

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

Commission file number 1-496

HERCULES INCORPORATED

A DELAWARE CORPORATION
I.R.S. EMPLOYER IDENTIFICATION NO. 51-0023450
HERCULES PLAZA
1313 NORTH MARKET STREET
WILMINGTON, DELAWARE 19894-0001
TELEPHONE: 302-594-5000
www.herc.com

Securities registered pursuant to Section 12(b) of the Act
(Each class is registered on the New York Stock Exchange, Inc.)

Title of each class
Common Stock ($\$^{25}/_{48}$ Stated Value)
8% Convertible Subordinated Debentures due August 15, 2010

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X
No ____.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes ____ No X.

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

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

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. Large accelerated filer X Accelerated filer ____ Non-accelerated filer ____.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No X.

The aggregate market value of registrant's common stock, $\$^{25}/_{48}$ stated value ("Common Stock") held by non-affiliates based on the closing price on the last business day of the Company's most recently completed second fiscal quarter, or June 30, 2005, was approximately \$1.5 billion.

As of February 24, 2006, registrant had 112,885,816 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders (the "Proxy Statement"), when filed, will be incorporated by reference in Part III of this report.

PART I

Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, reflecting management's current analysis and expectations, based on what management believes to be reasonable assumptions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from those projected, stated or implied, depending on such factors as: ability to generate cash, changes in tax rates or changes resulting from ongoing reviews of tax liabilities, ability to raise capital, ability to refinance, ability to execute productivity improvements and reduce costs, ability to execute and integrate acquisitions, ability to raise product prices, ability to execute divestitures, ability to realign business portfolio and segments, ability to achieve growth in earnings and cash flows, business climate, business performance, changes in tax laws or regulations, economic and competitive uncertainties, higher manufacturing costs, reduced level of customer orders, changes in strategies, risks in developing new products and technologies, risks in developing new market opportunities, environmental and safety regulations and clean-up costs, foreign exchange rates and exchange control regulations, foreign investment laws, the impact of changes in the value of pension fund assets and liabilities, changes in generally accepted accounting principles, legislative changes, adverse legal and regulatory developments, including increases in the number or financial exposures of claims, lawsuits, settlements or judgments, the financial capacity of settling insurers, the impact of increased accruals and reserves for such exposures, the outcome of litigation and appeals, and adverse changes in economic and political climates around the world, including terrorist activities, international hostilities, governmental instabilities and potential natural disasters. Accordingly, there can be no assurance that the Company will meet future results, performance or achievements expressed or implied by such forward-looking statements. As appropriate, additional factors are contained in other reports filed by the Company with the Securities and Exchange Commission. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions identify forward-looking statements. This paragraph is included to provide safe harbor for forward-looking statements, which are not generally required to be publicly revised as circumstances change, and which the Company does not intend to update except as may be required by law.

ITEM 1. BUSINESS

Hercules Incorporated ("Hercules" or the "Company") is a Delaware corporation formed in 1912. The Company is a leading manufacturer and marketer of specialty chemicals and related services for a broad range of business, consumer and industrial applications. The Company is focused on maximizing cash flows and delivering shareholder value by concentrating on managed growth in its core businesses as well as continuous improvement in its operations. Hercules operates on a global scale, with significant operations in North America, Europe, Asia and Latin America. Product sales occur in over 125 countries with significant revenue streams generated on five continents.

The Company's principal products are chemicals used by the paper industry to increase paper and paperboard performance and enhance the manufacturing process; water-soluble polymers; polypropylene fibers and polypropylene/polyethylene bicomponent fibers; and specialty resins. These products impart such qualities as durability, water-resistance and improved aesthetics for everyday consumer goods ranging from paper and packaging to toothpaste and diapers. The primary markets the Company serves include pulp and paper; paints and adhesives; construction materials; food, pharmaceutical and personal care; and industrial specialties, including oilfield, textiles and general industrial.

While the Company's products comprise a relatively minor component of its end customers' total product cost, they frequently possess characteristics important to the functionality and aesthetics of the finished product or the efficient operation of the manufacturing process. Examples of the Company's products in consumer end-uses include strength additives for tissue and toweling, sizing agents for milk and juice cartons, fibers that comprise the inner and outer linings of disposable diapers and feminine hygiene products, thickeners in products such as toothpaste, shampoos and water-based paints, and water control additives for building products such as tile cements, grouts, stuccos, plasters and joint compounds. The Company also offers products and related services that improve and reduce the cost of the paper manufacturing processes, including water management programs that are designed to protect and maintain equipment and reduce operating costs.

Although the performance and quality of its products and high quality service are important to the Company's competitive strategy, other important factors such as lower manufacturing costs and improved reliability are becoming increasingly important. The Company strives to continually improve its products and manufacturing processes by investing in technology. The Company has committed substantial resources to its research and development efforts, including expenditures which totaled approximately \$40.9 million in 2005. Such efforts enable the Company to consistently bring products to market that improve functional properties or that offer similar properties at a lower cost. Functional properties have become increasingly important, as customers have come to rely more on the Company to provide new solutions to improve their product offerings and processes. Additionally, the Company strives to make its products more cost-competitive by effectively managing production costs and advancing its application development with customers.

The Company's strategy is to focus on meeting customer's needs and adding value to their businesses; continuously improving to extend competitive advantages; maximizing cash flows; reducing financial leverage and returning to an investment grade credit rating; growing profitability and increasing return on invested capital; and mitigating and reducing legacy liabilities.

Pursuant to this strategy, on September 30, 2005, Hercules announced the signing of a joint venture agreement between its Aqualon division and the leading producers of methylcellulose ("MC") in China. The Company's joint venture with Luzhou North Chemical Industries Co. Ltd. and Jiangsu Feixiang Chemical Industries, Co. Ltd., Hercules Tianpu Chemical Co., is anticipated to be completed during the first quarter of 2006 and has total existing capacity of 6,000 metric tons and an additional 12,000 metric ton facility currently under construction. In addition, on January 13, 2006 the Company announced its acquisition of the guar and guar derivative manufacturing business of Benchmark Polymer Products, L.P., a subsidiary of Benchmark Performance Group, Inc. ("Benchmark"). The Company also acquired an equity position in Benchmark, thereby expanding its position in the oil and gas industry.

On January 31, 2006 the Company signed an agreement to sell a 51% interest in its FiberVisions division to an affiliate of SPG Partners, LLC ("SPG"), a New York-based private equity firm. Under the terms of the agreement, Hercules will receive cash of approximately \$109 million upon the closing of the transaction. The transaction, which is expected to close by the end of the first quarter of 2006, reflects the Company's strategy to invest in growth opportunities in its Aqualon and Pulp and Paper divisions and reduce earnings volatility.

Reportable Segments

The Company presently operates through two reportable segments and four divisions. The Pulp and Paper division and the Aqualon division comprise the Performance Products segment and the FiberVisions division and the Pinova division comprise the Engineered Materials and Additives segment. The financial information regarding these segments, which includes net sales and profit from operations for each of the three years ended December 31, 2005, 2004 and 2003 and total assets as of December 31, 2005, 2004 and 2003, is provided in Note 23 to the Consolidated Financial Statements.

Performance Products

Products and services offered by the Pulp and Paper division are designed to enhance customers' profitability by improving production yields and overall product quality, and to better enable customers to meet their environmental objectives and regulatory requirements.

Pulp and Paper is one of the largest suppliers of functional, process and water management chemicals for the pulp and paper industry. The division offers a wide and highly sophisticated range of technology and applications expertise with in-mill capabilities which run from influent treatment through the pulp and paper making process to paper finishing. The division is a broad-based global supplier able to offer a complete portfolio of products to its pulp and paper customers.

Products offered by Aqualon are designed to manage the properties of aqueous (water-based) systems. Most of the products are derived from renewable natural raw materials and are sold as key ingredients to other manufacturers where they are used as small-quantity additives to provide functionality such as thickening, water retention, film formation, emulsifying action and binding power. Major end uses for Aqualon products include personal care products, food additives, pharmaceutical products, construction materials, paints, coatings and oil and gas recovery, where polymers are used to modify viscosity, gel strength and/or fluid loss.

At December 31, 2005, the principal products and primary markets of this segment were:

Division	Principal Products	Primary Markets
Pulp and Paper	<i>Functional performance chemicals:</i> Sizing (improving printability), strength, tissue creping and coatings additives.	Large, multinational manufacturers of pulp, tissues, paper towels, packaging, beverage containers, newsprint, papers for magazines and books, printing and writing paper and other stationery items such as labels and envelopes.
	<i>Process treatment chemicals:</i> Deposit, contaminant, microbiological and foam control, clarification, retention, drainage, felt conditioning, deinking, fiber recovery and water closure.	
	<i>Water treatment chemicals:</i> Utility systems, cooling water and water clarification.	
Aqualon	<i>Water-soluble polymers:</i> Hydroxyethylcellulose (HEC), Carboxymethylcellulose (CMC), Methylcellulose (MC) and derivatives, Hydroxypropylcellulose (HPC) and Guar and its derivatives.	Manufacturers of interior and exterior architectural paints, oilfield service companies for oil and gas drilling and recovery, paper mills, construction material manufacturers and makers of oral hygiene products, personal care products, food products and pharmaceuticals.
	<i>Solvent-soluble polymers:</i> Pentaerythritol (PE) and Ethylcellulose (EC).	

Engineered Materials and Additives

FiberVisions is one of the largest manufacturers of polyolefin staple fibers used in disposable products like diapers and wipes. FiberVisions produces monocomponent polypropylene fibers and bicomponent fibers comprised of a polypropylene core and a polyethylene sheath. FiberVisions also produces polyolefin fiber and yarn for the industrial and textile markets used in concrete and asphalt, wipes, upholstery and automotive fabrics, geotextile fabrics and filtration products.

Pinova consists of the rosin and terpenes specialty business. Pinova manufactures wood and gum rosin resins and is the world's only producer of pale wood rosin derivatives. Product applications and markets include food and beverage, construction specialties, adhesives, and rubber and plastic modifiers.

At December 31, 2005, the principal products and primary markets of this segment were:

Division	Principal Products	Primary Markets
FiberVisions	<i>Staple fibers:</i> For hygiene products, wipes, geotextiles and filtration.	Makers of nonwoven and woven fabrics for applications including baby care, feminine care, adult incontinence, wipes, geotextile, construction and upholstery.
	<i>Filament yarns:</i> For upholstery and automotive fabrics.	
Pinova	<i>Rosin resins:</i> For food and beverage, construction and adhesives.	Makers of consumer and industrial products such as masking, packaging, arts and duct tape, construction materials, beverages, chewing gum, plastics and adhesives.

Raw Materials and Energy Supply

Raw materials and supplies are purchased from a variety of industry sources, including the agricultural, forestry, mining, petroleum and chemical industries.

Important raw materials for Pulp and Paper are cationic and anionic polyacrylamides and emulsions, biocides, amines, surfactants, rosin, adipic acid, epichlorohydrin, fumaric acid, stearic acid, diethylenetriamine, phosphorous trichloride and starch.

Raw materials important to Aqualon are cellulose pulp (derived from wood and cotton linters) and guar splits, both renewable resources, ethylene oxide and caustic. Other commodity and chemical inputs include acetaldehyde, fatty acids, methanol, ethyl chloride, propylene oxide, chlorine, monochloroacetic acid, methyl chloride and inorganic acids.

The important raw materials for the Engineered Materials and Additives segment are polypropylene and polyethylene for the FiberVisions division and pine wood stumps, limonene, gum rosin and crude sulfate turpentine for the Pinova division.

FiberVisions purchases polypropylene resins from a number of the major global producers. FiberVisions has undertaken initiatives to expand and fully qualify alternative suppliers, which allows for greater flexibility and reliability of supply.

Major requirements for key raw materials and fuels are typically purchased pursuant to contracts. The Company is not dependent on any one supplier for a material amount of its raw material or fuel requirements, but certain important raw materials, such as cotton linters, are obtained from a sole-source or a few major suppliers. Except for polypropylene, which represented approximately 13% of Cost of sales in 2005, no single raw material accounts for more than 4% of total current year cost of goods sold.

While temporary shortages of raw materials and fuels may occur occasionally, these items are currently readily available. However, their continuing availability and price are subject to domestic and world market and political conditions as well as to the direct or indirect effect of governmental action or regulations. The impact of any future raw material and energy shortages on the Company's business as a whole or in specific world areas cannot be accurately predicted. Operations and products may, at times, be adversely affected by governmental action, natural disasters, shortages or international or domestic events.

Competition

The specialty chemicals industry is highly fragmented and its participants offer a broad array of product lines representing many different products designed to meet specific customer requirements. Individual product and portfolio offerings compete on a global, regional and/or local level subject to the nature of the businesses and products, as well as the end-markets and customers served. The industry has become increasingly global as participants focus on establishing and maintaining leadership positions in relatively narrow market niches. Many of the Company's product lines face competitive domestic and international pressures, including industry consolidation, pricing pressures and competing technologies. In Pulp and Paper, customers and competitors are consolidating to enhance market positions and product offerings on a worldwide basis. Aqualon is facing competitive threats from emerging Asian producers. To address this threat, Aqualon continues to pursue a lower cost strategy, which includes reducing costs in existing facilities and adding production capacity in the growing, low-cost Asian region, as evidenced by the new Hercules Tianpu Chemical Company joint venture. In addition, certain of the Company's businesses are subject to intense competition from new technologies, such as FiberVisions in its hygiene products line. FiberVisions, as a fibers manufacturer for carded non-woven hygienic applications, faces competition from spunbond (SB) and spunbond/melt blown/spunbond (SMS) technologies. SB/SMS products may offer strength-driven cost savings compared to the products of FiberVisions in specific applications; however, FiberVisions believes that its carded products provide improved softness, uniformity, stretch and liquid management properties preferred in wipes and by certain segments of the disposable diaper market and other hygiene products markets. The threat of new producers in the thermal-bonded hygienic product line is relatively low due to the fact that the production process involves significant investments in plant, equipment and application know-how.

Patents and Trademarks

Patents covering a variety of products and processes have been issued to the Company and its subsidiaries. The Company is licensed under certain other patents held by other parties covering its products and processes. The Company's rights under these patents and licenses constitute a valuable asset.

The Company and its wholly-owned subsidiaries also have many global trademarks covering their products. Some of the more significant trademarks include: AquaCat™ clear cationic solution, Aquapel® sizing agent, Hercon® sizing emulsions, Aqualon® water-soluble polymers, Natrosol® hydroxyethylcellulose, Culminal® methylcellulose, Klucel® hydroxypropylcellulose, Natrosol FPS® water-soluble polymer suspension, Precis® sizing agent, Kymene® resin, Herculon® fiber, Prestige® deposit control additives, Spectrum® microbiocides, Ultra-pHase® sizing agent, Hercobond® dry strength resin, Chromaset® surface size, ProSoft® tissue softeners and Zenix® contaminant control.

The Company does not consider any individual patent, license or trademark to be of material importance to Hercules taken as a whole.

Research and Development

The Company is focused on product innovation as one of its key growth strategies. Research and development efforts are directed toward the discovery and development of new products and processes, the improvement and refinement of existing products and processes, the development of new applications for existing products and cost improvement initiatives. Hercules spent \$40.9 million on research and development activities in 2005, as compared to \$42.8 million in 2004 and \$38.7 million in 2003. The decrease in spending for research and development activities in 2005 was primarily due to the strategic decision to close the Barneveld Research Laboratories and efficiencies gained in targeting the research and development programs which deliver optimal results.

Pulp and Paper currently focuses its technology efforts on innovative high-value product development, incremental improvements to existing products and services and cost reduction programs to meet diverse customer needs worldwide. During 2005, as part of the consolidation and rationalization of its research and development operations, the division announced the closing of its Jacksonville, Florida facility and completed the closure of its Barneveld facility in The Netherlands. This centralization of Pulp and Paper research and development operations at its Research Center in Wilmington, Delaware is expected to result in improved efficiency and effectiveness. The state-of-the-art facilities located in the U.S. include large and sophisticated research and development laboratories with pilot paper making capabilities that simulate actual operating conditions in a customer's facilities. This allows an accurate assessment of the potential impact of new products on plant performance. The division's scientists conduct research and customer optimization studies focused on solving water and process treatment challenges by using sophisticated techniques and equipment to provide high level analytical testing and advanced technical service worldwide.

The Pulp and Paper division's Customer Applications laboratories are being relocated to have greater proximity to key customer activities and to take advantage of existing Company assets and infrastructure. The European customer applications operations formerly located at Barneveld have been recently relocated to the Helsingborg Technical Center in Helsingborg, Sweden. This facility began operations in January 2006. The Americas customer applications activities will be relocated from Jacksonville, Florida to the Wilmington Research Center by the end of 2006 as part of a \$5.5 million capital project to build a facility which will house the aforementioned pilot paper making and paper testing activity. Finally, a new customer applications facility is planned for the Asia Pacific region with an anticipated 2007 start-up.

Aqualon focuses its research and development efforts on market-oriented product development, manufacturing process improvement and responsive technical service to customers. New product development is focused on products which manage the physical properties of water based systems, such as latex paint, construction mortars and personal care products, to meet customer demand for improved performance and efficiency.

Aqualon has application and development laboratories in Europe, Asia and the Americas that provide technical service to customers. At these laboratories, teams work in a network to develop products, identify new applications and meet customer requirements.

Research and development efforts in FiberVisions are primarily focused on developing new and novel polyolefin fibers around four key platforms: high tenacity for industrial applications; dyeable fibers for apparel and upholstery; wettability for wipes; and shaped fibers for improved adhesion, wicking, coverage and visual appearance. A continued hygiene focus is to improve fiber strength while enhancing hygiene product properties for loft, softness and stretch, thereby creating a platform to better compete with SB/SMS products. The industrial and textile product units are investigating the use of specific fibers for new applications in the upholstery, wipes, geotextiles and construction applications.

FiberVisions has research and development facilities in the U.S. designed to serve the business needs of its customers. During 2005, FiberVisions closed the technical facility at its Varde, Denmark manufacturing facility and consolidated it to Covington, Georgia. Pilot spinning and processing lines are used to examine new polymers and processing concepts such as monocomponent or bicomponent fibers from single filament spinning to full-scale production facilities.

