$ 3,645.3

TRANSACTIONS AFFECTING OUR SENIOR CREDIT FACILITIES

As of September 30, 2007, our senior secured credit facilities ("Senior Credit Facilities") consisted of (i) a $650 million revolving facility (the "Revolving Facility") and (ii) a $1,640.0 million term loan B facility (the "Dollar Term Loan"). As of September 30, 2007, there were $61.0 million in borrowings outstanding under our Revolving Facility, and we had $33.2 million in U.S. dollar equivalents of letters of credit and bank guarantees issued and outstanding under our Revolving Facility.

During the nine months ended September 30, 2007, we completed the following transactions relating to our Senior Credit Facilities:

On January 16, 2007, we made a voluntary repayment of $75.0 million U.S. dollar equivalents on our term loans with available liquidity.

On April 19, 2007, we entered into an amendment to our Senior Credit Facilities (the "Amendment"). Pursuant to the Amendment, the maturity of the Dollar Term Loan was

extended to April 2014 and the loan amount was increased to $1,640.0 million. We used the increased amount to repay, in full, our previously outstanding euro term loan facility (the "Euro Term Loan").

We received total consideration of approximately $355 million from the North American Polymers Disposition, of which $348.3 million was received as of September 30, 2007, and was used to reduce borrowings under our Revolving Facility and to reduce the outstanding balance under our A/R Securitization Program (as defined in "Note 9. Securitization of Accounts Receivable").

As of September 30, 2007, borrowings under the Revolving Facility and Dollar Term Loan bore interest at LIBOR plus 1.75%. The Amendment made no changes to the applicable interest rate of the Revolving Facility. However, pursuant to the Amendment, the applicable interest rate of the Dollar Term Loan is currently set at LIBOR plus 1.75%, subject to a reduction to LIBOR plus 1.50% upon achieving certain secured leverage ratio thresholds defined in the Amendment. The Amendment contains one financial covenant, which is applicable only to the Revolving Facility, and this covenant is only in effect when loans or letters of credit are outstanding under the Revolving Facility. The Amendment, among other things, also increased the restricted payments basket for certain types of payments, and, subject to certain conditions, increased our capacity for additional term loan borrowings. The Amendment provides for continuing customary restrictions and limitations on our ability to incur liens, incur additional debt, merge or sell assets, make certain restricted payments, prepay other indebtedness, make investments or engage in transactions with affiliates, and it contains other customary default provisions.

OTHER TRANSACTIONS AFFECTING OUR DEBT

During the nine months ended September 30, 2007, we have also completed the following other transactions relating to our debt:

On or about February 28, 2007, we completed a direct private placement of $147.0 million in aggregate principal amount of dollar-denominated 7.875% senior subordinated notes due November 15, 2014. These notes were issued at a premium of 104% of principal amount for a yield of 7.01% and were issued under the same indenture and are of the same series as an original placement of dollar-denominated notes issued by us in November 2006. We used the net proceeds of $151.7 million to redeem all (approximately €114 million) of our remaining outstanding euro-denominated 10.125% senior subordinated notes due 2009, which were called for redemption on March 27, 2007 at a call price of 101.688% plus accrued interest.

On May 29, 2007 we amended certain credit facilities belonging to our Australian subsidiaries (the "Australian Credit Facilities'). The amendment, among other things, amended the interest rate to be the Australian index rate plus a margin of 2.4%, and the maturity was extended for three years to May 29, 2010. The aggregate outstanding balance as of September 30, 2007 under the Australian Credit Facilities was A$57.6 million ($50.4 million, of which $3.8 million is classified as current portion of long term debt).

Our Merger Agreement with Hexion provides certain restrictions and limitations concerning the amendment of debt agreements, the extension, repayment and refinancing of certain debt, in addition to the incurrence of new debt.

COMPLIANCE WITH COVENANTS

As of September 30, 2007, our management believes that we are in compliance with the covenants contained in the agreements governing the Senior Credit Facilities, the Australian Credit Facilities, the A/R Securitization Program (as defined in "Note 9. Securitization of Accounts Receivable") and the indentures governing our notes.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We may enter into foreign currency derivative instruments to minimize the short-term impact of movements in foreign currency rates. As of September 30, 2007 and December 31, 2006, and for the nine months ended September 30, 2007 and 2006, the fair value and realized gains (losses) of outstanding foreign currency rate hedging contracts were not significant.

In conjunction with the redemption of our remaining 10.125% euro-denominated subordinated notes due 2009 in the first quarter of 2007 discussed in "Note 7. Debt" above, and in an effort to maintain approximately the same amount of euro-denominated debt exposure, on March 27, 2007 we entered into a cross currency interest rate swap pursuant to which we have agreed to swap $152.6 million of LIBOR floating rate debt payments for €115.9 million of EURIBOR floating rate debt payments. On maturity, August 15, 2012, we are required to pay principal of €115.9 million and we will receive principal of $152.6 million. During the life of this swap, we will receive floating rate interest (LIBOR) in dollars and we will pay floating rate interest (EURIBOR) in euros. This swap is currently not designated as a hedge for financial reporting purposes. As of September 30, 2007, the fair value of this swap was $13.2 million and was recorded in other noncurrent liabilities in our condensed consolidated balance sheet (unaudited). We recorded an unrealized foreign currency loss on this swap of $8.4 million and $12.7 million in our condensed consolidated statements of operations (unaudited) for the three and nine months ended September 30, 2007, respectively.

In conjunction with the Amendment as discussed in "Note 7. Debt" above, and in an effort to maintain approximately the same amount of euro-denominated debt exposure, on April 19, 2007, we entered into a cross currency interest rate swap pursuant to which we have agreed to swap $95.8 million of LIBOR floating rate debt payments for €70.7 million of EURIBOR floating rate debt payments. On maturity, April 19, 2010, we are required to pay principal of €70.7 million and we will receive principal of $95.8 million. During the life of this swap, we will receive floating rate interest (LIBOR) in dollars and we will pay floating rate interest (EURIBOR) in euros. This swap was designated as a hedge of a net investment for financial reporting purposes. As of September 30, 2007, the fair value of this swap was $4.7 million and was recorded in other noncurrent liabilities in our condensed consolidated balance sheet (unaudited). We recorded an unrealized foreign currency loss on this swap of $5.1 million and $4.7 million in other comprehensive income for the three and nine months ended September 30, 2007, respectively.

On July 12, 2007, we unwound a cross currency interest rate swap pursuant to which we had swapped $31.3 million of 11.0% fixed rate debt for €25 million of 9.4% fixed rate debt. The swap was not designated as a hedge for financial reporting purposes. We recorded an unrealized foreign currency loss on this swap of $0.9 million and $1.6 million in our condensed consolidated statements of operations (unaudited) for the three and nine months ended September 30, 2007, respectively.

On July 2, 2007, we let expire an interest rate contract of a notional amount of $60 million pursuant to which we had swapped LIBOR interest for a fixed rate of 4.315%.

From time to time, we review our non-U.S. dollar-denominated debt and swaps to determine the appropriate amounts designated as hedges. As of September 30, 2007, we have designated approximately €431 million of debt and swaps as net investment hedges. As of September 30, 2007, we had approximately €1,112 million in net euro-denominated assets.

9. SECURITIZATION OF ACCOUNTS RECEIVABLE

Under our accounts receivable securitization program ("A/R Securitization Program"), we grant an undivided interest in certain of our trade receivables to a qualified off-balance sheet entity (the "Receivables Trust") at a discount. This undivided interest serves as security for the issuance by the Receivables Trust of commercial paper. The A/R Securitization Program currently provides for financing through a commercial paper conduit program (in both U.S. dollars and euros). The A/R Securitization Program consists of a commercial paper conduit program with a committed amount of approximately $500 million U.S. dollar equivalents. The A/R Securitization Program matures on April 1, 2009. On June 29, 2007, we amended certain agreements governing the A/R Securitization Program to provide for, among other things, interest costs to the Receivables Trust of LIBOR and/or EURIBOR, as applicable, plus 55 basis points per annum based upon a pricing grid (which is dependent upon our credit rating). Transfers of accounts receivable to the Receivables Trust are accounted for as sales.

As of September 30, 2007, the Receivables Trust had $415.7 million in U.S. dollar equivalents (comprised of $170.0 million and approximately €174 million ($245.7 million)) in commercial paper outstanding. During the quarter ended September 30, 2007 and in conjunction with the North American Polymers Disposition, we reduced receivables sold into the A/R securitization program.

10. EMPLOYEE BENEFIT PLANS

Components of the net periodic benefit costs for the three and nine months ended September 30, 2007 and 2006 were as follows (dollars in millions):

Huntsman Corporation

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	Three months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
Service cost	$ 19.8	$ 20.3	$ 1.0	$ 1.1
Interest cost	35.0	31.7	2.1	2.3
Expected return on assets	(44.6)	(37.1)		
Amortization of transition obligation	0.2	0.4		
Amortization of prior service cost	(1.8)	(1.7)	(0.7)	(0.7)
Amortization of actuarial loss	3.6	4.5	0.6	0.8
Settlement loss		0.4		
Curtailment gain	(11.1)		(2.3)	
Net periodic benefit cost	1.1	18.5	0.7	3.5
Less discontinued operations	10.6	(5.1)	1.4	(0.6)
Net periodic benefit cost from continuing operations	$ 11.7	$ 13.4	$ 2.1	$ 2.9

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	Nine months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Service cost	$ 61.4	$ 60.9	$ 3.2	$ 3.3
Interest cost	103.2	95.1	6.9	6.9
Expected return on assets	(131.8)	(111.3)		
Amortization of transition obligation	1.2	1.2		
Amortization of prior service cost	(5.2)	(5.1)	(2.1)	(2.1)
Amortization of actuarial loss	10.0	13.5	2.4	2.4
Settlement loss		1.2		
Curtailment gain	(11.1)		(2.3)	
Net periodic benefit cost	27.7	55.5	8.1	10.5
Less discontinued operations	9.0	(15.3)	0.2	(1.8)
Net periodic benefit cost from continuing operations	$ 36.7	$ 40.2	$ 8.3	$ 8.7

Huntsman International

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	Three months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
Service cost	$ 19.8	$ 20.3	$ 1.0	$ 1.1
Interest cost	35.0	31.7	2.1	2.3
Expected return on assets	(44.6)	(37.1)		
Amortization of transition obligation	0.2	0.4		
Amortization of prior service cost	(1.8)	(1.7)	(0.7)	(0.7)
Amortization of actuarial loss	5.1	6.9	0.6	0.8
Settlement loss		0.4		
Curtailment gain	(11.1)		(2.3)	
Net periodic benefit cost	2.6	20.9	0.7	3.5
Less discontinued operations	10.6	(5.6)	1.4	(0.6)
Net periodic benefit cost from continuing operations	$ 13.2	$ 15.3	$ 2.1	$ 2.9

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	Nine months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Service cost	$ 61.4	$ 60.9	$ 3.2	$ 3.3
Interest cost	103.2	95.1	6.9	6.9
Expected return on assets	(131.8)	(111.3)		
Amortization of transition obligation	1.2	1.2		
Amortization of prior service cost	(5.2)	(5.1)	(2.1)	(2.1)
Amortization of actuarial loss	14.9	20.7	2.4	2.4
Settlement loss		1.2		
Curtailment gain	(11.1)		(2.3)	
Net periodic benefit cost	32.6	62.7	8.1	10.5
Less discontinued operations	9.0	(16.8)	0.2	(1.8)
Net periodic benefit cost from continuing operations	$ 41.6	$ 45.9	$ 8.3	$ 8.7

During the nine months ended September 30, 2007 and 2006, we made contributions to our pension plans of $125.6 million and $93.0 million, respectively. During the remainder of 2007, we expect to contribute an additional $60.8 million to our pension plans.