Pinova, whose research facilities are located in the U.S., focuses its efforts on market driven product development and cost improvement techniques in its production processes.

Environmental Matters

The Company is subject to numerous environmental laws and regulations. The Company believes it is in compliance, in all material respects, with applicable federal, state and local environmental laws and regulations. Expenditures relating to environmental cleanup costs have not materially affected, and are not expected to materially affect, capital expenditures or competitive position. Additional information regarding environmental matters is provided in Notes 11 and 12 to the Consolidated Financial Statements and is incorporated herein by reference.

Employees

As of December 31, 2005, the Company had approximately 4,650 employees worldwide. Approximately half of the worldwide employees were located in the United States, of which approximately 31% were represented by various local or national unions. As of December 31, 2004, the Company had approximately 4,950 employees worldwide.

International Operations

Net sales and Property, plant and equipment, net by geographic area for each of the three years ended December 31, 2005, 2004 and 2003 appear in Note 23 to the Consolidated Financial Statements. Direct export sales from the United States to unaffiliated customers were \$131.7 million, \$118.7 million and \$122.5 million for 2005, 2004 and 2003, respectively. The Company's operations outside the United States are subject to the usual risks and limitations related to investments in foreign countries, such as fluctuations in currency values, exchange control regulations, wage and price controls, employment regulations, foreign investment laws, governmental instability (including expropriation or confiscation of assets) and other potentially detrimental domestic and foreign governmental policies affecting U.S.-based companies doing business abroad, including risks related to terrorism and international hostilities.

Available Information

Hercules files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports with the Securities and Exchange Commission (SEC). Hercules provides access to its SEC filings via a hyperlink to the SEC's website on its corporate website, www.herc.com. These filings may also be read and copied at the SEC's Public Reference Room which is located at 100 F Street, N.E., Washington, DC 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The Company's Directors Code of Business Conduct and Ethics and its Business Practices Policy, as well as the charters of the Corporate Governance, Nominating and Ethics Committee, Audit Committee and Human Resources Committee, are available on the Company's website at www.herc.com.

These documents are also available in print to any shareholder who requests them in writing from Israel J. Floyd, Esq., Corporate Secretary, Hercules Incorporated, Hercules Plaza, 1313 North Market Street, Wilmington, Delaware 19894-0001.

ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere, the following, which have not been sequenced in any particular order, are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by or on behalf of the Company.

Indebtedness

As of December 31, 2005, the Company's total debt was approximately \$1,109.3 million, of which 64% is fixed rate indebtedness. The Company's indebtedness has significant consequences. For example, it could: increase the Company's vulnerability to economic downturns and competitive pressures; require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes; limit the Company's flexibility in planning for, or reacting to, changes in its business and the industries in which it operates or in pursuing attractive business opportunities requiring debt financing; place the Company at a disadvantage to its competitors that have less debt; and limit the Company's ability to borrow additional funds due to restrictive covenants.

The Senior Credit Facility and the indentures governing the 11.125% senior notes due 2007 and the 6.75% senior subordinated notes due 2029, which together account for a large portion of the Company's debt, contain numerous restrictive covenants, including, among other things, covenants that limit the Company's ability to: borrow money and incur contingent liabilities; make dividend or other restricted payments; use assets as security in other transactions; enter into transactions with affiliates; enter into new lines of business; issue and sell stock of restricted subsidiaries; sell assets or merge with or into other companies and make capital expenditures. In addition, the Senior Credit Facility requires the Company to meet financial ratios and tests, including maximum leverage and interest coverage levels. These restrictions could limit the Company's ability to plan for or react to market conditions or meet extraordinary capital needs and could otherwise restrict corporate activities.

The Company's ability to comply with the covenants and other terms of the Senior Credit Facility and the indentures governing the senior notes and to satisfy these and other debt obligations will depend upon the Company's current and future performance. The Company's performance is affected by general economic conditions and by financial, competitive, political, business and other factors, many of which are beyond the Company's control. The Company believes that the cash generated from its businesses will be sufficient to enable the Company to comply with the covenants and other terms of the Senior Credit Facility and the indentures governing the senior notes and to make debt payments as they become due.

The Company and its subsidiaries may incur additional indebtedness in the future. As of December 31, 2005, the Company had a \$550 million Senior Credit Facility with a syndicate of banks. Under the Senior Credit Facility, the Company has a \$150 million revolving credit agreement, which permits certain additional borrowings. In addition, the Company has the option to borrow an additional \$250 million in the form of a term note under the Senior Credit Facility. If new indebtedness is added to the Company's current indebtedness levels, the risks described above could increase.

Market Risk

Fluctuations in interest and foreign currency exchange rates affect the Company's financial position and results of operations. The Company has used several strategies to actively hedge interest rate and foreign currency exposure and minimize the effect of such fluctuations on reported earnings and cash flow (see "Foreign Currency Translation" and "Derivative Instruments and Hedging" in the Summary of Significant Accounting Policies and Note 24 to the Consolidated Financial Statements). Sensitivity of the Company's financial instruments to selected changes in market rates and prices, which are reasonably possible over a one-year period, are described below. The market values for interest rate risk are calculated by the Company utilizing a third-party software that employs standard pricing models to determine the present value of the instruments based on the market conditions as of the valuation date.

The Company's derivative and other financial instruments subject to interest rate risk consist substantially of debt instruments (see Note 24 to the Consolidated Financial Statements). At December 31, 2005 and 2004, net market value of these combined instruments was a liability of \$1,092.4 million and \$1,265.2 million, respectively. The sensitivity analysis assumes an instantaneous 100-basis point move in interest rates from their levels, with all other variables held constant. A 100-basis point increase in interest rates at December 31, 2005 and 2004 would result in a \$59.1 million and a \$69.8 million decrease, respectively, in the net market value of the liability. A 100-basis point decrease in interest rates at December 31, 2005 and 2004 would result in a \$63.9 million and a \$73.7 million increase, respectively, in the net market value of the liability.

Our financial instruments subject to foreign currency exchange risk consist of foreign currency forwards and options and represent a net liability position of \$0.2 million and a net asset position of \$0.6 million at December 31, 2005 and 2004, respectively. The following sensitivity analysis assumes an instantaneous 10% change in foreign currency exchange rates from year-end levels, with all other variables held constant. A 10% strengthening of the U.S. dollar versus other currencies at December 31, 2005 and 2004 would result in a \$0.1 million decrease and a \$0.6 million increase, respectively, in the net position, while a 10% weakening of the dollar versus all currencies would result in a \$0.1 million and a \$0.8 million decrease, respectively, in the net position.

Foreign exchange forward and option contracts have been used to hedge the Company's firm and anticipated foreign currency cash flows. Thus, there is either an asset or cash flow exposure related to all the financial instruments in the above sensitivity analysis for which the impact of a movement in exchange rates would be in the opposite direction and substantially equal to the impact on the instruments in the analysis. There are presently no material restrictions on the remittance of funds generated by the Company's operations outside the United States; however, in certain regions, primarily Latin America and Asia Pacific, there are general limitations on the repatriation of cash.

The Company has not designated any derivative as a hedge instrument under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and, accordingly, changes in the fair value of derivatives are recorded each period in earnings.

Commodity Price Risk

The Company acquires raw materials and energy from its vendors under a variety of short-and long-term contracts and supply agreements, depending upon various economic and logistical factors. The purchase prices are generally related to prevailing market conditions and are linked, in some cases, to relevant market indices. Changes in raw material and energy costs have historically had a material impact on the Company's profit and cash from operations and are anticipated to continue to impact future periods similarly.

In order to mitigate these risks, the Company employs a variety of strategic sourcing techniques to minimize use of sole source suppliers, establish contracts that limit the frequency or magnitude of price increases, have alternate raw materials approved for use, selectively hedge certain strategic commodities, identify alternate suppliers in lower cost regions of the world, continually reassess its value chain, and aggressively counter suppliers' attempts to increase costs.

New Product Development

Product innovation and new product development are integral to the Company's strategy. Research and development efforts are directed towards the discovery and development of new products and processes, the improvement and refinement of existing products and processes, the development of new applications for existing products and cost improvement initiatives. There can be no assurance that product development efforts will be successful, that we will be able to cost-effectively manufacture these new products or that we will be able to successfully market these products.

Environmental

In the ordinary course of its business, the Company is subject to numerous environmental laws and regulations covering compliance matters or imposing liability for the costs of, and damages resulting from, cleaning up sites, past spills, disposals and other releases of hazardous substances. Changes in these laws and regulations may have a material adverse effect on the Company's financial position and results of operations. Any failure by the Company to adequately comply with such laws and regulations could subject the Company to significant future liabilities.

Environmental remediation expenses are funded from internal sources of cash. Such expenses, the most significant of which relate to non-operating or former sites, are not expected to have a significant effect on the Company's ongoing liquidity. Environmental cleanup costs, including capital expenditures for ongoing operating sites, are a normal, recurring part of operations and are not significant in relation to total operating costs or cash flows (see Item 3, Legal Proceedings and Notes 11 and 12 to the Consolidated Financial Statements).

Litigation

Hercules is a defendant in numerous lawsuits arising out of, or incidental to, the conduct of its business. Such litigation typically falls within the following broad categories: environmental (discussed above); antitrust; commercial; intellectual property; labor and employment; personal injury; property damage; product liability; and toxic tort. While it is not feasible to predict the outcome of all pending matters, the ultimate resolution of one or more of these matters could have a material effect upon the Company's financial position, results of operations and/or cash flows (see Item 3, Legal Proceedings and Notes 11 and 12 to the Consolidated Financial Statements).

Pension

The assets and liabilities associated with the Company's defined benefit plans are subject to interest rate and market risk. A 100-basis point decrease or increase in the discount rate has an unfavorable or favorable impact of approximately \$170 million on the U.S. defined benefit plan's accumulated benefit obligation ("ABO") and an unfavorable or favorable impact on its projected benefit obligation ("PBO") of approximately \$177 million. A 100-basis point decrease or increase in the assumed rate of return has an unfavorable or favorable impact of approximately \$12 million on the estimated expense for the U.S. pension and postretirement plans in 2006 (see Note 8 to the Consolidated Financial Statements).

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company's corporate headquarters and major research center are located in Wilmington, Delaware. The Company also owns a number of plants and facilities worldwide in locations strategic to the sources of raw materials or to customers. All of the Company's principal properties are owned by the Company, except for its corporate headquarters office building in Wilmington, Delaware, its European headquarters office building in Schaffhausen, Switzerland and its Asian headquarters in Shanghai, China, all of which are leased. The following are the locations of the Company's worldwide plants:

Performance Products

Pulp and Paper - Beringen, Belgium; Burlington, Ontario, Canada; Busnago, Italy; Chicopee, Massachusetts, U.S.; Franklin, Virginia, U.S.; Hattiesburg, Mississippi, U.S.; Helsingborg, Sweden; Kim Cheon, Korea; Macon, Georgia, U.S.; Mexico City, Mexico; Milwaukee, Wisconsin, U.S.; Nantou, Taiwan; Paulinia, Brazil; Pendlebury, United Kingdom; Portland, Oregon, U.S.; Savannah, Georgia, U.S.; Shanghai, China (60% joint venture interest); Sobernheim, Germany; Tampere, Finland; Tarragona, Spain; Voreppe, France; and Zwijndrecht, The Netherlands.

The division also owns a manufacturing facility in Pilar, Argentina, that has been leased to a major U.S. company under a five-year lease. The Company purchases its products for sale in Argentina from this plant under a five-year supply and distribution agreement which ends in 2009.

Aqualon - Alizay, France; Doel, Belgium; Hopewell, Virginia, U.S.; Jiangmen City, China; Kenedy, Texas, U.S.; Louisiana, Missouri, U.S.; Dalton, Georgia, U.S.; Parlin, New Jersey, U.S.; and Zwijndrecht, The Netherlands.

The Dalton, Georgia site was acquired in January 2006 as part of the aforementioned Benchmark transaction.

Engineered Materials and Additives

FiberVisions - Athens, Georgia, U.S.; Covington, Georgia, U.S.; Suzhou, China; and Varde, Denmark.

Pinova - Brunswick, Georgia, U.S.

The Company's plants and facilities are maintained in compliance with current laws and regulations and are generally considered to be in good condition, with adequate capacity for projected business operations. From time to time, the Company discontinues operations at, or disposes of, facilities that have for one reason or another become unsuitable.

ITEM 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is included in the Notes to Consolidated Financial Statements (see Note 12) and is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2005 through the solicitations of proxies or otherwise.

PART II

ITEM 5. MARKET FOR HERCULES' COMMON STOCK AND RELATED STOCKHOLDER

MATTERS

The Company's common stock is listed on the New York Stock Exchange (ticker symbol HPC) and the Swiss Stock Exchange. It is also traded on the Philadelphia, Midwest and Pacific Stock Exchanges.

The approximate number of holders of record of the Company's common stock (\$25/48 stated value) as of February 24, 2006 was 14,976.

The following table sets forth, for the periods indicated, the high and low closing price per share of the Company's common stock, as reported on the New York Stock Exchange:

2005	High	Low
First Quarter	\$ 15.24	\$ 13.86
Second Quarter	\$ 14.82	\$ 13.00
Third Quarter	\$ 14.69	\$ 12.05
Fourth Quarter	\$ 12.25	\$ 10.20
2004		
First Quarter	\$ 13.18	\$ 10.81
Second Quarter	\$ 12.19	\$ 9.99
Third Quarter	\$ 14.25	\$ 11.21
Fourth Quarter	\$ 15.09	\$ 13.97

On December 30, 2005, the closing price of the common stock was \$11.30.

The payment of quarterly dividends was suspended in the fourth quarter of 2000, subject to reconsideration by the Board of Directors in its discretion, when warranted under appropriate circumstances and subject to restrictions in the indentures governing the Company's 11.125% senior notes due 2007, the 6.75% senior subordinated notes due 2029 and the Senior Credit Facility.

ITEM 6. SELECTED FINANCIAL DATA

A summary of the selected financial data for Hercules for the years ended and as of the end of the years specified is set forth in the table below. As discussed in greater detail in Note 21, during 2005 the Company changed its method of accounting for inventory from the LIFO method to the weighted-average method. As such, prior year information has been retrospectively adjusted. The BetzDearborn Water Treatment Business has been treated as a discontinued operation as of February 12, 2002 pursuant to Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

(Dollars in millions, except per share data)

Statements of Operations Information:	2005	2004	2003	2002	2001
Net sales	\$ 2,068.8	\$ 1,996.7	\$ 1,846.0	\$ 1,705.0	\$ 1,776.0
Profit from operations	130.4	228.9	255.5	217.3	186.0
Net (loss) income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	(38.6)	28.1	74.2	(48.8)	(107.7)
Net income (loss) on discontinued operations, net of tax	-	-	4.5	(196.0)	56.0
Net (loss) income before cumulative effect of changes in accounting principle	(38.6)	28.1	78.7	(244.8)	(51.7)
Cumulative effect of changes in accounting principle, net of tax (see Note 21)	(2.5)	-	(33.3)	(368.0)	-
Net (loss) income	\$ (41.1)	\$ 28.1	\$ 45.4	\$ (612.8)	\$ (51.7)

Per Common Share Data and Other Share Information:

Per share of common stock

Basic (loss) earnings per share					
Continuing operations	\$ (0.36)	\$ 0.26	\$ 0.70	\$ (0.46)	\$ (1.03)
Discontinued operations	-	-	0.04	(1.85)	0.54
Cumulative effect of changes in accounting principle	(0.02)	-	(0.31)	(3.47)	-
Net (loss) income	\$ (0.38)	\$ 0.26	\$ 0.43	\$ (5.78)	\$ (0.49)
Diluted (loss) earnings per share					
Continuing operations	\$ (0.36)	\$ 0.26	\$ 0.69	\$ (0.46)	\$ (1.03)
Discontinued operations	-	-	0.04	(1.85)	0.54
Cumulative effect of changes in accounting principle	(0.02)	-	(0.31)	(3.47)	-
Net (loss) income	\$ (0.38)	\$ 0.26	\$ 0.42	\$ (5.78)	\$ (0.49)

Balance Sheet Data:

Total assets	\$ 2,568.8	\$ 2,720.3	\$ 2,721.8	\$ 2,772.0	\$ 4,952.1
Total debt	\$ 1,109.0	\$ 1,240.1	\$ 1,347.7	\$ 883.0	\$ 2,210.0
Company-obligated preferred securities of subsidiary trusts	-	-	-	624.0	624.0
Total debt and preferred securities	\$ 1,109.0	\$ 1,240.1	\$ 1,347.7	\$ 1,507.0	\$ 2,834.0

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

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and Notes thereto. All references to individual Notes refer to Notes to the Consolidated Financial Statements.

Business Overview

Business Profile - Market and Geographic Concentration

Hercules is a leading global manufacturer and marketer of specialty chemicals and related services for a broad range of business, consumer and industrial applications. The Company's principal products are chemicals used by the paper industry to improve performance and enhance the manufacturing process; water-soluble polymers; polypropylene and polyethylene fibers; and specialty resins. Key markets for the Company's products as a percentage by end market net sales in the years ended December 31, 2005 and 2004 were:

	2005	2004
Pulp and Paper	48%	48%
Regulated (including food, pharmaceutical and personal care)	21%	20%
Industrial Specialties (including oilfield, textiles and general industrial)	12%	13%
Paints and Adhesives	10%	10%
Construction Materials	9%	9%
Consolidated	<u>100%</u>	<u>100%</u>

More than 50% of the Company's revenues are generated outside of North America. Net sales by region expressed as a percentage of total net sales for the years ended December 31, 2005 and 2004 were:

	2005	2004
North America	48%	46%
Europe	36%	38%
Asia Pacific	11%	11%
Latin America	5%	5%
Consolidated	<u>100%</u>	<u>100%</u>

Business Segments

The Company currently operates through two reportable segments and four divisions: Performance Products (Pulp and Paper and Aqualon) and Engineered Materials and Additives (FiberVisions and Pinova). Net sales for the years ended December 31, 2005 and 2004 as a percent of total net sales, by division, were:

	2005	2004
Pulp and Paper	47%	47%
Aqualon	34%	34%
FiberVisions	14%	14%
Pinova	5%	5%
Consolidated	<u>100%</u>	<u>100%</u>

Key Developments

During 2005, Profit from operations and Net income declined from prior year levels primarily as a result of: (1) the rapid escalation in raw material, utility and transportation costs driven by the escalation in oil and gas inputs, (2) special charges primarily associated with ongoing efforts to restructure the Company's global operations including manufacturing rationalization, marketing and management realignment, research and development consolidation and corporate support realignment, and (3) an impairment of goodwill attributable to the Company's commitment to dispose of a majority interest in the FiberVisions division.