11. DIVIDENDS

5% MANDATORY CONVERTIBLE PREFERRED STOCK

In connection with the initial public offering of our 5% mandatory convertible preferred stock on February 16, 2005, we declared all dividends that will be payable on such preferred stock from the issuance through the mandatory conversion date, which is February 16, 2008. Accordingly, we recorded dividends payable of $43.1 million and a corresponding charge to net income available to common stockholders during the first quarter of 2005. As of September 30, 2007, we had $7.1 million invested in government securities that are restricted for satisfaction of our dividend payment obligations through the mandatory conversion date. We expect to pay dividends in cash on November 16, 2007 and on February 16, 2008. Under certain circumstances, we may not be allowed to pay dividends in cash. If this were to occur, any unpaid dividend would be payable in shares of common stock on February 16, 2008 based on the market value of common stock at that time.

COMMON STOCK

On March 30, June 29 and September 28, 2007, we paid cash dividends of $22.1 million each, or $0.10 per share each, to common stockholders of record as of March 15, June 15 and September 15, 2007, respectively.

12. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) were as follows (dollars in millions):

Huntsman Corporation

	Accumulated other comprehensive income (loss)		Other comprehensive income (loss)			
			Three months ended		Nine months ended	
	September 30, 2007	December 31, 2006	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Foreign currency translation adjustments, net of tax of $14.5 million and $31.8 million as of September 30, 2007 and December 31, 2006, respectively	$ 324.9	$ 228.3	$ 61.4	$ 56.5	$ 96.6	$ 133.2
Pension related adjustments, net of tax of $69.6 and $63.8 as of September 30, 2007 and December 31, 2006, respectively	(297.9)	(304.1)	1.9		6.3	2.5
Other comprehensive income of unconsolidated affiliates	9.3	7.3			2.0	
Other, net of tax of $0.4 million and nil as of September 30, 2007 and December 31, 2006, respectively	8.1	7.1	(0.4)	1.2	0.9	2.3
Total	$ 44.4	$ (61.4)	$ 62.9	$ 57.7	$ 105.8	$ 138.0

Huntsman International

	Accumulated other comprehensive income (loss)		Other comprehensive income (loss)			
			Three months ended		Nine months ended	
	September 30, 2007	December 31, 2006	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Foreign currency translation adjustments, net of tax of $17.5 million and $0.2 million as of September 30, 2007 and December 31, 2006, respectively	$ 361.5	$ 266.9	$ 60.3	$ 58.5	$ 94.6	$ 146.3
Pension related adjustments, net of tax of $106.1 and $101.6 as of September 30, 2007 and December 31, 2006, respectively	(393.0)	(404.1)	3.6		11.2	2.5
Other comprehensive income of unconsolidated affiliates	9.3	7.3			2.0	
Other, net of tax of $0.4 million and nil as of September 30, 2007 and December 31, 2006, respectively	2.6	1.6	(0.5)	1.3	0.9	2.5
Total	$ (19.6)	$ (128.3)	$ 63.4	$ 59.8	$ 108.7	$ 151.3

Items of other comprehensive income (loss) of our Company and our unconsolidated affiliates have been recorded net of tax, with the exception of the foreign currency translation adjustments related to subsidiaries with earnings permanently reinvested. The tax effect is determined based upon the jurisdiction where the income or loss was recognized and is net of valuation allowances that have been recorded.

13. OTHER OPERATING EXPENSE (INCOME)

The components of other operating expense (income) were as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Gain on sale of business/assets	$ 0.2	$	$ (1.4)	$ (92.4)
Foreign exchange losses (gains)	7.5	(12.7)	11.2	(7.6)
Bad debt	1.2	1.3	3.9	3.5
Insurance recovery		(12.5)	(11.0)	(21.3)
Legal settlement			6.3	
Other, net	3.4	(3.8)	8.6	(4.2)
Total	$ 12.3	$ (27.7)	$ 17.6	$ (122.0)

14. EXPENSES ASSOCIATED WITH THE MERGER

Total Merger-related costs incurred during the nine months ended September 30, 2007 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Basell Termination Fee	$ 200.0	$	$ 200.0	$
Legal and other costs	5.0		5.0	
Total	$ 205.0	$	$ 205.0	$

Prior to entering into the Merger Agreement, we terminated an Agreement and Plan of Merger (the "Basell Agreement") dated June 26, 2007 with Basell AF ("Basell") and paid Basell a $200 million termination fee required under the terms of the Basell Agreement (the "Basell Termination Fee"). One-half of the Basell Termination Fee, or $100 million, was reimbursed by Hexion. We could be required to pay Hexion $325 million under certain circumstances in connection with our termination of the Merger Agreement. The $100 million funded by Hexion has been deferred and is recorded in "Accrued liabilities" in the accompanying condensed consolidated balance sheet (unaudited) as of September 30, 2007.

Other costs associated with the Merger Agreement are payable contingent upon consummation of the Merger. We will not recognize these costs prior to consummation of the Merger. The following is a discussion of these costs.

TRANSACTION AND RETENTION BONUSES

Upon consummation of the Merger (the "Closing Date"), certain employees will receive transaction bonuses. A retention bonus has also been offered to certain employees payable upon the earlier of i) the date that is 12 months following the Closing Date, or ii) with respect to an employee that is involuntarily terminated following the Merger but prior to the payment of the retention bonus, the date of such employee's termination of employment. With both bonuses, the employee must work until the date the bonus is payable. If paid, these bonuses will total $19.5 million. If the eligible employee terminates employment with our Company voluntarily prior to that date, the bonuses will be forfeited. Furthermore, if the Merger is not consummated, we are not obligated to pay such bonuses.

INVESTMENT BANKING FEES

In connection with the Merger, we have agreed to pay Merrill Lynch a fee of $25 million for its investment banking services, all of which is contingent upon a sale of our Company and which would be payable upon consummation of the Merger. If, at any time during Merrill Lynch's engagement or the two years thereafter, we receive a break-up fee upon termination of an agreement for the sale of our Company, we will pay Merrill Lynch 5% of any such fee, including any reverse break-up fee payable in connection with the termination of the Merger Agreement.

VOTING AGREEMENT FEES

MatlinPatterson was one of our significant shareholders and an affiliate of two of our directors as of the date of the Merger Agreement. Pursuant to a voting agreement in connection with the Merger, we agreed to reimburse MatlinPatterson for up to $13 million in additional investment banking fees payable to UBS if the Merger is consummated. If the Merger is not consummated, no such fees will be paid.

STOCK-BASED AWARDS

For further information regarding the effect of the Merger on stock-based incentive awards, see "Note 17. Stock-Based Compensation Plans" below.

15. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

Discoloration Claims

Certain claims have been filed against us relating to discoloration of unplasticized polyvinyl chloride products allegedly caused by our titanium dioxide. Substantially all of the titanium dioxide that is the subject of these claims was manufactured prior to our acquisition of the titanium dioxide business from ICI in 1999. Net of amounts we have received from insurers and pursuant to contracts of indemnity, we have paid an aggregate of approximately $16 million in costs and settlement amounts for Discoloration Claims through September 30, 2007.

The following table presents information about the number of Discoloration Claims for the periods indicated. Claims include all claims for which service has been received by us, and each such claim represents plaintiffs who are pursuing a claim against us.

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Claims unresolved at beginning of period	2	2
Claims filed during period	0	0
Claims resolved during period	0	0
Claims unresolved at end of period	2	2

The two Discoloration Claims unresolved as of September 30, 2007 asserted aggregate damages of approximately $74 million. An appropriate liability has been accrued for these claims. Based on our understanding of the merits of these claims and our rights under contracts of indemnity and insurance, we do not believe that the net impact on our financial condition, results of operations or liquidity will be material.

While additional Discoloration Claims may be made in the future, we cannot reasonably estimate the amount of loss related to such claims. Although we may incur additional costs as a result of future claims (including settlement costs), based on our history with Discoloration Claims to date, the fact that substantially all of the titanium dioxide that has been the subject of these Discoloration Claims was manufactured and sold more than eight years ago, and the fact that we have rights under contract to indemnity, including from ICI, we do not believe that any unasserted Discoloration Claims will have a material impact on our financial condition, results of operations or liquidity. Based on this conclusion and our inability to reasonably estimate our expected costs with respect to these unasserted claims, we have made no accruals in our financial statements as of September 30, 2007 for costs associated with unasserted Discoloration Claims.

Asbestos Litigation

We have been named as a "premises defendant" in a number of asbestos exposure cases, typically claims by non-employees of exposure to asbestos while at a facility. In the past, these cases typically have involved multiple plaintiffs bringing actions against multiple defendants, and the complaints have not indicated which plaintiffs were making claims against which defendants, where or how the alleged injuries occurred, or what injuries each plaintiff claimed. These facts, which would be central to any estimate of probable loss, generally have been learned only through discovery. Recent changes in Texas tort procedures have required many pending cases to be split into multiple cases, one for each claimant, increasing the number of pending cases reported below. While the complaints in these cases provide little additional information, we do not believe that the increased number of cases resulting from the changes in Texas tort procedure reflects an increase in the number of underlying claims.

Where the alleged exposure occurred prior to our ownership of the relevant "premises," the prior owners generally have contractually agreed to retain liability for, and to indemnify us against, asbestos exposure claims. This indemnification is not subject to any time or dollar amount limitations. Upon service of a complaint in one of these cases, we tender it to the prior owner. None of the complaints in these cases state the amount of damages being sought. The prior owner accepts responsibility for the conduct of the defense of the cases and payment of any amounts due to the claimants. In our twelve-year experience with tendering these cases, we have not made any payment with respect to any tendered asbestos cases. We believe that the prior owners have the intention and ability to continue to honor their indemnity obligations, although we cannot assure you that they will continue to do so or that we will not be liable for these cases if they do not.

The following table presents for the periods indicated certain information about cases for which service has been received that we have tendered to the prior owner, all of which have been accepted.

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Unresolved at beginning of period	1,242	576
Tendered during period	3	990
Resolved during period(1)	38	170
Unresolved at end of period	1,207	1,396

(1) Although the indemnifying party informs us when tendered cases have been resolved, it generally does not inform us of the settlement amounts relating to such cases, if any. The indemnifying party has informed us that it typically manages our defense together with the defense of other entities in such cases and resolves claims involving multiple defendants simultaneously, and that it considers the allocation of settlement amounts, if any, among defendants to be confidential and proprietary. Consequently, we are not able to provide the number of cases resolved with payment by the indemnifying party or the amount of such payments.

We have never made any payments with respect to these cases. As of September 30, 2007, we had an accrued liability of $12.5 million relating to these cases and a corresponding receivable of $12.5 million relating to our indemnity protection with respect to these cases. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity; however, we are not able to estimate the amount or range of loss in excess of our accruals. Additional asbestos exposure claims may be made against us in the future, and such claims could be material. However, because we are not able to estimate the amount or range of losses associated with such claims, we have made no accruals with respect to unasserted asbestos exposure claims as of September 30, 2007.

Certain cases in which we are a "premises defendant" are not subject to indemnification by prior owners or operators. The following table presents for the periods indicated certain information about these cases. Cases include all cases for which service has been received by us, other than a number of cases that were erroneously filed against us due to a clerical error. The cases filed in error have been dismissed.