Despite the challenges to the current operating environment and the costs of the substantial restructuring efforts, Hercules increased its cash from operations from prior year levels and continued to make progress towards its goal to further de-lever its balance sheet. In addition, the Company recently announced intentions to realign the business toward a greater market focus, resulting in the formation of two new business segments that will replace the Company's existing segments. The two segments will be the Aqualon Group and the Paper Technologies and Ventures Group. The Aqualon Group will focus on coatings and construction, the regulated industries of food, pharmaceutical and personal care, and energy and specialties solutions. The existing Pinova division will be primarily integrated into coatings and construction and regulated industries. The Paper Technologies and Ventures Group will focus on the paper industry and manage a number of ventures that will initially include businesses focused on water management, pulp and biorefining, lubricants and adhesives. The Company anticipates that these changes will be effective for the reporting period ending March 31, 2006.

Raw Materials and Energy

The challenging raw material environment that was experienced in 2004 continued into 2005 and escalated beginning with the first quarter primarily as a result of increasing prices for petroleum-based products and the growing global demand for raw materials driven in part by substantial growth in China. These factors continued to drive costs higher through the spring and summer months and also had a negative impact on ancillary costs such as freight and transportation. Hurricanes Katrina and Rita and other regional storms further exacerbated the problem by disrupting the United States' Gulf Coast natural gas and oil exploration, development, refining and distribution infrastructure. As a result, a number of the Company's key raw material suppliers declared force majeure resulting in product allocation issues. Infrastructure damage, including that to Gulf coast rail bridges, continues to impact supply distribution. In many cases, the Company has incurred fuel and energy surcharges for freight and transportation. Where necessary to maintain commitments to our customers, the Company has, in some cases, incurred incremental costs to secure raw materials from alternative suppliers, some of which involved significant air freight charges. Pricing for many key raw materials reached all-time highs during the year and particularly during the fourth quarter, resulting in increased raw material costs to Hercules of approximately \$76 million during 2005 as compared to 2004. The escalation in energy prices also had an adverse impact on utility costs.

Special Charges and Restructurings

Consistent with long range plans to reposition the Company's operations in order to capitalize on growth opportunities on both a regional as well as product and service offering basis, the Company executed a number of restructuring and rationalization programs designed to improve organizational efficiency in all key phases of operations including research and development, regional and functional management, global marketing, manufacturing, and corporate support during 2005.

At the end of 2004, the Company announced the first phase of its program to realign and consolidate its significant research and development efforts into regional centers for Europe and North America, respectively. In connection with that program, the Company closed its research facility in Barneveld, The Netherlands during the third quarter of 2005. The Company terminated approximately 50 employees at the Barneveld facility and relocated 8 employees to the Company's Helsingborg, Sweden site, which will now serve as the primary center for Pulp and Paper application activities in Europe. The Company recognized approximately \$3.0 million in severance charges and benefits that were accrued ratably over the service period from the announcement date in December of 2004 through closure in September 2005 in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). In addition to severance costs, the Company recognized an additional \$1.4 million of charges for other exit costs incurred to close the Barneveld facility.

The second phase of the research realignment and consolidation program began during the fourth quarter of 2005 with the announcement of the Company's intention to close its Jacksonville, Florida facility which houses certain research and development capabilities specific to pulp and paper technology including a pilot paper making machine. Concurrent with that action and in connection with a grant received from the State of Delaware, the Company announced plans to substantially expand and upgrade its research facility in Wilmington, Delaware. The plan includes the transfer of certain employees and equipment from the Jacksonville facility to the Wilmington facility. The Company plans to terminate approximately 60 employees at the Jacksonville site and recognized a charge of \$0.3 million during the fourth quarter of 2005. In accordance with SFAS 146, the Company will recognize approximately an additional \$2.0 million during 2006 as the activities are terminated and the site is prepared for closure. While the Wilmington site is undergoing expansion and will eventually increase its headcount, certain functions were realigned resulting in the elimination of approximately 10 positions for which a charge of approximately \$0.5 million was recognized in accordance with Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112").

In connection with these actions, the Company accelerated the depreciation of its facilities in Barneveld and Jacksonville through the periods prior to their estimated closure resulting in charges of \$1.8 million and \$0.1 million, respectively. Accelerated depreciation charges will continue into 2006 for the Jacksonville site during the period of operation prior to estimated closure. The Company also accelerated the depreciation of certain assets at the Wilmington, Delaware facility for the period prior to their demolition or reconfiguration resulting in charges of \$0.5 million.

Throughout 2005, the Performance Products segment engaged in significant actions designed to realign its global marketing infrastructure and de-layer management as part of both divisions' strategic plans and to improve responsiveness to emerging market trends and opportunities. Accordingly, the Company eliminated approximately 80 positions worldwide and recognized charges for severance and related benefits of \$14.5 million in accordance with SFAS 112. Of the total, approximately \$12.7 million was attributable to the Pulp and Paper division and the remaining \$1.8 million was attributable to the Aqualon division.

Rationalization of certain manufacturing assets occurred in conjunction with the Performance Products restructuring activities. The Company closed its Pandaan, Indonesia manufacturing facility concurrent with the realignment of its Pulp and Paper division in the Asia Pacific region. In connection with the closing, the Company terminated approximately 50 employees and recognized severance and related benefits charges of approximately \$0.2 million in accordance with SFAS 146 and approximately \$0.4 million in SFAS 112 charges. Accelerated depreciation charges of \$0.3 million were recognized during the period preceding the closure. The Company also announced its intention to close its Pendlebury manufacturing facility in the United Kingdom during 2006 as part of the Pulp and Paper division's realignment in Europe. As a result of this action, the Company recognized a SFAS 112 charge of \$1.3 million related to the termination of approximately 40 employees. Accelerated depreciation charges of \$0.8 million were recognized in 2005 and will continue to be recognized into 2006 during the period of continued operational use prior to estimated closure. Also during 2005, the Aqualon division terminated 7 employees in connection with a program at its Parlin, New Jersey manufacturing facility, resulting in approximately \$0.3 million in charges incurred during the period in which certain energy-related assets were removed from service in accordance with SFAS 146.

Both the Pinova and FiberVisions divisions executed plans to curtail certain production activities and reduce headcount at their manufacturing facilities in North America and Europe. In November, Pinova announced its intention to exit the terpenes specialties business in early 2006 and recorded an impairment charge of \$5.2 million for certain assets directly attributable to the production of those products at the Brunswick, Georgia manufacturing facility as well as a \$0.5 million write-off of related inventories and spare parts. The Company accrued SFAS 112 charges of approximately \$3.4 million in connection with the termination of approximately 70 employees at the Brunswick facility. In addition to those amounts accrued for severance and termination benefits, the Company recognized an additional \$0.2 million as incurred in connection with termination of a product distribution agreement as an exit cost in accordance with SFAS 146. Finally, Pinova recorded a \$0.5 million impairment charge at the Company's Hattiesburg, Mississippi manufacturing facility attributable to the termination of production of certain rosins which serve as an intermediate to other finished products.

Primarily as a result of declining market demand for certain products, FiberVisions idled production on certain lines at its Covington, Georgia manufacturing facility and also closed the technical facility at its Varde, Denmark manufacturing facility and consolidated it to Covington, resulting in a combined termination of approximately 80 employees and the accrual of SFAS 112 severance and related benefit charges of \$3.4 million. In addition the Company recorded \$1.5 million of write-downs in the value of certain inventories and spare parts at the Covington facility.

In order to support the various initiatives to realign and restructure the Company's operations on a global basis, the Company also initiated several corporate actions including the establishment of a centralized European headquarters facility in Schaffhausen, Switzerland, and concurrently implemented a principal company structure. This new structure provides a number of benefits to the Company including (1) centralized business management in Switzerland, (2) administrative cost savings by having key managers in one location, and (3) a projected reduction in cash income taxes of approximately \$20 million annually. During 2005, the Company accrued approximately \$0.5 million in relocation costs related to this restructuring in accordance with SFAS 146. In addition, the Company streamlined other support functions, resulting in headcount reductions of approximately 40 employees in various functional departments, including information technology and procurement. In connection with the reductions, the Company recorded approximately \$4.8 million for severance and related benefits in accordance with SFAS 112.

A summary of the actions executed in 2005 is provided as follows:

	Severance and Other Exit Costs	Asset Impairments	Accelerated Depreciation	Inventory Write-Downs	Totals
Research and development consolidation	\$ 5.2	\$ -	\$ 2.4	\$ -	\$ 7.6
Global marketing and management realignment	14.5	-	-	-	14.5
Performance Products manufacturing rationalization	2.2	-	1.1	-	3.3
Pinova manufacturing rationalization	3.6	5.7	-	0.5	9.8
FiberVisions manufacturing rationalization	3.4	-	-	1.5	4.9
Corporate support realignment	5.3	-	-	-	5.3
Total charges by action	\$ 34.2	\$ 5.7	\$ 3.5	\$ 2.0	\$ 45.4

In connection with its commitment to sell a majority interest in the FiberVisions division (see *Strategic Highlights* below), the Company was required to record a goodwill impairment charge of \$52.9 million based on an estimate of the fair value for the entire division as determined by the negotiated sales price.

In addition to these special charges, an update of the independent study of the Company's estimated reasonably possible exposure for asbestos-related liabilities was completed in the fourth quarter of 2005. Despite a significant reduction in both the number of new claims received and the amounts paid to resolve claims, the study required an upward revision of the range of the Company's estimated reasonably possible exposure for these matters. Accordingly, the Company recorded a charge of \$37.5 million to reestablish and increase its reserves to \$270 million.

Strategic Highlights

During the latter half of 2005, certain actions were initiated that are intended to enhance and support the Company's strategic direction in light of the business realignment referenced above. At the end of September 2005, the Company announced the signing of a joint venture agreement between Aqualon and the leading producers of MC in China. The joint venture will include the existing MC assets of Luzhou North Chemical Industries Co. Ltd. and Jiangsu Feixiang Chemical Industries, Co. Ltd. as well as cash and equipment contributions by Hercules. The joint venture, Hercules Tianpu Chemical Co. will include an expansion of a facility currently underway in Zhangjiagang, China that is expected to begin operations in the second half of 2006. Closing is anticipated in the first quarter of 2006 with a capital contribution of approximately \$8 million, of which \$4.4 million has been pre-funded. During December 2005, Hercules satisfied a portion of its initial capital contribution by securing the financing for certain equipment related to the new facility. Under the joint venture agreement, Aqualon will have global marketing rights for the output of the joint venture and will receive sales commissions as well as royalties for licensed technology.

In January of 2006, the Company announced an agreement to purchase the guar and guar derivative manufacturing division of Benchmark Polymer Products, L.P., a subsidiary of Benchmark Performance Group, Inc. ("Benchmark"). Under the terms of the agreement, Aqualon acquired Benchmark's Dalton, Georgia production facility for \$20 million plus a provisional earn-out and also purchased an equity position in Benchmark. In addition, the Company signed a five year exclusive agreement to supply Benchmark with guar products for polymer slurries used in oil and gas fracturing applications. This acquisition is intended to expand Aqualon's presence in the energy industry. As a result of the acquisition, Aqualon is expected to increase capacity utilization of its existing guar and guar derivatives manufacturing facility in Kenedy, Texas.

On January 31, 2006, the Company signed an agreement to sell a 51% interest in its FiberVisions division to an affiliate of SPG Partners, LLC ("SPG"), a New York-based private equity firm. Under terms of the agreement, Hercules will receive cash of approximately \$109 million, comprised of an \$82.0 million distribution from FiberVisions and \$27.0 of proceeds from the sale of the initial interest, upon the closing of the transaction, which is expected to occur by the end of March 2006. The agreement anticipates and is conditioned upon the issuance of long-term debt financing prior to the sale. In addition, the agreement provides SPG with an option to purchase an additional 14% interest in FiberVisions for \$7.4 million within one year. Hercules will receive additional payments should FiberVisions meet certain performance measures. The transaction is expected to close by the end of the first quarter of 2006 pending the aforementioned debt financing and other required approvals. The proceeds from the transaction are expected to be utilized to pay down high cost debt and further de-lever the balance sheet consistent with the Company's financial goals.

In addition, it was announced on February 13, 2006 that FiberVisions and Chisso Corporation will establish a Japanese joint venture, ES FiberVisions Co., Ltd., and anticipate sales activity effective April 1, 2006.

As a result of the proposed transaction, the Company has begun efforts to develop plans for the reduction of corporate expenses that are currently allocated to FiberVisions. Those costs are approximately \$15 million and include approximately \$5 million of non-cash pension and post-retirement costs. Through a combination of decentralization, selective outsourcing and non-manufacturing site consolidations, the Company is targeting a total of \$20 million in cost reductions to be achieved by the end of 2007.

Critical Accounting Estimates

The Company's discussion and analysis of its financial condition and results of operations is based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Hercules to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Hercules evaluates its estimates on a regular basis, including those related to bad debts, inventories, impairments of goodwill and long-lived assets, income taxes, restructuring, contingencies, including litigation and environmental, and pension and other benefit obligations. Hercules bases its estimates on various factors including historical experience, consultation and advice from third party subject matter experts and various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management reviews significant estimates and related disclosures with the Audit Committee of the Board of Directors on a regular basis. Actual results may differ from these estimates.

Hercules believes that the following accounting estimates are critical due to the significant subjectivity and judgment necessary to account for the matters or the susceptibility of such matters to change and the effect of the estimates and assumptions on its consolidated financial statements.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts. The recorded amount reflects various factors, including accounts receivable aging, customer-specific risk issues, country risk and historical write-off experience. It includes, but is not limited to, a formula driven calculation applied to the aging of trade accounts receivable balances. When a specific accounts receivable balance is deemed uncollectible, a charge is taken to this reserve. Recoveries of balances previously written off are also reflected in this reserve.

Goodwill and Other Intangible Assets

The Company performs an annual assessment of its goodwill and other intangible assets for impairment. In addition, the Company consistently considers factors including deterioration in future economic conditions, poor operating results in the reporting units, new or stronger competitors, or changes in technology that could indicate an inability to recover the carrying value of its goodwill and intangible assets, thereby requiring an impairment in the future. To assess impairment, the Company compares its reporting unit's book value of net assets, including goodwill, to its fair value. Fair value is estimated using a combination of valuation approaches including the market value and income approaches. In the event that the book value exceeds the fair value, the Company recognizes an impairment to the extent the book value of goodwill exceeds the implied fair value of goodwill for any reporting unit, calculated by determining the fair value of the assets and liabilities for the reporting unit.

Other Long-Lived Assets

The Company tests other long-lived assets, including property, plant and equipment for impairment based on an assessment of factors including deterioration in future economic conditions, poor operating results in a business, the determination that the long-lived asset is unsuitable for one reason or another, new or stronger competitors, or changes in technology, that could indicate an inability to recover the carrying value of the asset, thereby requiring an impairment in the future. If the Company determines that an impairment loss has occurred, the loss is recognized in the income statement.

Deferred Tax Asset Valuation Allowance

The Company records a valuation allowance to reduce its deferred tax assets to an amount that is more likely than not to be realized after consideration of future taxable income and reasonable tax planning strategies. In the event that Hercules were to determine that it would not be able to realize all or part of its deferred tax assets for which a valuation allowance had not been established, or is able to utilize capital and/or operating loss carryforwards for which a valuation allowance has been established, an adjustment to the deferred tax asset will be reflected in income in the period such determination is made.

Restructuring, Severance and Other Exit Costs

The Company has and will continue to record charges for the estimated costs of employee severance and other exit costs pursuant to the Company's strategy to continuously improve return on capital, streamline organizational structure, improve work processes and consolidate manufacturing and non-manufacturing facilities. In the event that it is determined that additional employees must be involuntarily terminated, or that additional manufacturing or non-manufacturing facilities must be closed pursuant to work process redesign or other cost reduction initiatives, supplemental reserves would be required, which would result in an incremental charge against earnings.

Environmental Matters and Asset Retirement Obligations

Hercules establishes reserves for environmental matters and asset retirement obligations when a legal obligation exists and the fair value of the liability can be reasonably estimated. In addition, the Company recognizes a liability for environmental-related litigation and other contingencies when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. At December 31, 2005, the Company had a combined amount of \$107.9 million accrued including \$90.3 million for asset retirement obligations and \$17.6 million for environmental-related contingencies. The actual costs will depend upon numerous factors, including: the estimated useful life of the Company's manufacturing facilities and significant component assets, changes in the nature or use of existing assets and facilities, the number of parties found responsible at each environmental site and their ability to pay, the actual methods of remediation required or agreed to, outcomes of negotiations with regulatory authorities, outcomes of litigation, changes in the timing of required remedial activities, changes in environmental laws and regulations, technological developments, the years of remedial activity required and changes in the number or financial exposures of claims, lawsuits, settlements or judgments, or in the ability to reduce such financial exposures by collecting indemnity payments from insurers. If the obligations or contingencies are resolved for amounts greater or less than has been accrued, Hercules' share of the obligation or contingency increases or decreases, or other assumptions relevant to the development of the estimate were to change, Hercules would recognize an additional expense or benefit in income in the period such determination was made.

Asbestos-Related Contingencies

Hercules has established reserves for asbestos-related personal injury lawsuits and claims based upon the results of a periodic actuarial study of its asbestos-related liabilities by a recognized expert at a major national university. This study is based on a number of assumptions including the number of future claims, the timing and amount of future payments, disease, venue, and the dynamic nature of asbestos litigation and other circumstances. At December 31, 2005, the Company had a gross accrued liability of \$270.0 million for present and future potential asbestos claims. The Company also had \$120.7 million of asbestos-related receivables and restricted cash in several trusts pertaining to the aforementioned lawsuits and claims at December 31, 2005.