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Unresolved at beginning of period	91	34
Filed during period	1	18
Resolved during period	51	9
Unresolved at end of period	41	43

We paid gross settlement costs for asbestos exposure cases that are not subject to indemnification of $2.6 million and $10,000 during the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, we had an accrual of approximately $0.9 million relating to these cases. We cannot assure you that our liability will not exceed our accruals or that our liability associated with these cases would not be material to our financial condition, results of operations or liquidity; however, we are not able to estimate the amount or range of loss in excess of our accruals. Additional asbestos exposure claims may be made against us in the future, and such claims could be material. However, because we are not able to estimate the amount or range of losses associated with such claims, we have made no accruals with respect to unasserted asbestos exposure claims as of September 30, 2007.

Antitrust Matters

We have been named as a defendant in putative class action antitrust suits alleging a conspiracy to fix prices in the MDI, TDI, and polyether polyols industries that are now consolidated as the "Polyether Polyols" cases in multidistrict litigation known as In re Urethane Antitrust Litigation, MDL No. 1616, Civil No. 2:04-md-01616-JWL-DJW, United States District Court, District of Kansas, initial order transferring and consolidating cases filed August 23, 2004. Other defendants named in the Polyether Polyols cases are Bayer, BASF, Dow and Lyondell. Bayer entered into a settlement agreement with the plaintiffs that was approved by the court. Class certification discovery is underway in these consolidated cases.

We have also been named as a defendant in putative class action antitrust suits alleging a conspiracy to fix prices in the MDI, TDI and polyether polyols industries filed in the Superior Court of Justice, Ontario, Canada on May 5, 2006 and in Superior Court, Quebec, Canada on May 17, 2006. The other defendants named above in the Polyether Polyols cases are also defendants in these Canadian cases.

We also have been named as a defendant in a putative class action antitrust suit pending in California state court that alleges a conspiracy to fix prices of certain rubber and urethane products in California. The other defendants named in the Polyether Polyols cases are also defendants in this case. The California action has been stayed pending disposition of the Polyether Polyols cases.

The pleadings of the plaintiffs in these antitrust suits provide few specifics about any alleged illegal conduct of the defendants, and we are not aware of any evidence of illegal conduct by us or any of our employees. For these reasons, we cannot estimate the possibility of loss or range of loss relating to these claims, and therefore we have not accrued a liability for these claims. Nevertheless, we could incur losses due to these claims in the future and those losses could be material.

In addition, on February 16, 2006, the Antitrust Division of the U.S. Department of Justice served us with a grand jury subpoena requesting production of documents relating to our TDI, MDI, polyether polyols and related systems operations. The other defendants in the Polyether Polyols cases have confirmed that they have also been served with subpoenas in this matter. We are cooperating fully with the investigation.

MTBE Litigation

In March 2007, we were named for the first time as a defendant in eight lawsuits alleging liability related to MTBE contamination in groundwater. Numerous other companies, including refiners, manufacturers and sellers of gasoline, as well as manufacturers of MTBE, have been named as defendants in these and many other cases currently pending in U.S. courts. The plaintiffs in the eight cases in which we have been named are municipal water districts and a regional water supply authority that claim that defendants' conduct has caused MTBE contamination of their groundwater. The plaintiffs seek injunctive relief, such as monitoring and abatement, compensatory damages, punitive damages and attorney fees. At this time, we have insufficient information to meaningfully assess our potential exposure in these cases and therefore we have not accrued a liability for these claims. We believe that some of our liability in these cases, if any, is likely covered by insurance and/or indemnity agreements with prior owners.

Shareholder Litigation Relating to the Pending Sale of Our Company

From July 5 to July 13, 2007, four shareholder class action complaints were filed against our Company and our directors alleging breaches of fiduciary duty in connection with our then-proposed sale to Basell and the receipt of a superior proposal from Hexion. Three actions were filed in Delaware: Cohen v. Archibald, et al., No. 3070, in the Court of Chancery for the State of Delaware (filed July 5, 2007); Augenstein v. Archibald, et al., No. 3076, in the Court of Chancery for the State of Delaware (filed July 9, 2007); and Murphy v. Huntsman, et al., No. 3094, in the Court of Chancery for the State of Delaware (filed July 13, 2007). Another action was filed in Texas: Schwoegler v. Huntsman Corporation, et al., Cause No. 07-07-06993-CV, in the 9th Judicial District Court of Montgomery County, Texas (filed July 6, 2007). As subsequently amended, these lawsuits together allege that we and our directors breached their fiduciary duties to the stockholders by, among other things, engaging in an unfair sales process, approving an unfair price per share for the Merger with Hexion, and making inadequate disclosures to stockholders, and that Basell, Hexion and MatlinPatterson entities aided and abetted these breaches of fiduciary duty. The lawsuits sought to enjoin the stockholder vote on the Merger.

On September 20, 2007, the parties entered into a Memorandum of Understanding with plaintiffs' counsel in the Delaware and Texas actions to settle these four lawsuits. As part of the proposed settlement, the defendants deny all allegations of wrongdoing, but we agreed to make certain additional disclosures in the final proxy statement that was mailed to our stockholders on or about September 14, 2007. In connection with the settlement, the parties also reached an agreement with respect to any application that the plaintiffs' counsel will make for an award of customary attorneys' fees and expenses to be paid following the completion of the Merger. The settlement is subject to customary conditions, including court approval of the terms of the settlement following notice to members of the proposed settlement class. If finally approved by the court, the settlement will resolve all claims that were brought on behalf of the proposed settlement class in connection with the Merger, the Merger Agreement, the adequacy of the merger consideration, the negotiations preceding the Merger Agreement, the adequacy and completeness of the disclosures made in connection with the Merger, and any actions of the individual defendants in the events listed above, including any alleged breach of fiduciary duties by any of the defendants, or the aiding and abetting thereof. The settlement will not affect stockholders' appraisal rights, if available, pursuant to Section 262 of the General Corporation Law of the State of Delaware.

The Memorandum of Understanding will be null and void and of no force and effect if the Merger is not consummated, the Delaware actions are not dismissed or the Texas court does not give final approval of the settlement and dismiss the Texas action with prejudice for any reason.

The settlement will not affect the timing of the Merger or the amount of the merger consideration to be paid in the Merger. Under the terms of the Memorandum of Understanding, the terms of the proposed settlement will not be presented to the court for approval until the Merger is consummated.

Port Arthur Plant Fire Insurance Litigation

On August 31, 2007, seventeen reinsurance companies (the "Reinsurers") that reinsure International Risk Insurance Company ("IRIC"), our captive insurance company, brought an action against our Company and IRIC in the United States District Court, Southern District of Texas, with respect to IRIC's obligations to us under a property insurance policy issued to us. The action seeks to compel arbitration with both IRIC and our Company under the terms in the IRIC policies or, in the alternative, to declare judgment in favor of the Reinsurers on a number of issues arising from the insurance claim for losses incurred as a result of the April 29, 2006 fire at our manufacturing facility in Port Arthur, Texas. For additional information, see "Note 18. Casualty Losses and Insurance Recoveries Port Arthur, Texas Plant Fire."

Other Proceedings

We are a party to various other proceedings instituted by private plaintiffs, governmental authorities and others arising under provisions of applicable laws, including various environmental, products liability and other laws. Except as otherwise disclosed in this report, we do not believe that the outcome of any of these matters will have a material adverse effect on our financial condition, results of operations or liquidity. For more information, see "Note 16. Environmental, Health and Safety Matters Remediation Liabilities."

GUARANTEES

In January 2003, Huntsman International entered into two related joint venture agreements to build MDI production facilities near Shanghai, China. SLIC, our manufacturing joint venture with BASF AG and three Chinese chemical companies, operates three plants that manufacture MNB, aniline and crude MDI. We indirectly own 35% of SLIC and it is an unconsolidated affiliate.

On September 19, 2003, SLIC obtained secured financing for the construction of production facilities. SLIC obtained various committed loans in the aggregate amount of approximately $230 million in U.S. dollar equivalents. As of September 30, 2007, there were $84.4 million and RMB 1,055 million ($140.4 million) in outstanding borrowings under these facilities. The interest rate on these facilities is LIBOR plus 0.48% for U.S. dollar borrowings and 90% of the Peoples Bank of China rate for RMB borrowings. The loans are secured by substantially all the assets of SLIC and will be paid in 16 semiannual installments, which began on June 30, 2007. We unconditionally guarantee 35% of any amounts due and unpaid by SLIC under the loans described above (except for a $1.5 million VAT facility which is not guaranteed). Our guarantee remains in effect until SLIC has commenced production of at least 70% of capacity for at least 30 days and achieved a debt service coverage ratio of at least 1:1. SLIC commenced operations in the third quarter of 2006. We have estimated that the fair value of this guarantee is nil as of the closing of the transaction and, accordingly, no amounts have been recorded.

16. ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

We are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to safety, pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. In the ordinary course of business, we are subject to frequent environmental inspections and monitoring and occasional investigations by governmental enforcement authorities. In addition, our production facilities require operating permits that are subject to renewal, modification and, in certain circumstances, revocation. Actual or alleged violations of safety laws, environmental laws or permit requirements could result in restrictions or prohibitions on plant operations, substantial civil or criminal sanctions, as well as, under some environmental laws, the assessment of strict liability and/or joint and several liability. Moreover, changes in environmental regulations could inhibit or interrupt our operations, or require us to modify our facilities or operations. Accordingly, environmental or regulatory matters may cause us to incur significant unanticipated losses, costs or liabilities.

EHS CAPITAL EXPENDITURES

We may incur future costs for capital improvements and general compliance under EHS laws, including costs to acquire, maintain and repair pollution control equipment. For the nine months ended September 30, 2007 and 2006, our capital expenditures for EHS matters totaled $42.2 million and $29.3 million, respectively. Since capital expenditures for these matters are subject to evolving regulatory requirements and depend, in part, on the timing, promulgation and enforcement of specific requirements, we cannot provide assurance that our recent expenditures will be indicative of future amounts required under EHS laws.

REMEDIATION LIABILITIES

We have incurred, and we may in the future incur, liability to investigate and clean up waste or contamination at our current or former facilities or facilities operated by third parties at which we may have disposed of waste or other materials. Similarly, we may incur costs for the cleanup of wastes that were disposed of prior to the purchase of our businesses. Under some circumstances, the scope of our liability may extend to damages to natural resources.

Under CERCLA, and similar state laws, a current or former owner or operator of real property may be liable for remediation costs regardless of whether the release or disposal of hazardous substances was in compliance with law at the time it occurred, and a current owner or operator may be liable regardless of whether it owned or operated the facility at the time of the release. We have been notified by third parties of claims against us for cleanup liabilities at approximately 12 former facilities or third party sites, including, but not limited to, sites listed under CERCLA. Based on current information and past experiences at other CERCLA sites, we do not expect any of these third party claims to result in material liability to us.

In addition, under RCRA, and similar state laws, we may be required to remediate contamination originating from our properties as a condition to our hazardous waste permit. Some of our manufacturing sites have an extended history of industrial chemical manufacturing and use, including on-site waste disposal. We are aware of soil, groundwater or surface contamination from past operations at some of our sites, and we may find contamination at other sites in the future. For example, our Port Arthur and Port Neches facilities in Texas, and our Geismar facility in Louisiana, are the subject of ongoing remediation requirements under RCRA authority.

In June of 2006, an agreement was reached between the local regulatory authorities and our advanced materials site in Pamplona, Spain to relocate our manufacturing operations in order to facilitate new urban development desired by the city. Subsequently, as required by the authorities, soil and groundwater sampling was performed and followed by a quantitative risk assessment. Although unresolved at this time, some level of remediation of site contamination may be required, but the estimated cost is unknown because the remediation approach has not been determined.