Pension and Other Postretirement Benefits

In the United States, the Company provides defined benefit pension plan coverage for eligible employees hired prior to January 1, 2005 and postretirement welfare benefit plan coverage to eligible employees hired prior to January 1, 2003. Similar plans are provided outside the United States in accordance with local practice. Pension and other postretirement benefit obligations and the related expense (income) are determined based upon actuarial assumptions regarding mortality, medical inflation rates, discount rates, long-term return on assets, salary increases, Medicare availability and other factors. Changes in these assumptions can result in changes to the recognized pension expense and recorded liability. At December 31, 2005, the ABO of the Company's U.S. and certain foreign defined benefit pension plans, on a consolidated basis, exceeded their funded basis. The Company is required to recognize an additional liability equal to the sum of such excess plus the prepaid pension asset balance, with a corresponding after-tax charge to other comprehensive income in stockholders' equity. For the year ended December 31, 2005 the Company increased its additional minimum liability ("AML") to \$417.6 million. The increase to the AML was primarily a result of changes to the mortality table and discount rate and was partially offset by plan amendments effective January 1, 2005 which changed the basis by which U.S. and certain foreign plans provide benefits from the "final pay" to the "career average pay". At the present time, the U.S. defined benefit pension plan is at a sufficient funding level as to not require ERISA mandated contributions. The Company has determined, however, that it is in the best interests of the Company and its pension plan participants to make voluntary contributions to the plan. If the U.S. qualified pension plan performs in accordance with actuarial assumptions, the Company presently anticipates making voluntary cash contributions averaging \$40 million per year over the next several years.

Results of Operations - Consolidated Review

Net sales for the years ended December 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003	2005 Change	2004 Change
Net sales	\$ 2,068.8	\$ 1,996.7	\$ 1,846.0	\$ 72.1	\$ 150.7

Net sales for 2005 increased 4% from 2004 primarily as a result of \$59.4 million, or 3%, in higher pricing and \$31.0 million, or 2%, from higher rates of exchange offset by a \$15.5 million, or 1%, decrease in volume. There was also a slight decrease of \$2.8 million attributable to a broad change in product mix. The core divisions of Pulp and Paper and Aqualon experienced volume increases of 1% and 3%, respectively. The overall decline in volume was primarily attributable to FiberVisions as a result of the continuing trend of product substitution in favor of spunbond technology for diaper coverstock. This decline in volume has not been fully offset by continued growth in the demand for applications for disposable wipes and geotextiles. Additional volume declines related to efforts to shed unprofitable accounts for both FiberVisions and Pinova.

Net sales for 2004 increased 8% from 2003 attributable to \$162.5 million, or 8%, higher volume and \$73.8 million, or 4%, higher rates of exchange offset by a \$77.7 million, or 4%, unfavorable change in product mix. A relatively small decrease of \$7.9 million was attributable to pricing. Net sales volume was up for all divisions except FiberVisions where demand for staple fibers for diaper coverstock is in decline due to the continued rise in customer preference for fibers produced with spunbond technology. Increased production of paper and paperboard products in Europe and North America drove demand in Pulp and Paper as well as tissue and towel and process chemicals improvements. Aqualon benefited from strong demand for pharmaceutical and personal care applications as well as paint, oilfield and applications. However, despite higher volume, 2004 reflected an increase in lower-priced products primarily related to the CMC acquisition in Jiangmen.

The tables below reflect Net sales per region and the percentage change from the respective prior year periods as well as the percentage change excluding the impact of rates of exchange ("ROE"):

Regions	2005	2004	% Change	% Change Excluding ROE
North America	\$ 981.0	\$ 921.2	6%	6%
Europe	747.9	762.2	(2)%	(4)%
Asia Pacific	233.9	214.5	9%	7%
Latin America	106.0	98.8	7%	(1)%
All regions	\$ 2,068.8	\$ 1,996.7	4%	2%

Regions	2004	2003	% Change	% Change Excluding ROE
North America	\$ 921.2	\$ 884.8	4%	4%
Europe	762.2	692.9	10%	1%
Asia Pacific	214.5	174.5	23%	23%
Latin America	98.8	93.8	5%	2%
All regions	\$ 1,996.7	\$ 1,846.0	8%	2%

During 2005, Net sales increased in North America by 6% as compared to 2004. European markets were soft due to weakened demand, aggressive competition and industry overcapacity in certain product lines, all of which have limited the ability to raise prices to recapture a portion of incrementally higher costs. Despite slower growth in the established economies, emerging markets remained strong. On an annual basis, Asia Pacific including China was up 9%, Eastern Europe was up 14% and Brazil, for the Pulp and Paper division in particular, was up 29%. Within Asia Pacific, China continues to be a bright spot with sales up 23% across all divisions.

During 2004, Net sales increased in all regions of the world, and particularly in Europe where the Euro steadily increased throughout the year approximately 10% on average against the U.S. dollar over 2003 levels. Excluding the beneficial impact of ROEs, overall growth was relatively modest and reflected a shift in mix to lower priced products. However, growth in the Asia Pacific region and China, which benefited from Aqualon's acquisition of the CMC business in Jiangmen, had an overall beneficial impact. In addition, continued penetration of emerging markets in Eastern Europe and Brazil provided steady growth.

	2005	2004	2003	2005 Change	2004 Change
Cost of sales	\$ 1,406.3	\$ 1,307.6	\$ 1,166.9	\$ 98.7	\$ 140.7

Cost of sales increased \$98.7 million, or 8%, during 2005 as compared to 2004. As a percent of sales, cost of sales increased to 68% in 2005 as compared to 65% in 2004, primarily reflecting the acceleration of raw material, freight and energy costs at rates more rapidly than that which has or could be recovered through price increases and related surcharges. These costs included record highs for certain raw materials, including polypropylene. On an aggregated basis, raw material costs increased approximately \$76 million over 2004 levels. A significant portion of this increase is attributable to the hurricanes in the United States' Gulf Coast region which severely impacted petroleum and related by-product refining capabilities and damaged the distribution infrastructure, further constraining supply. Accordingly, a number of key suppliers declared force majeure and placed the Company on an allocation basis for certain key raw materials and feedstock derivatives. In order to maintain production and commitments to the Company's customers, alternative supply sources were utilized resulting in significantly higher cost and transportation charges.

In addition to increased raw material prices, energy costs were also adversely impacted by the storms as well as a general increase in global demand. Despite these significant challenges, the Company was able to lower overall manufacturing costs primarily due to restructuring efforts in the current and prior years.

Cost of sales increased \$140.7 million, or 12%, during 2004 as compared to 2003. As a percent of sales, cost of sales increased to 65% as compared to 63% in 2003, primarily as a result of decreasing sales prices in certain product lines and increasing raw material costs in most divisions, particularly FiberVisions which was impacted by the rising costs for polypropylene. In addition, increased energy and natural gas/crude oil feedstock costs impacted many raw materials, particularly those derived from Chlor-alkali, ethylene, benzene and propylene. Strong demand from China for many basic materials and the strengthening global economy also exerted upward pressure on the price of raw materials.

	2005	2004	2003	2005 Change	2004 Change
Selling, general and administrative expenses	\$ 382.8	\$ 382.4	\$ 359.9	\$ 0.4	\$ 22.5

Despite inflation, increased rates of exchange and rising employee benefits costs, restructuring and cost rationalization efforts in the current and prior years have allowed the Company to maintain 2005 selling, general and administrative ("SG&A") costs at levels comparable with 2004. In addition to lower personnel-related costs, including travel and entertainment, SG&A costs in 2005 reflect lower professional and consulting fees due to a normalization of compliance efforts for Sarbanes-Oxley, and lower bad debt expense and insurance costs. These decreases were somewhat offset by higher information technology costs and higher legal defense costs primarily attributable to the ongoing patent infringement litigation with Ciba Specialty Chemicals Corporation ("Ciba") (see Note 12 to the Consolidated Financial Statements). As a percent of sales, SG&A costs were reduced to 18% in 2005 as compared to 19% during 2004.

SG&A expenses increased \$22.5 million or 6% during 2004 as compared to 2003 while remaining relatively flat as a percent of sales at 19%. Of the total increase, \$12.8 million is attributable to higher rates of exchange during 2004. Other increases include higher salaries and incentive compensation as well as significantly higher costs for consulting and other outside services, part of which were attributable to first year compliance efforts associated with Sarbanes-Oxley. Bad debt expense was also higher during 2004. These increases were partially offset by lower postretirement benefits costs due to changes in the retiree medical plans, lower general legal fees, lower workers compensation insurance and lower rental expense due to an increase in sub-lease income.

	2005	2004	2003	2005 Change	2004 Change
Research and development	\$ 40.9	\$ 42.8	\$ 38.7	\$ (1.9)	\$ 4.1

Research and development charges decreased \$1.9 million or 4% primarily as a result of the ongoing consolidation efforts which reflect the closure of the Company's research facility in Barneveld, The Netherlands during 2005 as well as the impact of ongoing cost containment efforts particularly with respect to Corporate research. Research and development expenses remained relatively stable at 2% as a percentage of sales for both 2005 and 2004.

Research and development charges increased \$4.1 million or 11% during 2004 as compared to 2003. The increase reflects higher spending with respect to various product and applications development programs across most of the divisions continuing a trend of bringing new products to market. As a percentage of sales, research and development was approximately 2% for both 2004 and 2003.

	2005	2004	2003	2005 Change	2004 Change
Intangible asset amortization	\$ 8.0	\$ 8.1	\$ 8.0	\$ (0.1)	\$ 0.1

The Company's portfolio of intangible assets, including customer relationships, trademarks and tradenames has remained unchanged from 2003 through 2005 resulting in a consistent charge for amortization expense. Primarily as a result of the proposed FiberVisions transaction, amortization is expected to decrease to \$6.7 million for 2006, \$6.3 million for 2007, \$5.9 million for 2008, \$4.6 million for 2009 and \$4.4 million for 2010 as various amortization terms expire.

	2005	2004	2003	2005 Change	2004 Change
Impairment of FiberVisions goodwill	\$ 52.9	\$ -	\$ -	\$ 52.9	\$ -

In connection with the announced plans to sell a majority interest in the FiberVisions division, the Company was required to test the underlying goodwill asset recorded in that division for recoverability. The test indicated that the carrying value of goodwill exceeded its fair value. Accordingly, the Company recorded an impairment charge of \$52.9 million effective as of December 31, 2005. The impairment charge was based on an estimate of the fair value for the entire division as determined by the negotiated sales price for the aforementioned sale of a majority interest.

	2005	2004	2003	2005 Change	2004 Change
Other operating expenses, net	\$ 47.5	\$ 26.9	\$ 17.0	\$ 20.6	\$ 9.9

During 2005, the Company executed a number of restructuring and rationalization programs designed to improve organizational efficiency in all key phases of operations including research and development, regional and functional management, global marketing, manufacturing and corporate support. In connection with these programs, the Company recorded total charges of \$45.4 million, including: severance and other exit costs of \$34.2 million that will result in a total headcount reduction of approximately 490 employees; asset impairments of \$5.7 million; accelerated depreciation charges of \$3.5 million; and inventory and spare parts write-downs of \$2.0 million. Other charges for 2005 include \$0.8 million for consulting charges related to legacy issues, \$0.7 million related to legal settlements, \$0.2 million of accretion expense attributable to asset retirement obligations for active operating sites and \$0.4 million for all other miscellaneous charges.

During 2004, the Company incurred approximately \$9.5 million attributable to severance and other exit costs that resulted from the termination of approximately 160 employees. In addition, asset impairment charges of \$7.3 million were recorded reflecting \$3.6 million attributable to a raw material production line at the Hopewell, Virginia manufacturing facility, \$2.9 million related to the closure of the former Kalamazoo, Michigan manufacturing facility and \$0.5 million and \$0.3 million for certain lines at the Pendlebury, UK and Savannah, Georgia manufacturing facilities, respectively. During 2004, the Company also incurred \$6.5 million of shutdown costs related to the former Nitrocellulose facility at Parlin, New Jersey as well as \$1.6 million for a special executive pension adjustment. Other charges for 2004 include approximately \$1.0 million in professional fees related to legacy issues, \$0.4 million in fees related to a failed acquisition attempt, \$0.3 million of accretion expense attributable to asset retirement obligations for active operating sites and \$0.3 million for all other miscellaneous charges.

During 2003, the Company incurred approximately \$5.3 million in severance and other restructuring costs that resulted from the termination of approximately 170 employees. Other charges for 2003 include approximately \$7.3 million in special executive pension benefits, \$3.6 million in proxy solicitation and related fees, \$0.3 million of accretion expense attributable to asset retirement obligations for active operating sites and \$0.5 million for all other miscellaneous charges.

	2005	2004	2003	2005 Change	2004 Change
Interest and debt expense	\$ 89.4	\$ 108.7	\$ 130.8	\$ (19.3)	\$ (22.1)

Interest and debt expense for 2005 decreased \$19.3 million or 18% from 2004 primarily as a result of lower outstanding debt balances. This primarily resulted from the Company's repurchase of \$96.0 million (book value) of the 11.125% notes during 2005. The impact of debt repurchases more than offset the unfavorable effect of increasing variable rates on the Company's Term B Loan. The Term B Loan carries a LIBOR-based interest rate and allows the Company to reset into LIBOR rates for one, two, three or six month periods. The three-month LIBOR rate has increased by approximately 340 basis points since January 2004 and approximately 200 basis points since the beginning of 2005 and is continuing an upward trend. In addition, bank fees were lower during 2005 and the Company had lower amortization of deferred debt issuance costs primarily as a result of continuing debt repurchases.

Interest and debt expense for 2004 decreased \$22.1 million or 17%, reflecting lower outstanding debt balances, improved debt mix and reduced rates on the Company's bank debt. The April 2004 refinancing of the Term B loan, combined with an amendment to the credit agreement during the third quarter of 2004 resulted in a 150 basis point rate reduction on the bank debt. In addition to the repurchase of \$149.8 million (book value) of its 11.125% senior notes during 2004, the Company also repaid its 9.42% trust preferred securities in May 2004 with the proceeds of the April 2004 private placement of \$250.0 million 6.75% senior subordinated debt and a portion of the proceeds of the new Senior Credit Facility. In addition, moderately higher bank fees were more than offset by lower amortization of deferred debt issuance costs primarily as a result of continuing debt repurchases.

	2005	2004	2003	2005 Change	2004 Change
Gain on sale of CP Kelco ApS	\$ -	\$ (27.0)	\$ -	\$ 27.0	\$ (27.0)

During 2004, the Company sold its 28% minority ownership interest in CP Kelco ApS to a subsidiary of J.M. Huber Corporation for approximately \$27.0 million. The book value of the investment was previously written down to zero during 2002, thereby resulting in a gain equivalent to the sales proceeds.

	2005	2004	2003	2005 Change	2004 Change
Other expenses, net	\$ 86.3	\$ 116.7	\$ 28.9	\$ (30.4)	\$ 87.8

An update of the independent study of the Company's estimated reasonably possible exposure for asbestos-related liabilities was completed in the fourth quarter of 2005. Despite a significant reduction in both the number of new claims received and the amounts paid to resolve claims, the study resulted in an upward revision of the range of the Company's estimated reasonably possible exposure for these matters. Accordingly, the Company recorded a charge of \$37.5 million to reestablish and increase its reserves to the appropriate level. In addition, the Company incurred \$9.3 million for asbestos-related litigation costs which was partially offset by \$1.6 million of accretion income from the asbestos-insurance trusts and \$0.6 million in other related insurance and legal recoveries.

During 2005, the Company incurred \$22.4 million in environmental charges attributable to non-operating sites or related activities associated with previously divested businesses. Of the total, \$15.0 million relates to the Vertac litigation (see Notes 11 and 12 to the Consolidated Financial Statements), \$3.4 million is attributable to revisions in the asset retirement obligations for two sites as a result of changes in the timing of projected net cash flows, \$1.8 million relates to accretion expense attributable to asset retirement obligations and \$2.2 million for other environmental-related charges.

The Company incurred charges of \$18.9 million in 2005 for the settlement of several cases relating to previously divested businesses, the most significant of which related to the former Composite Products division. In connection with its efforts to pay down debt during 2005, the Company incurred premiums of \$14.3 million on the open-market repurchase of its 11.125% notes as well as \$1.8 million for the write-off of related unamortized debt issuance costs, partially offset by a \$1.9 million gain related to the repurchase of CRESTS Units.

These items were partially offset by \$10.9 million of gains on the disposition of properties sold during 2005. These gains are primarily attributable to the disposition of properties in Langhorne, Pennsylvania and Burlington, New Jersey that were non-operating facilities associated with the previously divested water treatment and resins businesses, respectively. Approximately \$4.4 million of the total gain relates to the transfer of an asset retirement obligation in connection with the sale of the Burlington property. In addition, the Company realized other miscellaneous income of \$2.9 million, net of all other miscellaneous expenses.

Other expense, net, increased \$87.8 million to \$116.7 million in 2004 from \$28.9 million for 2003. The increase was primarily attributable to the net \$34.2 million adjustment related to the asbestos litigation, consisting of a \$79.8 million increase in the asbestos reserves, a \$48.6 million increase in the insurance receivables and \$3.0 million in fees incurred in reaching the settlements with the insurance carriers. Excluding the settlement, continuing asbestos-related litigation costs and related claims and recovery costs prior to the settlement incurred during 2004 increased by \$2.6 million as compared to 2003. Legal settlements of \$19.2 million in 2004 exceeded 2003 levels of \$7.8 million primarily due to the settlement of the Thomas & Thomas Rodmakers vs. Newport Adhesives and Composites litigation (see Note 12 to the Consolidated Financial Statements) as well as other litigation related to previously divested businesses and activities.

During 2004, the Company wrote off \$14.1 million of debt issuance costs associated with its April 2004 debt refinancing, and paid premiums of \$30.2 million and wrote off \$4.0 million of debt issuance costs associated with the Company's open market repurchases of its 11.125% senior notes throughout 2004. These costs were partially offset by a \$7.3 million gain related to the repurchase of CRESTS Units. During 2003, the Company recognized gains on the repurchase of CRESTS Units in the amount of \$7.1 million, which were partially offset by other debt extinguishment costs of \$4.8 million.

During 2004, the Company incurred \$7.6 million in environmental charges attributable to non-operating sites or related activities associated with previously divested businesses. Of the total, \$1.6 million relates to accretion expense and \$4.2 million is attributable to revisions in the asset retirement obligations while the remainder reflects \$1.8 million for all other environmental-related charges including demolition work at various former operating sites. This compares to a total of \$5.0 million during 2003, which includes \$1.6 million related to accretion expense attributable to asset retirement obligations.

The Company initially recorded an asset impairment charge of \$2.0 million during 2003 attributable to the closure of the former Langhorne, Pennsylvania site and subsequently recorded an additional \$1.9 million impairment charge during 2004 in connection with its reclassification as an asset held for sale.

All other miscellaneous expense and income items aggregated to net income of \$1.8 million during 2004 while a net expense of \$4.4 million resulted during 2003. The change is primarily the result of higher foreign currency exchange income and lower workers compensation settlements related to divested businesses experienced during 2004 as compared to 2003.

	2005	2004	2003	2005 Change	2004 Change
(Benefit) provision for income taxes	\$ (7.2)	\$ 2.4	\$ 21.3	\$ (9.6)	\$ (18.9)

The effective tax benefit rate for 2005 was 16%, and was impacted by a \$10.0 million reversal of federal income tax reserves due to favorable resolutions of prior year tax issues and net interest income of \$2.9 million resulting from the refund of excess cash tax deposits. These favorable benefits were offset by a \$7.1 million increase to state tax expense relating to the filing of amended income tax returns to reflect IRS audit adjustments as well as a \$7.6 million charge related to previously undistributed foreign earnings triggered by the proposed transaction to sell a majority interest in FiberVisions to SPG.

The change in the valuation allowance on deferred tax assets reflects the utilization of capital loss carryforwards, the utilization and expiration of state net operating loss carryforwards, and the impairment charge on the carrying value of FiberVisions.

The effective tax rate in 2004 of 8% reflected the benefit of the CP Kelco ApS gain and the reduction of the valuation allowance related to capital losses partially offset by an increase in tax reserves.

The effective tax rate for 2003 reflected the tax benefit from the donation of intellectual property to qualified organizations and the utilization of prior year capital losses.

	2005	2004	2003	2005 Change	2004 Change
Equity loss of affiliated companies, net of tax	\$ (0.5)	\$ -	\$ (0.3)	\$ (0.5)	\$ 0.3

The Company maintains certain relatively insignificant equity investments. These investments generated losses in 2005 of which the Company recognized its proportionate share of approximately \$0.5 million during 2005 and \$0.3 million during 2003. During 2004, equity method losses essentially offset income.

	2005	2004	2003	2005 Change	2004 Change
Net income from discontinued operations, net of tax	\$ -	\$ -	\$ 4.5	\$ -	\$ (4.5)

Net income from discontinued operations in 2003 includes \$4.5 million, net of taxes, attributable to the reversal of various reserves that were initially established in 2002 in connection with the previously divested BetzDearborn water treatment business.

	2005	2004	2003	2005 Change	2004 Change
Cumulative effect of changes in accounting principle, net of tax	\$ (2.5)	\$ -	\$ (33.3)	\$ (2.5)	\$ 33.3

Effective December 31, 2005, the Company adopted the provisions of FASB Interpretation No. 47, "Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143" ("FIN 47") and recognized a cumulative effect adjustment of \$2.5 million, net of tax (see Notes 11 and 21).

Effective January 1, 2003, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") and recognized a \$28.0 million cumulative effect adjustment, net of tax. As a result of the adoption of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN 46(R)") effective December 31, 2003, the Company recognized a \$5.3 million cumulative effect adjustment, net of income taxes in connection with gains realized upon the repurchase of CRESTS Units.

Results of Operations - Segment Review

The tables below reflect Net sales and Profit from operations for the comparative periods 2005 vs. 2004 and 2004 vs. 2003, respectively. Substantially all reconciling items have been allocated to the segments.

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Net sales:				
Performance Products				
Pulp and Paper	\$ 973.6	\$ 932.1	\$ 41.5	4%
Aqualon	712.4	684.4	28.0	4%
	<u>1,686.0</u>	<u>1,616.5</u>	<u>69.5</u>	<u>4%</u>
Engineered Materials and Additives				
FiberVisions	282.7	281.2	1.5	1%
Pinova	100.1	99.0	1.1	1%
	<u>382.8</u>	<u>380.2</u>	<u>2.6</u>	<u>1%</u>
Consolidated	<u>\$ 2,068.8</u>	<u>\$ 1,996.7</u>	<u>\$ 72.1</u>	<u>4%</u>
Profit from operations:				
Performance Products				
Pulp and Paper	\$ 62.8	\$ 82.3	\$ (19.5)	(24)%
Aqualon	157.2	166.3	(9.1)	(5)%
	<u>220.0</u>	<u>248.6</u>	<u>(28.6)</u>	<u>(12)%</u>
Engineered Materials and Additives				
FiberVisions	(64.9)	(4.1)	(60.8)	NM
Pinova	(13.0)	(10.3)	(2.7)	(26)%
	<u>(77.9)</u>	<u>(14.4)</u>	<u>(63.5)</u>	<u>NM</u>
Corporate Items	(11.7)	(5.3)	(6.4)	NM
Consolidated	<u>\$ 130.4</u>	<u>\$ 228.9</u>	<u>\$ (98.5)</u>	<u>(43)%</u>
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Net sales:				
Performance Products				
Pulp and Paper	\$ 932.1	\$ 880.2	\$ 51.9	6%
Aqualon	684.4	603.3	81.1	13%
	<u>1,616.5</u>	<u>1,483.5</u>	<u>133.0</u>	<u>9%</u>
Engineered Materials and Additives				
FiberVisions	281.2	277.6	3.6	1%
Pinova	99.0	84.9	14.1	17%
	<u>380.2</u>	<u>362.5</u>	<u>17.7</u>	<u>5%</u>
Consolidated	<u>\$ 1,996.7</u>	<u>\$ 1,846.0</u>	<u>\$ 150.7</u>	<u>8%</u>
Profit from operations:				
Performance Products				
Pulp and Paper	\$ 82.3	\$ 103.4	\$ (21.1)	(20)%
Aqualon	166.3	158.5	7.8	5%
	<u>248.6</u>	<u>261.9</u>	<u>(13.3)</u>	<u>(5)%</u>
Engineered Materials and Additives				
FiberVisions	(4.1)	12.6	(16.7)	NM
Pinova	(10.3)	(3.5)	(6.8)	NM
	<u>(14.4)</u>	<u>9.1</u>	<u>(23.5)</u>	<u>NM</u>
Corporate Items	(5.3)	(15.5)	10.2	66%
Consolidated	<u>\$ 228.9</u>	<u>\$ 255.5</u>	<u>\$ (26.6)</u>	<u>(10)%</u>

NM = not meaningful

The tables below reflect Net sales percentage changes for the years ended December 31, 2005 and 2004 as compared to the same periods in 2004 and 2003, respectively.

2005	Net Sales Percentage Increase (Decrease) from 2004 Due To:				
	Volume	Product Mix	Price	Rates of Exchange	Total
Pulp and Paper	1%	(1)%	1%	3%	4%
Aqualon	3%	-	-	1%	4%
Performance Products	2%	(1)%	1%	2%	4%
FiberVisions	(13)%	-	13%	1%	1%
Pinova	(12)%	6%	7%	-	1%
Engineered Materials and Additives	(13)%	2%	11%	1%	1%
Consolidated	(1)%	-	3%	2%	4%

2004	Net Sales Percentage Increase (Decrease) from 2003 Due To:				
	Volume	Product Mix	Price	Rates of Exchange	Total
Pulp and Paper	5%	(2)%	(1)%	4%	6%
Aqualon	18%	(7)%	(1)%	4%	14%
Performance Products	11%	(5)%	(1)%	4%	9%
FiberVisions	(6)%	(2)%	5%	4%	1%
Pinova	28%	(7)%	(5)%	-	16%
Engineered Materials and Additives	2%	(3)%	3%	3%	5%
Consolidated	8%	(4)%	-	4%	8%

Performance Products Segment

Pulp and Paper

Pulp and Paper's sales increased \$41.5 million, or 4%, to \$973.6 million in 2005 as compared to \$932.1 million in 2004. The increase was attributable to 3% higher average rates of exchange, 1% higher volume and 1% for the impact of higher prices partially offset by a 1% change in the product sales mix. Despite relatively flat conditions during 2005 in the Americas' paper and paperboard markets, overall sales increased 3% excluding rates of exchange, reflecting price increases related to raw materials and energy cost recovery as well as contractual pricing increases and pricing for new technology and products. European conditions proved somewhat challenging particularly in the established western economies and were impacted by regional events including the countrywide lockout by paper producers in Finland, which shut down production for nearly two months earlier in the year. Competitive conditions due to slow demand in Europe as well as capacity additions in all market sectors of Asia Pacific have challenged the ability to increase prices for various products including wet-strength and rosin-based products despite raw material cost increases.

Offsetting these challenges, Pulp and Paper has experienced continuing success in expanding its presence in emerging markets and growing its business from new product and technology launches. When compared to 2004, sales to customers in Brazil, Eastern Europe and China increased 29%, 17% and 21%, respectively. During 2005, revenues from new product launches were approximately \$75 million or a 97% increase as compared to 2004. Overall, Pulp and Paper derived approximately 25% of its total revenues from products that are less than 5 years old.

Profit from operations for Pulp and Paper decreased \$19.5 million, or 24%, to \$62.8 million in 2005 as compared to \$82.3 million in 2004. The decrease in profit from operations experienced during 2005 is largely attributable to the significant increase in raw materials, energy and transportation costs that continued from 2004 and was further exacerbated by the adverse weather conditions as a result of the hurricanes in the United States' Gulf Coast. Despite corresponding pricing increases where applicable and where the competitive environment allowed for such actions, Pulp and Paper was only able to recover approximately 57% of the cost increases for these categories. The rapid escalation of certain costs was not able to be recaptured through price increases in the same frequency due to the term nature of certain contracts.

Key feedstock derivatives including adipic acid, caustic, epichlorohydrin, ethylene and propylene-based derivatives all experienced record high costs during the latter part of 2005. In addition, supply was constrained due to a number of supplier force majeure actions resulting from the storms. Supply for certain materials continues to be constrained due to infrastructure damage in the Gulf coast region that is in the process of repair. Alternative supplies and logistics were obtained from other sources where possible, including overseas, resulting in surcharges and higher transportation and air freight costs. Costs for raw materials, including gum and tall oil rosins have also been adversely impacted by growing global demand particularly in China. On an aggregate basis, raw material costs have increased approximately \$22 million or 5% over 2004 levels.

The adverse impact of the storms has been estimated at approximately \$5.3 million including \$3.7 million attributable to raw materials. The impact of the paper producer action in Finland is estimated at approximately \$1.3 million in lost profitability as Pulp and Paper was unable to recover all of the lost volume in the periods subsequent to the resolution.

In addition to these issues, Pulp and Paper recorded \$20.7 million of charges related to the broad restructuring programs previously identified. Of the total, \$4.9 million was attributable to the actions to consolidate the research and development functions into centralized locations, \$3.1 million relates to manufacturing rationalizations including accelerated depreciation and severance charges associated with the closure of the Pandaan, Indonesia manufacturing facility and the scheduled closure of the Pendlebury, UK manufacturing facility and \$12.7 million was primarily for severance charges associated with global efforts to de-layer management and support and realign the marketing organization. Pulp and Paper also experienced higher legal defense costs during 2005 primarily as a result of the ongoing patent infringement litigation with Ciba. The reduction of SG&A costs, resulting from current and prior year restructuring activities and work process improvements, partially offset these issues.

Pulp and Paper's sales increased \$51.9 million, or 6%, to \$932.1 million during 2004 as compared to \$880.2 million during 2003. The increase was due to a 5% increase in volume coupled with 4% attributable to higher rates of exchange partially offset by a 2% decrease in sales mix and 1% lower pricing. The higher volume was primarily a result of increased sales under our supply agreement with G.E. Water Technologies and the improving North American market for containerboard. Europe remained challenging as volume growth was offset by competitive price pressure and unfavorable mix. Price erosion occurred in both functional and process chemicals. Pricing in Pulp and Paper deteriorated from 2003 levels as a result of competitive pressures. Pricing was down in North America and Europe, our two largest markets. The division initiated two price increases with a combined increase of 11% to 19% on all process and functional products late in the second half of 2004.

Profit from operations for Pulp and Paper decreased \$21.1 million, or 20%, to \$82.3 million in 2004 as compared to \$103.4 million during 2003. Increased volume and favorable rates of exchange were more than offset by lower pricing, higher energy, raw materials, and non-cash pension expense, as well as selling expenses associated with new product growth. Raw material costs were higher in the fourth quarter than in previous quarters reflecting increases in adipic acid and epichlorohydrin prices. Additionally, during 2004 severance charges of approximately \$7.7 million were incurred for headcount reductions in the general and administrative functions.

Aqualon

Aqualon's sales increased \$28.0 million, or 4%, to \$712.4 million during 2005 as compared to \$684.4 million during 2004. The increase was attributable to a 3% increase in volume as well as 1% attributable to higher rates of exchange. Overall volume growth approximated global GDP despite unfavorable market conditions experienced in the paint and coatings market, primarily attributable to slow economic conditions in Europe. Price increases were implemented for all product lines except MC primarily to recover increasing raw materials, energy and transportation costs. Additional price increases were announced in the fourth quarter in response to dramatic increases in the cost of certain raw materials. These price increases are projected to have a favorable impact in 2006. Excluding the impact from the MC product line, price increases provided \$12.2 million in additional revenue during 2005. Compared with 2004, Aqualon experienced strong growth in its products for both pharmaceutical and oilfield applications consistent with global conditions in both of these industries. The global MC business continues to experience pricing pressure due to overcapacity resulting from recent expansions. Aqualon's recently announced MC joint venture in China should help improve its long-term global market position in this product family. During 2005, the U.S. International Trade Commission issued a favorable determination that Aqualon's domestic CMC business had been materially injured by imports of CMC being dumped by foreign producers in Finland, Mexico, The Netherlands and Sweden. The resulting imposition of antidumping duties on the subject imports is expected to create a fairer competitive environment in the U.S. In addition, growth in oilfield products is expected during 2006 in connection with the Benchmark acquisition.

Consistent with the Company's overall objectives for introducing and capitalizing upon new opportunities through product innovation and technology, new product launches during 2005 and continued expansion of sales of recently introduced products provided approximately 15% of Aqualon's total revenues.

Profit from operations for Aqualon decreased \$9.1 million, or 5%, to \$157.2 million during 2005 as compared to \$166.3 million during 2004. Similar to Pulp and Paper, Aqualon was adversely impacted by higher raw material, energy and transportation costs. Key feedstock derivatives including ethylene oxide, methanol, acetaldehyde and ethyl chloride and raw materials including guar splits all experienced significant price spikes, and in certain circumstances supplies were constrained. In addition, energy costs continued to exert pressure on profitability and are anticipated to continue to do so during 2006, particularly in Europe. Price increases were only able to recover approximately 19% of the cost increases for these issues during 2005 primarily as a result of the timing of certain cost spikes in relation to customer pricing changes. The aggregate impact of raw material cost increases over 2004 was approximately \$18 million or 10%.

In addition to these issues, Aqualon recorded \$2.0 million of charges related to the broad restructuring programs previously identified. Of the total, \$0.2 million relates to severance charges associated with a reconfiguration of the powerhouse utility at the Parlin, New Jersey manufacturing facility while the remaining \$1.8 million is attributable to severance charges associated with a global marketing realignment.

Aqualon's net sales increased \$81.1 million, or 13%, to \$684.4 million during 2004 as compared to \$603.3 million during 2003. The growth was driven by 18% higher volume and a 4% benefit from higher rates of exchange, partially offset by negative mix of 7% and 1% lower prices. Volume improvements were made in many markets including personal care, pharmaceutical, paint, oilfield, lubricants, adhesives and coatings. Volumes also continued to benefit from the Jiangmen acquisition completed in the fourth quarter of 2003 which accounted for approximately 40% of the increase. The unfavorable product mix reflected higher sales of lower priced products, primarily related to CMC sales in China, and an unfavorable regional and industry mix. Price increases announced and implemented in the fourth quarter resulted in pricing being flat in the aggregate for the quarter and down only 1% for the year. The continued competitive pricing in one product line due to temporary industry overcapacity was offset by price increases in other product lines. The U.S. CMC business experienced pressure due to aggressive behavior of several foreign producers that are exporting into the U.S. market.

Profit from operations for Aqualon increased \$7.8 million, or 5%, to \$166.3 million during 2004 as compared to \$158.5 million for 2003. Increased volume, favorable rates of exchange, higher plant utilization rates and lower raw material costs in the aggregate were partially offset by higher non-cash pension, freight, plant maintenance, utilities and increased SG&A costs. Raw material costs were higher in the fourth quarter than the prior quarters, reflecting increases in ethylene oxide, caustic and methanol. In addition, an asset impairment charge of \$3.6 million at the Hopewell, Virginia manufacturing facility was incurred in the first quarter of 2004 as a result of the closure of a raw material production line.