By letter dated March 7, 2006, our Base Chemicals and Polymers facility in West Footscray, Australia was issued a clean-up notice by the Australian (Victorian) EPA. The agency was concerned about soil and groundwater contamination emanating from the site. Although we fulfilled all initial requirements under the clean-up notice, the agency revoked the original clean-up notice on September 4, 2007 and issued a revised clean-up notice granting an extension due to "the complexity of contamination issues" at the site. The revised clean-up notice reflects a more detailed program, with a deadline for the submission of a detailed site remediation action plan by March 31, 2009.

In many cases, our potential liability arising from historical contamination is based on operations and other events occurring prior to our ownership of a business or specific facility. In these situations, we frequently obtained an indemnity agreement from the prior owner addressing remediation liabilities arising from pre-closing conditions. We have successfully exercised our rights under these contractual covenants for a number of sites and, where applicable, mitigated our ultimate remediation liability. We cannot assure you, however, that all of such matters will be subject to indemnity, that the prior owner will honor its indemnity or that our existing indemnities will be sufficient to cover our liabilities for such matters.

Based on available information and the indemnification rights we believe are likely to be available, we believe that the costs to investigate and remediate known contamination will not have a material adverse effect on our financial condition, results of operations or cash flows. However, if such indemnities are unavailable or do not fully cover the costs of investigation and remediation or we are required to contribute to such costs, and if such costs are material, then such expenditures may have a material adverse effect on our financial condition, results of operations or cash flows. At the current time, we are unable to estimate the full cost, exclusive of indemnification benefits, to remediate any of the known contamination sites.

ENVIRONMENTAL RESERVES

We have accrued liabilities relating to anticipated environmental cleanup obligations, site reclamation and closure costs and known penalties. Liabilities are recorded when potential liabilities are either known or considered probable and can be reasonably estimated. Our liability estimates are based upon available facts, existing technology and past experience and are not discounted. The environmental liabilities do not include amounts recorded as asset retirement obligations. We have accrued $6.7 million and $14.0 million for environmental liabilities as of September 30, 2007 and December 31, 2006, respectively. Of these amounts, $4.3 million and $6.0 million are classified as accrued liabilities in our condensed consolidated balance sheets (unaudited) as of September 30, 2007 and December 31, 2006, respectively, and $2.4 million and $8.0 million are classified as other noncurrent liabilities in our condensed consolidated balance sheets (unaudited) as of September 30, 2007 and December 31, 2006, respectively. In certain cases, our remediation liabilities are payable over periods of up to 30 years. We may incur losses for environmental remediation in excess of the amounts accrued; however, we are not able to estimate the amount or range of such potential excess.

REGULATORY DEVELOPMENTS

Under the EU's integrated pollution prevention and control directive ("IPPC"), EU member governments are to adopt rules and implement a cross media (air, water and waste) environmental permitting program for individual facilities. While the EU countries are at varying stages in their respective implementation of the IPPC permit program, we have submitted all necessary IPPC permit applications required to date and in some cases received completed permits from the applicable government agency. We expect to submit all other IPPC applications and related documents on a timely basis as the various countries implement the IPPC permit program. Although we do not know with certainty what each IPPC permit will require, we believe, based upon our experience with the permits received to date, that the costs of compliance with the IPPC permit program will not be material to our financial condition, results of operations or cash flows.

In December 2006, the EU parliament and EU council approved a new EU regulatory framework for chemicals called "REACH" (Registration, Evaluation and Authorization of Chemicals). REACH took effect on June 1, 2007, and the program it establishes will be phased in over 11 years. Under the regulation, companies that manufacture or import more than one ton of a chemical substance per year will be required to register such chemical substances and isolated intermediates in a central database. Use authorizations will be granted for a specific chemical if the applicants can show that any risk in using the chemical can be adequately controlled or, where there are no suitable alternatives available, if the applicant can demonstrate that the social and economic benefits of using the chemical outweigh the risks. In addition, specified uses of some hazardous substances may be restricted. Furthermore, all applicants will have to study the availability of alternative chemicals. If an alternative is available, an applicant will have to submit a "substitution" plan to the regulatory agency. The regulatory agency will only authorize persistent bio-accumulative and toxic substances if an alternative chemical is not available. The registration, evaluation and authorization phases of the program will require expenditures and resource commitments in order to, for example, develop information technology tools, generate data, prepare and submit dossiers for substance registration, participate in consortia, obtain legal advice and reformulate products, if necessary. We have established a cross-business European REACH team that is working closely with our businesses to identify and list all substances manufactured or imported by us into the EU. Although the total long-term cost for REACH compliance is not estimable at this time, we do not expect spending on REACH to exceed $5.0 million during 2007.

GREENHOUSE GAS REGULATION

In the EU and other jurisdictions committed to compliance with the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Convention"), there is an increasing likelihood that our manufacturing sites will be affected in some way over the next few years by regulation or taxation of greenhouse gas ("GHG") emissions. In addition, although the U.S. is not a signatory to the Convention, several states, including California, are implementing their own GHG regulatory programs, and a federal program in the U.S. is a possibility for the future. Several of our sites are subject to existing GHG legislation, but few have experienced or anticipate significant cost increases as a result, although it is likely that GHG emission restrictions will increase over time. Potential consequences of such restrictions include increases in energy costs above the level of general inflation, as well as direct compliance costs. Currently, however, it is not possible to estimate the likely financial impact of potential future regulation on any of our sites.

CHEMICAL FACILITY ANTI-TERRORISM RULEMAKING

As required by the Homeland Security Appropriations Act of 2006, on April 9, 2007, the Department of Homeland Security issued the "Chemical Facility Anti-Terrorism Standards" ("CFATS"), an interim final rule establishing risk-based performance standards for the chemical industry. Once the standards go into effect, they will require security vulnerability assessments and site security plans for facilities qualifying as high risk.