Engineered Materials and Additives Segment

FiberVisions

FiberVisions' sales increased \$1.5 million, or less than 1%, to \$282.7 million during 2005 as compared to \$281.2 million during 2004. The minimal increase was attributable to a 13% increase in prices and 1% related to higher rates of exchange offset by a 13% decrease in volume. Price increases provided approximately \$36.1 million in additional net sales compared to 2004 of which approximately 60% is attributable to contractual provisions and agreements for a pass-through of the polymer-cost component. During the latter part of 2005, FiberVisions took actions to change the customer pricing mechanisms to allow pricing pass-through on a quicker and more fully recoverable basis as well as to implement energy surcharges. Volume gains in the disposable wipes market and growth in the bi-component fiber products including family and home care applications were 17% higher than the 2004 levels. In addition, during 2005 FiberVisions expanded its business in emerging Chinese markets by approximately \$3.7 million over 2004. However, volume declines in the diaper coverstock markets of approximately 33% due to the continuing trend of product substitution related to spunbond technology more than offset nominal growth in those other applications and market expansions. In addition, planned reductions in certain low margin or otherwise unprofitable product markets further decreased net sales volume and capacity utilization.

FiberVisions increased its ratio of revenues provided by products less than 5 years old from 29% in 2004 to 34% during 2005. The announced transaction to sell a majority interest in FiberVisions to SPG should provide greater opportunity to further advance progress in new products and technology, including applications with polyester core bi-component fibers, which was successfully initiated at the Company's Athens, Georgia manufacturing facility during the fourth quarter of 2005.

Profit from operations for FiberVisions decreased \$60.8 million to a loss of \$64.9 million during 2005 as compared to a loss of \$4.1 million during 2004. Included in the loss from operations is a goodwill impairment charge of \$52.9 million recorded in connection with the commitment to sell a majority interest in the division to SPG in 2006. Also included is \$4.9 million of previously identified restructuring charges. Of the total, \$3.4 million is attributable to severance charges related to the idling of certain production lines at the Covington, Georgia manufacturing facility and \$1.5 million related to the write-off of obsolete inventory and spare parts associated with discontinued products as well as the closure of the technical facility at the Varde, Denmark manufacturing facility.

Despite pricing initiatives as discussed above, and lower manufacturing as well as SG&A costs, profitability declined due to lower fixed cost absorption from lower volume and sharply higher energy and raw material costs. The aggregate increase in raw material costs during 2005 as compared to 2004 was approximately \$33 million. The most significant portion of these increases is attributable to polypropylene and polyethylene resin costs. The exacerbating effect of the hurricanes drove the cost of these materials to unprecedented levels. In addition, certain suppliers declared force majeure thereby constraining supply and requiring FiberVisions to incur additional costs in order to maintain required production levels. The average price for polypropylene as published by CDI increased 20% or \$0.11 per pound to \$0.67 per pound during 2005. In Europe, the price as reported by Platts increased by 166 Euro per metric ton or 19% as compared to 2004.

The prices for these raw materials spiked with a 17% increase from September to October. Accordingly, the timing of the recovery of these rapid cost increases had an adverse impact on 2005 profitability. Energy costs increased \$2.3 million over 2004 due to significantly higher gas and electricity costs at all global manufacturing facilities.

FiberVisions' net sales increased \$3.6 million, or 1%, to \$281.2 million during 2004 as compared to \$277.6 million during 2003. The nominal growth in sales resulted from improved pricing of 5%, higher rates of exchange of 4%, partially offset by 6% lower volume and a 2% unfavorable mix. Volume in the fourth quarter was up 2%, reflecting gains in wipes and other applications markets, partially offsetting the losses experienced in diaper coverstock applications versus the prior year.

FiberVisions profit from operations decreased \$16.7 million to a loss of \$4.1 million during 2004 as compared to a profit of \$12.6 million during 2003. Improved pricing, rates of exchange and lower management fees charged by our ES FiberVisions joint venture partner were more than offset by higher polymer costs and lower plant utilization. Polypropylene costs increased 28% year over year. In addition, the division recognized legal costs of \$0.4 million associated with the failed acquisition attempt for Meraklon S.p.A.

Pinova

Pinova's sales increased \$1.1 million, or 1%, to \$100.1 million during 2005 as compared to \$99.0 million during 2004. The slight increase was attributable to higher prices of 7% in addition to a shift in the product mix of 6% offset by a 12% reduction in volume. Primarily due to the complexity and limited flexibility associated with the manufacturing dynamics of certain products, Pinova was engaged in efforts throughout the year to selectively and intentionally shed non-profitable volume and relationships in order to target its sales towards more profitable markets. Pinova's decision to exit the unprofitable terpenes specialties business altogether will not only improve the division's cost profile, but will further allow for the opportunity to concentrate on new and more profitable applications leading into 2006.

Pinova has been allocated minimal funding for technology and new applications development. However, Pinova has been able to maintain an average of approximately 6% of its total revenues from recently introduced products including a specialty product with significant applicability in the fragrance industry. Innovation continued despite the relatively mature nature of this business and its products. In connection with the pending business segment realignment during 2006, the majority of Pinova will be consolidated into the Aqualon division.

Profit from operations declined \$2.7 million to a loss of \$13.0 million during 2005 as compared to a loss of \$10.3 million during 2004. The decline reflects \$9.8 million attributable to restructuring charges. Of the total, \$5.7 million is attributable to an asset impairment and related write-off of spare parts and inventories as well as severance charges of \$3.4 million associated with the decision to exit the terpenes specialties business at the Brunswick, Georgia manufacturing facility. In addition, an asset impairment charge of \$0.5 million was recorded for the termination of the production of certain intermediate products at the Hattiesburg, Mississippi manufacturing facility as well as charge of \$0.2 million associated with the termination of a distribution agreement.

From an operations perspective, Pinova's raw material costs for 2005 increased approximately \$3 million or 13% over 2004 levels. In addition, utilities increased \$2.5 million on an annual basis and the hurricanes resulted in service interruptions. These interruptions resulted in fixed cost absorption problems. Overall, the adverse impact attributable to the hurricanes was approximately \$1.7 million. The force majeure declared by the Company's hydrogen supplier in the wake of the hurricanes prompted efforts to re-engineer its hydrogen process, which will result in approximately \$1 million in annual cost savings going forward.

Pinova's net sales increased \$14.1 million, or 17%, to \$99.0 million during 2004 as compared to \$84.9 million during 2003. Sales benefited from significantly higher volume of 28%, partially offset by 5% lower pricing and unfavorable mix of 7%. The increase in net sales volume was related to recapturing lost market share in the highly competitive chewing gum, adhesives and other industrial markets. The lower pricing and unfavorable product mix was related to these efforts to regain lost business and a strategic shift into lower priced industrial segments aimed at reducing inventory and increasing sales volume, thereby generating positive cash flow.

Pinova's loss from operations increased \$6.8 million to \$10.3 million during 2004 as compared to \$3.5 million during 2003. Improved plant utilization rates associated with higher volume were offset by lower pricing, higher raw materials, energy and non-cash pension costs and lower tolling fees.

Corporate Items

Corporate items include net operating charges and benefits that are not directly related to the business segments. The most significant charges typically appear in Other operating expense, net, although portions are also reflected in Cost of sales and SG&A expenses depending upon the specific nature of the items. The following table reflects the components of Corporate items.

	2005	2004	2003
Severance and other exit costs	\$ 8.0	\$ -	\$ 4.6
Legacy issue professional fees	0.8	1.0	-
Reductions in insurance claims reserves	-	(2.6)	-
Nitrocellulose facility shutdown costs	-	6.5	-
Proxy solicitation costs	-	-	3.6
Special executive pension adjustments	-	1.5	7.3
Other miscellaneous	2.9	(1.1)	-
Total Corporate items	<u>\$ 11.7</u>	<u>\$ 5.3</u>	<u>\$ 15.5</u>

Corporate items for 2005 include \$8.0 million of charges related to the broad restructuring programs previously identified. Of the total, \$5.6 million is attributable to severance benefits, \$0.5 million for relocation costs attributable to the new European headquarters in Schaffhausen, Switzerland, \$1.4 million for other exit costs incurred at the Barneveld research site, and \$0.5 million for accelerated depreciation charges for certain assets at the Wilmington, Delaware research facility in connection with the ongoing revitalization program. Corporate charges for 2005 includes \$0.8 million for professional fees incurred to resolve certain legacy business matters and a net \$2.9 million for all other corporate charges.

Corporate items for 2004 resulted in a net expense of \$5.3 million and included charges of \$6.5 million related to the shutdown of the former Nitrocellulose facility and \$1.5 million for a special executive pension adjustment, \$1.0 million for professional fees incurred to resolve certain legacy business matters partially offset by a \$2.6 million reduction in insurance claims reserves and \$1.1 million of net gains in all other corporate items.

Corporate items for 2003 include \$4.6 million in restructuring charges related to work process redesign efforts, a \$7.3 million special executive pension adjustment and \$3.6 million in proxy solicitation costs.

Liquidity and Capital Resources

Net cash provided by operating activities was \$139.2 million for 2005 as compared to \$120.5 million for 2004. Cash from operations during 2005 includes net income tax payments of \$18.4 million, interest and debt expense payments of \$86.4 million, premiums paid on debt repurchases of \$14.3 million, settlements of asset retirement obligations of \$10.2 million and asbestos settlement payments of \$27.7 million. These payments were substantially lower than those during 2004 which included payments for income taxes, interest and debt expense, premiums paid on debt repurchases, settlements of asset retirement obligations and asbestos settlements of \$40.7 million, \$97.1 million, \$30.2 million, \$13.5 million and \$41.0 million, respectively. Lower net income tax payments during 2005 reflect the refund of amounts previously on deposit with tax authorities. Interest and debt expense payments are lower primarily as a result of the Company's repurchase of \$96.0 million (book value) of its outstanding 11.125% notes during 2005. Asset retirement obligation settlements are lower as a result of the timing of planned expenditures at certain sites. The lower asbestos settlement payments reflect the dynamic nature of ongoing litigation and settlement proceedings. Asbestos insurance recoveries of \$51.2 million were received during the 2005 period as compared to \$50.0 million during 2004 which included the establishment of the initial insurance trusts. These improvements were partially offset by cash payments for legal settlements and defense costs during 2005 of \$33.3 million primarily attributable to litigation associated with the former Composite Products division as well as higher legal costs attributable to the Ciba patent infringement litigation. In addition, severance and other restructuring-related payments were \$21.4 million for 2005 as compared to \$9.9 million for 2004, primarily as a result of the significant restructuring actions taken during the current year. Accordingly, the Company has realized and will continue to realize cash savings from these actions. However, for the full year, cash from operations has been adversely impacted by operating results which reflect the inability to pass through all of the significant and rapid acceleration of the increase in raw material, energy and freight costs.

Net cash used in investing activities was \$57.7 million during 2005 as compared to \$49.1 million during 2004. Included in these totals are capital expenditures of \$67.5 million and \$77.4 million, respectively, for 2005 and 2004. An investment of \$4.4 million was made in Aqualon's new MC joint venture in China in the form of prepaid financing for equipment to be used by the new entity, Hercules Tianpu Chemical Company, upon the start-up of operations during 2006. Proceeds of \$16.6 million, net of selling expenses, from the disposals of fixed assets have been reflected for 2005. Of this total, approximately \$13.2 million is attributable to the sale of properties in Langhorne, Pennsylvania and Burlington, New Jersey that were non operating facilities associated with the previously divested water treatment and resins businesses, respectively. The remaining \$3.4 million of proceeds relates to the sales of other assets and properties associated with businesses that have been exited, divested or otherwise curtailed as well as excess or fully depreciated equipment. As a result of the commitment to sell a majority interest in the FiberVisions division, the cash and cash equivalents held by that division have been reclassified to FiberVisions assets held for sale on the Consolidated Balance Sheet as of December 31, 2005. Accordingly, an outflow of \$2.6 million of cash balances has been reflected as an investing activity in the Statement of Cash Flows during 2005. The comparable period in 2004 includes proceeds of \$27.0 million related to the Company's sale of its minority interest in CP Kelco ApS as well as \$1.4 million attributable to the sale of other fixed assets.

Net cash used in financing activities was \$127.0 million during 2005, as compared to \$74.1 million during 2004. Total debt principal payments of \$131.2 million were made during 2005, \$96.0 million and \$12.9 million of which was attributable to repurchases of the Company's 11.125% senior notes and 17,000 CRESTS Units, respectively, as well as \$20.8 million of various term notes which matured during 2005. During 2004, the Company refinanced its Senior Credit Facility with the issuance of a new Term B loan for \$400.0 million. In addition, the Company completed the issuance of \$250.0 million of 6.75% senior subordinated notes. These issuances were utilized to pay down the previous Term B loan as well as the 9.42% junior subordinated deferrable interest debentures. When combined with \$150.0 million of payments attributable to repurchases of the Company's 11.125% senior notes as well as other payments including those on term notes, the total principal payments made during 2004 amounted to \$729.5 million.

The Company maintains ownership over a number of properties, including land and buildings, associated with businesses that have been exited, divested or otherwise curtailed. In addition, during the normal course of business, assets associated with current operations, including such items as surplus land and excess or fully depreciated equipment and buildings among others, become available for disposition. In order to maximize their value, the Company is actively engaged in an ongoing process of identifying alternative utilization strategies including leasing and outright sales of the underlying assets and properties. When specific actions progress to the point that the plan of sale criteria included in the Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" have been met, impairments, to the extent they exist, are recognized and the underlying properties are reclassified as assets held for sale. Assets held for sale, excluding those related to the FibersVisions division, are included in the caption "Other current assets" on the Consolidated Balance Sheets. The carrying value of total assets held for sale excluding FibersVisions was approximately \$0.2 million and \$5.8 million as of December 31, 2005 and 2004, respectively. The Company expects to market additional properties throughout 2006 and realize cash proceeds upon their disposition.

In connection with the FibersVisions transaction, the Company expects to realize total cash proceeds of \$109.0 million during 2006, comprised of an \$82.0 million distribution from FibersVisions and \$27.0 million of proceeds from the sale of the initial 51% interest. The proceeds from this transaction are anticipated to be utilized to fund further repurchases of the Company's 11.125% senior notes. In addition, the Company has the potential to realize additional proceeds in connection with an earn-out provision provided certain performance targets are achieved. Additional proceeds from the earn-out, if any, are likely to be received during 2007.

The Company also anticipates the settlement of audits of various tax years that are currently under review by the Internal Revenue Service. Depending upon the outcome of certain matters, the Company could potentially receive refunds of income taxes previously paid for those years during 2006.

During February 2006, the Company entered into a series of floating rate cross currency interest rate swap agreements. The Company has designated the agreements as a hedge of the foreign currency exposure associated with its net investment in certain foreign operations that utilize the Euro as their functional currency. The combined notional amount of the agreements is for \$475 million/€399 million and requires the Company to receive three month LIBOR + 1.50% and pay three month EURIBOR plus a margin ranging from 1.53% to 1.64% on a quarterly basis for a five year term. The agreement will be recorded at fair value in the Consolidated Balance Sheet, with changes in value attributable to changes in foreign exchange rates recorded in Accumulated other comprehensive income. Net interest payments or receipts will be recorded as an adjustment to Interest and debt expense.

In October 2004, the Board of Directors authorized the Company, from time to time, subject to market conditions and provisions of the Company's credit agreements and indentures, to repurchase up to \$200 million of its outstanding indebtedness. During January and February of 2006, the Company repurchased \$11.0 million of its outstanding 11.125% senior notes. Subsequent to these repurchases, the Board of Directors terminated the unused portion of the existing debt repurchase authorization and authorized a new \$150 million debt repurchase program effective February, 2006.

As of December 31, 2005, \$50.5 million of the \$150 million Revolving Facility under the Company's Senior Credit Facility was available for use. The Company had \$99.5 million of outstanding letters of credit associated with the Revolving Credit Facility and another \$6 million of other outstanding letters of credit at December 31, 2005.

Financial Condition

Total debt at December 31, 2005 was \$1,109.0 million which decreased \$131.1 million from \$1,240.1 million at December 31, 2005 primarily as a result of the debt payment and repurchases discussed above. Cash balances decreased to \$77.3 million at December 31, 2005 from \$126.5 at December 31, 2004.

Working capital management represents a key performance measure for the Company. Total trade accounts receivable and inventories decreased by \$21.3 million and \$6.7 million, respectively, while accounts payable increased \$16.3 million from December 31, 2004 to December 31, 2005 including the impact of the FiberVisions division which has been classified as held for sale. Days sales outstanding improved by one day to 60 days from 2004 and days sales in inventory improved two days to 56 days from 2004. In addition, days payable outstanding improved by two days to 51 days from 2004. Overall, the Company's cash cycle time improved by a total of five days during 2005. The Company expects further, but more modest improvements in the cash cycle time during 2006 as progress continues with ongoing working capital initiatives.

Commitments and Contractual Obligations

Capital expenditures are expected to be between \$67 and \$71 million per year in both 2006 and 2007.

As discussed in the *Strategic Highlights* section above, the Company has begun efforts to develop plans to reduce corporate expenses that are currently allocated to FiberVisions. The Company has targeted a total of \$20 million in annual cost reductions to be achieved by the end of 2007. However, the Company anticipates incremental cash disbursements for severance benefits and other exit costs as the plans are expected to be executed primarily during the second half of 2006.

Also referenced in the *Strategic Highlights* section was the Company's commitment to its MC joint venture in China as well as the Benchmark acquisition. These activities are anticipated to result in disbursement of approximately \$4 million and \$20 million, respectively during 2006. In addition, under an earn-out provision in the Benchmark agreement, there is the potential for a maximum disbursement to the seller in the amount of \$8.8 million if certain contractual provisions are met. Payments associated with the earn-out are anticipated to be made throughout the five-year term of the related supply agreement.

The Company's contractual commitments as of December 31, 2005 are summarized as follows:

	(Dollars in millions)				
	Payments Due by Period ⁽¹⁾				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Debt obligations	\$ 1,109.0	\$ 16.7	\$ 138.8	\$ 384.6	\$ 568.9
Operating lease obligations	118.6	19.6	34.3	35.6	29.1
Purchase obligations ⁽²⁾	23.7	23.7	-	-	-
Other long-term liabilities reflected on the registrant's balance sheet under GAAP ⁽³⁾	504.7	86.5	74.4	56.5	287.3
Total contractual cash obligations	\$ 1,756.0	\$ 146.5	\$ 247.5	\$ 476.7	\$ 885.3

⁽¹⁾Does not include the anticipated future interest payments to be made under the Company's current debt agreements; however, based upon current indebtedness and interest rates at December 31, 2005, such interest obligations are estimated to be approximately \$84.5 million in 2006, \$84.2 million in 2007, \$69.4 million in 2008, \$69.1 million in 2009, \$68.5 million in 2010 and \$778.6 million thereafter. A one percent increase or decrease in the LIBOR rate would have an impact of approximately plus or minus \$3.8 million on the Company's interest payments in years 2006 through 2010.

⁽²⁾Obligation relates primarily to the FiberVisions division and as such will transfer to the joint venture upon the closing of the aforementioned transaction with SPG, which is anticipated to occur prior to the end of the first quarter of 2006.

⁽³⁾Includes amounts pertaining to asbestos-related matters, asset retirement obligations, post-employment and post-retirement obligations and workers compensation claims. Due to the dynamic nature of asbestos litigation, it is impractical to determine the anticipated payments in any given year. Therefore, the non-current asbestos-related liability of \$233.6 million has been reflected in the after five years column.

At December 31, 2005, the Company had commercial commitments totaling \$105.5 million, in the form of letters of credit, which may require payments in the future. If required, these commitments would be funded from general corporate funds.

The Company projects cash flow from operations and available financial resources will be sufficient to meet its investing and financing requirements in the next several years.

Indemnifications

In connection with the sale of certain assets or businesses, the Company has indemnified respective buyers against certain liabilities that may arise in connection with the sales transactions and business activities prior to the ultimate closing of the sale. Additionally, the Company has provided indemnifications pertaining to environmental, tax, employee and/or product-related matters. If the indemnified party were to incur a liability or have a liability increase as a result of a successful claim, pursuant to the terms of the indemnification, the Company would be required to reimburse the buyer. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. As of December 31, 2005, the Company has recorded indemnifications totaling \$40 million and has \$105.5 million of outstanding letters of credit. Although it is possible that future payments may exceed amounts accrued, due to the nature of indemnified items, it is not possible to make a reasonable estimate of the maximum potential loss or range of loss.

As described in greater detail in Note 12 to the Consolidated Financial Statements, the Company has entered into comprehensive settlement agreements with each of its insurance carriers which provided coverage for asbestos-related liabilities. Under the terms of these agreements and in exchange for payments made and to be received from the insurance carriers, the Company has released and indemnified the released insurers from any past, present and future claims asserted under its cancelled policies.

Off-Balance Sheet Arrangements

The Company has no relationships with any unconsolidated, special-purpose entities or other legal entities established for the purpose of facilitating off-balance sheet financial arrangements.

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). On April 14, 2005, the Securities and Exchange Commission issued an amendment to Rule 4-01 of Regulation S-X that allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005 as originally required. Accordingly, the Company will adopt SFAS 123R effective January 1, 2006 using the "modified prospective" method in which compensation cost is recognized beginning with the effective date based on (a) the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. In addition, the Company expects to continue to utilize the Black-Scholes option-pricing model, which is an acceptable option valuation model in accordance with SFAS 123R, to estimate the value of stock options granted to employees.

Beyond those restricted stock and stock option awards previously granted, the Company cannot predict with certainty the impact of SFAS 123R on its future consolidated financial statements as the type and amount of such awards are determined on an annual basis and encompass a potentially wide range depending upon the compensation decisions made by the Human Resources Committee of the Company's Board of Directors. SFAS 123R also requires the benefits of tax deductions in excess of compensation cost recognized in the financial statements to be reported as a financing cash flow, rather than an operating cash flow as currently required under Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" ("SFAS 95"). This requirement, to the extent it exists, will decrease net operating cash flows and increase net financing cash flows in periods subsequent to adoption. The Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") which expresses the view of the SEC Staff regarding the interaction of SFAS 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements. The Company believes that the views provided in SAB 107 are consistent with the approach taken in the valuation and accounting associated with share-based compensation issued in prior periods well as those issued during 2005.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For discussion of quantitative and qualitative disclosures about market risk, see Item 1A, Risk Factors.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY DATA
HERCULES INCORPORATED**

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Management's Report on Internal Control Over Financial Reporting

The management of Hercules is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Act of 1934, as amended. Hercules' internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Hercules' management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Based on this assessment, management has concluded that, as of December 31, 2005, the Company's internal control over financial reporting was effective based on those criteria.

Managements' assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by BDO Seidman, LLP, the Company's independent registered public accounting firm, as stated in their report, which appears herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Hercules Incorporated
Wilmington, Delaware

We have audited the accompanying consolidated balance sheet of Hercules Incorporated as of December 31, 2005 and the related consolidated statements of operations and comprehensive (loss) income, stockholders' (deficit) equity, and cash flows for the year ended December 31, 2005 (which statements are incorporated herein by reference to the annual report to stockholders for the year ended December 31, 2005). We have also audited the financial statement schedule listed in the accompanying index. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial statement schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial statement schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial statement schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hercules Incorporated and its subsidiaries at December 31, 2005 and the results of its operations and its cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein.

As discussed in Note 21 to the consolidated financial statements, in 2005 the Company changed its method of inventory valuation from the last-in, first-out method (LIFO) to the average - cost method for a portion of its domestic inventories.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hercules Incorporated's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2006 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
Bethesda, Maryland
February 24, 2006

**Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting**

Board of Directors and Shareholders
Hercules Incorporated
Wilmington, Delaware

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Hercules Incorporated maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hercules Incorporated's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Hercules Incorporated maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, Hercules Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheet of Hercules Incorporated as of December 31, 2005, and the related consolidated statements of operations and comprehensive (loss) income, changes in stockholders (deficit) equity and cash flows for the year ended December 31, 2005 and our report dated March 1, 2006 expressed an unqualified opinion.

/s/ BDO Seidman, LLP
Bethesda, Maryland
February 24, 2006

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
of Hercules Incorporated:

In our opinion, the accompanying consolidated balance sheet as of December 31, 2004 and the related consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows for years ended December 31, 2004 and 2003 present fairly, in all material respects, the financial position of Hercules Incorporated and its subsidiaries at December 31, 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" on January 1, 2003.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

March 16, 2005, except as to the Change in Accounting described in Note 21, which is as of February 17, 2006

(Dollars in millions, except per share)

	Year Ended December 31,		
	2005	2004	2003
Net sales	\$ 2,068.8	\$ 1,996.7	\$ 1,846.0
Cost of sales	1,406.3	1,307.6	1,166.9
Selling, general and administrative expenses	382.8	382.4	359.9
Research and development	40.9	42.8	38.7
Intangible asset amortization (Note 4)	8.0	8.1	8.0
Impairment of FiberVisions goodwill (Note 3)	52.9	-	-
Other operating expense, net (Note 18)	47.5	26.9	17.0
Profit from operations	130.4	228.9	255.5
Interest and debt expense (Note 19)	89.4	108.7	130.8
Gain on sale of CP Kelco ApS (Note 25)	-	(27.0)	-
Other expense, net (Note 20)	86.3	116.7	28.9
(Loss) income before income taxes and equity (loss) income	(45.3)	30.5	95.8
(Benefit) provision for income taxes (Note 7)	(7.2)	2.4	21.3
(Loss) income before equity loss	(38.1)	28.1	74.5
Equity loss of affiliated companies, net of tax	(0.5)	-	(0.3)
Net (loss) income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	(38.6)	28.1	74.2
Net income from discontinued operations, net of tax	-	-	4.5
Net (loss) income before cumulative effect of changes in accounting principle	(38.6)	28.1	78.7
Cumulative effect of changes in accounting principle, net of tax (Note 21)	(2.5)	-	(33.3)
Net (loss) income	\$ (41.1)	\$ 28.1	\$ 45.4
(Loss) earnings per share (Note 22):			
Basic (loss) earnings per share			
Continuing operations	\$ (0.36)	\$ 0.26	\$ 0.70
Discontinued operations	-	-	0.04
Cumulative effect of changes in accounting principle	(0.02)	-	(0.31)
Net (loss) income	\$ (0.38)	\$ 0.26	\$ 0.43
Weighted average number of shares (millions)	108.7	107.3	106.2
Diluted (loss) earnings per share			
Continuing operations	\$ (0.36)	\$ 0.26	\$ 0.69
Discontinued operations	-	-	0.04
Cumulative effect of changes in accounting principle	(0.02)	-	(0.31)
Net (loss) income	\$ (0.38)	\$ 0.26	\$ 0.42
Weighted average number of shares (millions)	108.7	109.0	107.2
Net (loss) income	\$ (41.1)	\$ 28.1	\$ 45.4
Foreign currency translation	(72.1)	71.1	123.4
(Increase) decrease in additional minimum pension liability, net of tax, due to			
Remeasurement adjustments	(44.3)	(28.2)	14.9
Foreign currency translations	5.5	(1.4)	(2.2)
Other, net of tax	(0.3)	-	-
Comprehensive (loss) income	\$ (152.3)	\$ 69.6	\$ 181.5

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Hercules Incorporated
Consolidated Statements of Operations and Comprehensive (Loss) Income

(Dollars in millions)

	December 31,	
	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 77.3	\$ 126.5
Accounts receivable, net (Note 1)	291.0	346.7
Inventories (Note 2)	185.0	212.4
Deferred income taxes (Note 7)	39.3	36.7
Asbestos-related assets (Note 12)	-	6.3
FiberVisions assets held for sale (Note 3)	202.7	-
Other current assets (Note 16)	48.1	53.8
Total current assets	843.4	782.4
Property, plant and equipment, net (Note 16)	535.4	695.4
Intangible assets, net (Note 4)	142.8	162.3
Goodwill (Note 4)	441.0	550.3
Deferred income taxes (Note 7)	240.4	121.9
Asbestos-related assets (Note 12)	120.7	162.5
Deferred charges and other assets (Note 16)	245.1	245.5
Total assets	\$ 2,568.8	\$ 2,720.3
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities		
Accounts payable	\$ 173.4	\$ 187.0
FiberVisions liabilities held for sale (Note 3)	66.6	-
Asbestos-related liabilities (Note 12)	36.4	46.8
Current debt obligations (Note 5)	16.7	29.8
Accrued expenses (Note 16)	219.3	212.1
Total current liabilities	512.4	475.7
Long-term debt (Note 5)	1,092.3	1,210.3
Deferred income taxes (Note 7)	75.8	77.2
Pension liability (Note 8)	323.4	241.4
Other postretirement benefits (Note 8)	65.5	80.5
Deferred credits and other liabilities (Note 16)	290.5	309.9
Asbestos-related liabilities (Note 12)	233.6	213.4
Total liabilities	2,593.5	2,608.4
Commitments and contingencies (Note 12)		
Stockholders' (deficit) equity		
Series preferred stock (Note 13)	-	-
Common stock, \$25/48 stated value (Note 14)	83.3	83.3
(shares issued: 2005 and 2004 - 159,984,444)		
Additional paid-in capital	548.9	569.2
Unearned compensation (Notes 9 and 10)	(65.7)	(77.9)
Accumulated other comprehensive loss (Note 15)	(387.6)	(276.4)
Retained earnings	1,495.4	1,536.5
	1,674.3	1,834.7
Treasury stock, at cost (shares: 2005 - 47,247,344 and 2004 - 47,842,836)	(1,699.0)	(1,722.8)
Total stockholders' (deficit) equity	(24.7)	111.9
Total liabilities and stockholders' (deficit) equity	\$ 2,568.8	\$ 2,720.3

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Hercules Incorporated
Consolidated Balance Sheets

(Dollars in millions)

	Year Ended December 31,		
	2005	2004	2003
Cash Flow From Operating Activities:			
Net (loss) income	\$ (41.1)	\$ 28.1	\$ 45.4
Net income from discontinued operations, net of tax	-	-	(4.5)
Adjustments to reconcile net (loss) income to net cash provided by operations:			
Depreciation	80.5	74.9	73.2
Amortization	25.4	26.3	27.4
Deferred income tax provision	(54.9)	(18.7)	8.3
Gain on disposals	(11.8)	(28.0)	(3.7)
Impairment charges	58.6	9.1	1.9
Write-off of debt issuance costs	1.8	18.0	-
Other non-cash charges and credits	6.3	1.7	9.4
Accruals and deferrals of cash receipts and payments (net of acquisitions and dispositions):			
Accounts receivable	2.9	(7.6)	6.8
Inventories	(3.3)	4.0	(7.4)
Asbestos-related assets and liabilities, net	61.3	40.2	(27.6)
Other current assets	(10.7)	20.7	1.8
Accounts payable and accrued expenses	28.2	5.0	(36.7)
Income taxes payable	27.1	(25.4)	(88.1)
Pension and postretirement benefits	(18.3)	(23.1)	(34.3)
Non-current assets and liabilities	(12.8)	(4.7)	50.9
Net cash provided by operating activities from continuing operations	<u>139.2</u>	<u>120.5</u>	<u>22.8</u>
Cash Flow From Investing Activities:			
Capital expenditures	(67.5)	(77.4)	(48.0)
Proceeds of investment and fixed asset disposals	16.6	1.4	10.4
Proceeds from sale of minority interest in CP Kelco ApS	-	27.0	-
Decrease in restricted cash	-	-	125.0
Acquisitions, net of cash acquired	-	-	(8.9)
Investment in CRESTS Units preferred securities	-	-	(27.4)
Other, net	(6.8)	(0.1)	(1.4)
Net cash (used in) provided by investing activities	<u>(57.7)</u>	<u>(49.1)</u>	<u>49.7</u>
Cash Flow From Financing Activities:			
Long-term debt proceeds	-	650.0	-
Long-term debt payments	(131.2)	(729.5)	(165.2)
Change in short-term debt	1.9	1.6	(0.7)
Payment of debt issuance costs and underwriting fees	-	(7.8)	-
Repurchase of CRESTS Units warrants	-	-	(7.0)
Treasury stock issued	2.7	5.5	1.9
Other	(0.4)	6.1	-
Net cash used in financing activities	<u>(127.0)</u>	<u>(74.1)</u>	<u>(171.0)</u>
Effect of exchange rate changes on cash	(3.7)	2.9	15.8
Net (decrease) increase in cash and cash equivalents	(49.2)	0.2	(82.7)
Cash and cash equivalents at beginning of year	126.5	126.3	209.0
Cash and cash equivalents at end of year	<u>\$ 77.3</u>	<u>\$ 126.5</u>	<u>\$ 126.3</u>

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Hercules Incorporated
Consolidated Statements of Cash Flows

(Dollars in millions)

	Year Ended December 31,		
	2005	2004	2003
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest	\$ 86.4	\$ 97.1	\$ 121.8
Income taxes, net of refunds received	18.4	40.7	64.7
Non-cash investing and financing activities:			
Acquisition of minority interest	\$ -	\$ -	\$ 2.0
Incentive and other employee benefit stock plan issuances	13.4	15.7	19.0
Elimination of 6.5% junior subordinated deferrable interest debentures due 2029	-	(34.6)	-
Elimination of investment in Hercules Trust II upon its dissolution	-	27.4	-

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Hercules Incorporated
Consolidated Statements of Cash Flows

(Dollars in millions)

	Common Stock	Paid-in Capital	Unearned Compen- sation	Accumulated Other Comprehen- sive Loss	Retained Earnings	Reacquired Stock	Total
Balances at January 1, 2003, as previously reported <i>(Common shares: issued, 159,984,444; reacquired, 50,615,487)</i>	\$ 83.3	\$ 665.0	\$ (91.0)	\$ (454.0)	\$ 1,449.8	\$ (1,824.3)	\$ (171.2)
Adjustment for the cumulative effect on prior years of retrospectively applying the weighted-average method of accounting for valuing inventories (Note 21)	-	-	-	-	13.2	-	13.2
Balances at January 1, 2003 as adjusted	\$ 83.3	\$ 665.0	\$ (91.0)	\$ (454.0)	\$ 1,463.0	\$ (1,824.3)	\$ (158.0)
Net income	-	-	-	-	45.4	-	45.4
Foreign currency translation adjustment	-	-	-	121.2	-	-	121.2
Release of shares held by ESOP trust	-	(4.8)	11.0	-	-	-	6.2
Debt issuance costs on warrants issued with trust preferred securities	-	(7.0)	-	-	-	-	(7.0)
Repurchase of warrants	-	(7.0)	-	-	-	-	(7.0)
Decrease in additional minimum pension liability, net of tax	-	-	-	14.9	-	-	14.9
Issuances of treasury stock, net of forfeitures	-	(42.8)	(10.2)	-	-	58.7	5.7
Amortization of unearned compensation	-	-	4.0	-	-	-	4.0
Balances at December 31, 2003 <i>(Common shares: issued, 159,984,444; reacquired, 48,992,628)</i>	\$ 83.3	\$ 603.4	\$ (86.2)	\$ (317.9)	\$ 1,508.4	\$ (1,765.6)	\$ 25.4
Net income	-	-	-	-	28.1	-	28.1
Foreign currency translation adjustment	-	-	-	69.7	-	-	69.7
Release of shares held by ESOP trust	-	(5.0)	13.3	-	-	-	8.3
Increase in additional minimum pension liability, net of tax	-	-	-	(28.2)	-	-	(28.2)
Issuances of treasury stock, net of forfeitures	-	(29.2)	(8.0)	-	-	42.8	5.6
Amortization of unearned compensation	-	-	3.0	-	-	-	3.0
Balances at December 31, 2004 <i>(Common shares: issued, 159,984,444; reacquired, 47,842,836)</i>	\$ 83.3	\$ 569.2	\$ (77.9)	\$ (276.4)	\$ 1,536.5	\$ (1,722.8)	\$ 111.9
Net loss	-	-	-	-	(41.1)	-	(41.1)
Foreign currency translation adjustment	-	-	-	(66.6)	-	-	(66.6)
Release of shares held by ESOP trust	-	(5.0)	12.8	-	-	-	7.8
Repurchase of warrants	-	(2.0)	-	-	-	-	(2.0)
Increase in additional minimum pension liability, net of tax	-	-	-	(44.3)	-	-	(44.3)
Issuances of treasury stock, net of forfeitures	-	(13.3)	(8.5)	-	-	23.8	2.0
Amortization of unearned compensation	-	-	7.9	-	-	-	7.9
Other, net of tax	-	-	-	(0.3)	-	-	(0.3)
Balances at December 31, 2005 <i>(Common shares: issued, 159,984,444; reacquired, 47,247,344)</i>	\$ 83.3	\$ 548.9	\$ (65.7)	\$ (387.6)	\$ 1,495.4	\$ (1,699.0)	\$ (24.7)

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Hercules Incorporated
Consolidated Statements of Stockholders' (Deficit) Equity

Nature of Business

Hercules Incorporated ("Hercules" or the "Company") was incorporated in 1912 under the laws of the State of Delaware and its shares are traded on the New York Stock Exchange under the symbol "HPC." The Company is a leading manufacturer and marketer of specialty chemicals and related services for a broad range of business, consumer and industrial applications and has approximately 4,650 worldwide employees. The Company has a broad customer base, with no single customer representing greater than 3% of Net sales, and serves many different markets, the largest of which include: tissue and paper towel manufacturing; writing paper; interior and exterior paints; construction materials; and non-woven and woven fabrics. To serve these markets the Company has global manufacturing operations which provide products to customers in more than 125 countries.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hercules, all majority-owned subsidiaries where control exists, any other subsidiaries which it controls and variable interest entities ("VIEs") in which Hercules is the primary beneficiary. All significant intercompany transactions and profits have been eliminated. Investments in affiliated companies, where Hercules has a 20% to 50% interest and where the entity is either not a VIE or Hercules is not the primary beneficiary, are accounted for using the equity method of accounting and, accordingly, consolidated income includes Hercules' share of their income or loss.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from these estimates.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer or services are performed in accordance with terms of the agreement, title and risk of loss have been transferred, collectibility is probable and pricing is fixed or determinable. Approximately 13%, 13% and 12% of the Company's revenues for the years ended December 31, 2005, 2004 and 2003, respectively, are from consignment inventory. For consignment inventory, title and risk of loss are transferred when the earnings process is considered complete, which generally occurs when the Company's products have been consumed or used in the customer's production process. Accruals are made for sales returns and other allowances based on the Company's experience. The corresponding shipping and handling costs are included in Cost of sales.