Since 2003, we have conducted security vulnerability assessments at our higher risk manufacturing facilities in the U.S. Those assessments led to changes in our operations in certain instances in an effort to ensure greater security. However, not all of our facilities, including some of our recently-acquired sites, have been assessed. This second round of security vulnerability assessments under the CFATS regime will be based on the list of "Chemicals of Interest" (Appendix A) released on November 2, 2007 and will incorporate the volume of on-site chemicals, proximity of neighbors to a facility and other measures. However, we expect that the cost to perform the assessments themselves will be nominal. Additionally, at this time, any capital expenditure recommendations to increase security are not expected to differ significantly from the original assessment recommendations. Nevertheless, whether the assessments and resulting improvements will fully satisfy the requirements of this new regulation, and whether additional changes which could cause us to incur costs will have to be made, is unclear to us at this time.

17. STOCK-BASED COMPENSATION PLANS

Under the Huntsman Stock Incentive Plan (the "Stock Incentive Plan"), a plan approved by stockholders, we may grant non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, phantom stock, performance awards and other stock-based awards to our employees and directors and to employees and directors of our subsidiaries, provided that incentive stock options may be granted solely to employees. The terms of the grants are fixed at the grant date. As of September 30, 2007, we were authorized to grant up to 21,590,909 shares under the Stock Incentive Plan, subject to the conditions noted below in connection with the Merger Agreement. Option awards have a maximum contractual term of 10 years and generally must have an exercise price at least equal to the market price of our common stock on the date the option award is granted. Stock-based awards generally vest ratably over a three-year period.

Under the Merger Agreement, we have agreed, among other things, that we will not grant or issue any capital stock or equity interests, other than (a) the issuance of common stock upon the exercise of stock options granted under the Stock Incentive Plan and outstanding on the date of the Merger Agreement, (b) upon the expiration of any restrictions on any restricted stock granted under the Stock Incentive Plan and outstanding on the date of the Merger Agreement or issued in compliance with the Merger Agreement, and (c) issuances of restricted stock or phantom stock granted after February 15, 2008 under the Stock Incentive Plan to employees and directors in amounts consistent with past practice or pursuant to action taken by our board of directors (or a committee thereof) and in aggregate not covering more than 600,000 shares of common stock, 50% of which will become fully vested and convert into the right to receive the merger consideration upon the effective time of the Merger and 50% of which will become fully vested and convert into the right to receive the merger consideration six months following the consummation of the Merger.

Upon consummation of the Merger, the restrictions applicable to each share of restricted common stock (including common stock underlying restricted stock units and phantom stock) issued or granted pursuant to the Stock Incentive Plan shall immediately lapse, and, at the effective time of the Merger, each share of such common stock, restricted stock units and phantom stock will be converted into the right to receive the merger consideration. All options to acquire shares of common stock outstanding under the Stock Incentive Plan will vest immediately prior to the effective time of the Merger, and holders of such options will be entitled to receive an amount in cash equal to the excess, if any, of the merger consideration over the exercise price per share of common stock for each option. Any incremental compensation cost that may result from the acceleration of vesting of stock-based awards in connection with the Merger will be recognized when the Merger is consummated.

The compensation cost from continuing operations for the Stock Incentive Plan was $6.4 million and $4.7 million for the three months ended September 30, 2007 and 2006, respectively, and $18.3 million and $12.6 million for nine months ended September 30, 2007 and 2006, respectively. The total income tax benefit recognized in the statement of operations for stock-based compensation arrangements was $5.4 million and nil for the nine months ended September 30, 2007 and 2006, respectively.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Because we became a publicly-held company in February 2005, expected volatilities are based on implied volatilities from the stock of comparable companies and other factors. The expected term of options granted is estimated based on the contractual term of the instruments and employees' expected exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Dividend yield	N/A	0.0%	1.9%	0.0%
Expected volatility	N/A	23.1%	20.8%	23.1%
Risk-free interest rate	N/A	4.9%	4.7%	4.6%
Expected life of stock options granted during the period	N/A	6.6 years	6.6 years	6.6 years

STOCK OPTIONS

A summary of stock option activity under the Stock Incentive Plan as of September 30, 2007 and changes during the nine months then ended is presented below:

Option Awards	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(000)		(Years)	($000)
Outstanding at January 1, 2007	4,151	$ 21.72		
Granted	2,309	20.63		
Exercised	(99)	21.74		
Forfeited	(34)	21.74		
Outstanding at September 30, 2007	6,327	21.32	8.4	$ 32,713
Exercisable at September 30, 2007	2,051	22.16	7.7	8,878

The weighted-average grant-date fair value of stock options granted during the nine months ended September 30, 2007 was $5.15 per option. The total intrinsic value of stock options exercised during the nine months ended September 30, 2007 and 2006 was $0.2 million and nil, respectively. As of September 30, 2007, there was $17.2 million of total unrecognized compensation cost related to nonvested stock option arrangements granted under the Stock Incentive Plan. That cost is expected to be recognized over a weighted-average period of approximately 1.4 years.

NONVESTED SHARES

Nonvested shares granted under the Stock Incentive Plan consist of restricted stock, which is accounted for as an equity award, and phantom stock, which is accounted for as a liability award because it can be settled in either stock or cash. A summary of the status of our nonvested shares as of September 30, 2007 and changes during the nine months then ended is presented below:

	Equity Awards		Liability Awards	
	Shares	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
	(000)		**(000)**	
Nonvested at January 1, 2007	909	$ 21.73	46	$ 21.72
Granted	475	20.64	118	20.58
Vested	(375)(1)	22.01	(19)	21.97
Forfeited	(2)	20.91		
Nonvested at September 30, 2007	1,007	21.12	145	20.76