Allowance for Doubtful Accounts Receivable

The allowance for doubtful accounts represents an estimate of uncollectible accounts receivable. The recorded amount reflects various factors, including accounts receivable aging, customer-specific risk issues, country risk and historical write-off experience. It includes, but is not limited to, a formula driven calculation applied to the aging of trade accounts receivable balances. When a specific accounts receivable balance is deemed uncollectible, a charge is taken to this reserve. Recoveries of balances previously written off are also reflected in this reserve.

Research and Development Expenditures

Research and development expenditures are expensed as incurred.

Environmental Expenditures

The Company has ongoing expenditures for environmental related projects at current and former operating facilities. Accruals for environmental remediation matters are expensed when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. The Company capitalizes environmental expenditures for projects that extend the life, increase the capacity or improve the safety or efficiency of its facilities. In addition, the Company capitalizes asset retirement obligations relating to environmental remediation liabilities that result from the normal operation of Company facilities. The Company capitalized environmental related expenditures totaling \$3.6 million, \$2.6 million and \$1.9 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Changes in Accounting Principle

The Company recognizes the effects of accounting changes, including changes in accounting principle, in accordance with Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). When applicable, the Consolidated Financial Statements

Hercules Incorporated
Summary of Significant Accounting Policies

include the specific transition requirements associated with new accounting pronouncements. As required by SFAS 154, voluntary changes in accounting principles require retrospective application to the earliest fiscal period presented. Note 21 provides a summary of the financial statement effects and required disclosures applicable to those accounting changes implemented during the periods presented.

Cash and Cash Equivalents

Cash in excess of operating requirements is invested in short-term, income-producing instruments. Cash equivalents include commercial paper and other securities with original maturities of 90 days or less at the time of purchase. Book value approximates fair value because of the short maturity of those instruments.

Inventories

Foreign and domestic inventories are stated at the lower of cost or market and are valued principally on the weighted-average-cost method. Elements of costs in inventories include raw materials, direct labor and manufacturing overhead.

During 2005, the Company elected to change its method of accounting for certain inventories located in the United States from the LIFO method to the weighted-average method. Financial statements of prior years have been adjusted to apply the weighted-average cost method retrospectively.

Assets Held for Sale

When specific actions to dispose of assets progress to the point that the plan of sale criteria included in Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets" have been met, impairments to the extent they exist, are recognized and the underlying assets are reclassified as assets held for sale included in the caption Other current assets or separately disclosed on the Consolidated Statements of Operations. Gains and losses on sales of assets associated with active business operations and sites are included in Other operating expense while those attributable to former businesses are included in Other expense, net.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. The Company uses the straight line method of depreciation. The estimated useful lives of depreciable assets are as follows: buildings - 30 years; plant machinery and equipment - 15 years; other machinery and equipment - 3 to 15 years.

Maintenance, repairs and minor renewals are expensed as incurred; major renewals and improvements that extend the lives or increase the capacity of plant assets are capitalized. Upon normal retirement or replacement, the net book value of property (less proceeds of sale or salvage) is charged to income.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment on an annual basis with any necessary adjustment charged to expense. The Company has selected November 30 as the date for performing the annual impairment test. The Company has identified its reporting units as Pulp and Paper, Aqualon, FiberVisions and Pinova for purposes of applying the impairment test. Intangible assets with finite lives are amortized over their useful lives. Other intangible assets are amortized on a straight-line basis over the estimated future periods to be benefited, generally 40 years for customer relationships, trademarks and tradenames and 5 to 15 years for other intangible assets.

Investments

Investments in affiliated companies in which the Company has a 20% to 50% interest and where the entity is not a variable interest entity for which Hercules is the primary beneficiary are accounted for using the equity method of accounting. Accordingly, these investments are included in Deferred charges and other assets on the Company's Consolidated Balance Sheets and the income or loss from these investments is included in Equity income (loss) of affiliated companies, net of tax in the Company's Consolidated Statements of Operations.

Investments in affiliated companies in which the Company does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for using the cost method of accounting. Accordingly, these investments are also included in Deferred charges and other assets on the Company's Consolidated Balance Sheets.

Other investments include non-current marketable securities whose value approximates market value.

Hercules Incorporated
Summary of Significant Accounting Policies

Long-lived Assets

The Company reviews its long-lived assets, including other intangible assets, for impairment on an exception basis whenever events or changes in circumstances indicate carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If an impairment loss has occurred based on expected future cash flows (undiscounted), the loss is recognized in the Consolidated Statements of Operations. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over its fair value. The fair value represents expected future cash flows from the use of the assets, discounted at the rate used to evaluate potential investments.

Computer Software Development Costs

The Company follows the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). These assets are included in Deferred charges and other assets in the Company's Consolidated Balance Sheets. Computer software development costs are being amortized over a period of 5 to 10 years.

Deferred Financing Costs

The Company capitalizes costs associated with the issuance of debt (deferred financing costs), including bank, legal, investment advisor and accounting fees and other expenses. Deferred financing costs are amortized over the term of the related financing transaction using the effective interest rate method and are included in Interest and debt expense in the Company's Consolidated Statements of Operations.

Income Taxes

The provision for income taxes has been determined using the asset and liability approach for accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income tax represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Asset Retirement Obligations

The Company records a liability at fair value for legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal operations of a long-lived asset. To the extent an obligation is conditional, an obligation is recognized if the fair value of the liability can be reasonably estimated. The Company's asset retirement obligations principally relate to environmental remediation liabilities associated with current and former operations that were incurred during the course of normal operations.

For the purposes of recognizing obligations requiring the dismantlement of facilities, owned properties, which have no fixed cessation date, are assumed to be in operation through 2055, although it could be longer. The Company will evaluate the status of facilities on a periodic basis and make any necessary adjustments to the obligations as required. Dismantlement of facilities at leased sites are assumed to occur upon lease termination unless it is likely that the Company is able to and plans to extend the term.

Foreign Currency Translation

The financial statements of Hercules' non-U.S. entities are translated into U.S. dollars in accordance with U.S. GAAP. Most of the Company's foreign subsidiaries use the local currency as their functional currency. The Company translates assets and liabilities of those entities into U.S. dollars using the appropriate period end rates of exchange. Net sales and expenses are translated using the average exchange rates for the reporting period. Translation gains and losses are recorded in Accumulated other comprehensive loss.

Derivative Instruments and Hedging

Derivative instruments are recorded on the balance sheet at their fair values. The Company has not designated any derivative as a hedge instrument and accordingly, changes in fair value of derivatives are recorded each period in earnings. Under procedures and controls established by the Company's risk management policies, the Company strategically enters into contractual arrangements (derivatives) in the ordinary course of business to reduce the exposure to foreign currency rates and interest rates.

Hercules Incorporated
Summary of Significant Accounting Policies

The Company's risk management policies establish several approved derivative instruments to be utilized in each risk management program and the level of exposure coverage based on the assessment of risk factors. Derivative instruments utilized include forwards, swaps and options. The Company uses forward exchange contracts and options, generally no greater than three months in term, to reduce its net currency exposure. The objective of this program is to maintain an overall balanced position in foreign currencies so that exchange gains and losses resulting from exchange rate changes are minimized. The Company has used interest rate swap agreements to manage interest costs and risks associated with changing rates.

Counterparties to the forward exchange, currency swap, options and interest swap contracts are major financial institutions. Credit loss from counterparty nonperformance is not anticipated.

Stock-based Compensation

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS 123 by providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requiring enhanced disclosure regarding stock-based compensation. The Company has elected to apply the fair value recognition provisions of SFAS 123 on a prospective basis to all employee awards granted, modified or settled after January 1, 2003. Awards under the Company's stock-based compensation plans vest over periods ranging from 1 to a maximum of 10 years; however, vesting can be extended with the approval of the Board of Directors. Therefore, the cost related to stock-based employee compensation included in the determination of net income in 2005, 2004 and 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123. Restricted stock awards under the Hercules Long-term Incentive Compensation Plan are recorded at the quoted market price (fair value) of the Company's stock on the grant date (measurement date). Stock acquired through the Employee Stock Purchase Plan and "above target" restricted stock awarded under the Hercules Management Incentive Compensation Plan is discounted 15% from market price as permitted by IRS regulations and the provisions of the Company's incentive compensation plans. The award and the discount, if any, are amortized into expense over the vesting (restriction) period. Forfeitures are recorded as incurred. The Employee Stock Purchase Plan was terminated effective March 31, 2004.

Pursuant to the disclosure requirements of SFAS 123, as amended by SFAS 148, the following table presents the pro forma effect on net (loss) income and (loss) earnings per share assuming the Company had applied the fair value recognition provisions of SFAS 123 to all stock-based compensation on a retroactive basis.

(Dollars in millions, except per share)

	Year Ended December 31,		
	2005	2004	2003
Net (loss) income, as reported	\$ (41.1)	\$ 28.1	\$ 45.4
Add: Total stock-based compensation expense recognized in reported results, net of tax	4.5	1.4	2.9
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of tax*	5.1	2.8	9.6
Pro forma net (loss) income	<u>\$ (41.7)</u>	<u>\$ 26.7</u>	<u>\$ 38.7</u>
(Loss) earnings per share:			
Basic - as reported	<u>\$ (0.38)</u>	<u>\$ 0.26</u>	<u>\$ 0.43</u>
Basic - pro forma	<u>\$ (0.38)</u>	<u>\$ 0.25</u>	<u>\$ 0.36</u>
Diluted - as reported	<u>\$ (0.38)</u>	<u>\$ 0.26</u>	<u>\$ 0.42</u>
Diluted - pro forma	<u>\$ (0.38)</u>	<u>\$ 0.24</u>	<u>\$ 0.36</u>

* For information regarding the weighted-average assumptions used in estimating fair value for 2005, 2004 and 2003, see Note 10.

Hercules Incorporated
Summary of Significant Accounting Policies

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). On April 14, 2005, the Securities and Exchange Commission issued an amendment to Rule 4-01 of Regulation S-X that allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005 as originally required. Accordingly, the Company will adopt SFAS 123R effective January 1, 2006 using the "modified prospective" method in which compensation cost is recognized beginning with the effective date based on (a) the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. In addition, the Company expects to continue to utilize the Black-Scholes option-pricing model, which is an acceptable option valuation model in accordance with SFAS 123R, to estimate the value of stock options granted to employees.

Beyond those restricted stock and stock option awards previously granted, the Company cannot predict with certainty the impact of SFAS 123R on its future consolidated financial statements as the type and amount of such awards are determined on an annual basis and encompass a potentially wide range depending upon the compensation decisions made by the Human Resources Committee of the Company's Board of Directors. SFAS 123R also requires the benefits of tax deductions in excess of compensation cost recognized in the financial statements to be reported as a financing cash flow, rather than an operating cash flow as currently required under Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" ("SFAS 95"). This requirement, to the extent it exists, will decrease net operating cash flows and increase net financing cash flows in periods subsequent to adoption. The Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") which expresses the view of the SEC Staff regarding the interaction of SFAS 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements. The Company believes that the views provided in SAB 107 are consistent with the approach taken in the valuation and accounting associated with share-based compensation issued in prior periods as well as those issued during 2005.

Reclassifications

Certain amounts in the 2004 and 2003 consolidated financial statements and notes have been reclassified to conform to the 2005 presentation. See Note 21 which includes a summary of adjustments provided as a result of the Company's change in its method of accounting for inventories from the LIFO method to the weighted-average method.

Hercules Incorporated
Summary of Significant Accounting Policies

1. Accounts Receivable

Changes in the allowance for doubtful accounts for the years ended December 31, 2005, 2004 and 2003 are as follows:

	<i>(Dollars in millions)</i>		
	2005	2004	2003
Balance at beginning of year	\$ 4.7	\$ 5.5	\$ 11.9
Charged to costs and expenses	2.3	5.4	4.2
Deductions	(3.0)	(6.2)	(10.6)
Balance at end of year	<u>\$ 4.0</u>	<u>\$ 4.7</u>	<u>\$ 5.5</u>

2. Inventories

The components of inventories as of December 31, 2005 and 2004 are as follows:

	<i>(Dollars in millions)</i>	
	2005	2004
Finished products	\$ 99.0	\$ 103.5
Raw materials and work-in-process	64.8	79.6
Supplies	21.2	29.3
	<u>\$ 185.0</u>	<u>\$ 212.4</u>

3. Sale of Interest in FiberVisions Division

On January 31, 2006, the Company, WSP, Inc. ("WSP"), a wholly-owned subsidiary of Hercules, SPG/FV Investor LLC ("SPG"), an affiliate of SPG Partners, LLC, a New York-based private equity firm, and FiberVisions Delaware Corporation, formerly FiberVisions, L.L.C. ("FiberVisions"), a subsidiary owned 51% by Hercules (the "Hercules Interest") and 49% by WSP, entered into a contribution agreement (the "Agreement") whereby the Company will sell the Hercules Interest to SPG.

Under terms of the Agreement, Hercules will receive cash of approximately \$109 million, comprised of a distribution from FiberVisions and \$27.0 million of proceeds for the Hercules Interest, upon the closing of the transaction. The Agreement anticipates and is conditioned upon the issuance of long-term debt and simultaneous \$82.0 million distribution by FiberVisions to Hercules and WSP, prior to the sale of the Hercules Interest. In addition, the Agreement provides SPG with an option to purchase an additional 14% interest in FiberVisions from WSP for \$7.4 million. Under the Agreement, Hercules will receive additional payments should FiberVisions meet certain performance measures. The transaction is expected to close by the end of the first quarter of 2006 pending debt financing and other required approvals.

In connection with the commitment to sell a majority interest in the FiberVisions division, the Company was required to test the underlying goodwill asset recorded in that division for recoverability. The test indicated that the carrying value of goodwill exceeded its fair value. Accordingly, the Company recorded an impairment charge of approximately \$52.9 million effective as of December 31, 2005. The impairment charge was based on an estimate of the fair value for the entire division as determined by the negotiated sales price for the aforementioned sale of a majority interest. As a result of the pending transaction, the Company has reclassified those assets and liabilities attributable to FiberVisions as held for sale consistent with the Agreement. At December 31, 2005 the amounts included on the Consolidated Balance Sheet consist of the following.

		<i>(Dollars in millions)</i>	
Assets		Liabilities	
Cash and cash equivalents	\$ 2.6	Accounts payable	\$ 29.9
Accounts receivable, net	34.4	Accrued expenses	7.1
Inventories	20.7	Deferred income taxes	29.2
Other current assets	9.2	Deferred credits and other liabilities	0.1
Property, plant and equipment, net	92.1	Long-term debt	0.3
Intangible assets, net	11.1		
Goodwill	32.0		
Deferred charges and other assets	0.6		
Total FiberVisions assets held for sale	<u>\$ 202.7</u>	Total FiberVisions liabilities held for sale	<u>\$ 66.6</u>

Hercules Incorporated
Notes to Consolidated Financial Statements

4. Goodwill and Other Intangible Assets

The following table shows the activity and changes in the carrying amount of goodwill for the years ended December 31, 2004 and 2005, by operating segment:
(Dollars in millions)

	Performance	Engineered	Total
	Products	Materials & Additives	
Balance at December 31, 2003	\$ 433.2	\$ 84.9	\$ 518.1
Additions	1.6	-	1.6
Foreign currency translation	30.6	-	30.6
Balance at December 31, 2004	\$ 465.4	\$ 84.9	\$ 550.3
FiberVisions impairment	-	(52.9)	(52.9)
Reclassified to FiberVisions assets held for sale	-	(32.0)	(32.0)
Foreign currency translation	(24.4)	-	(24.4)
Balance at December 31, 2005	\$ 441.0	\$ -	\$ 441.0

The following table provides information regarding the Company's intangible assets with finite lives:

	Customer	Trademarks &	Other	Total
	Relationships	Tradenames	Intangibles	
Gross Carrying Amount				
Balance, December 31, 2004	\$ 90.0	\$ 73.9	\$ 52.5	\$ 216.4
Balance, December 31, 2005	90.0	73.9	24.8	188.7
Accumulated Amortization				
Balance, December 31, 2004	\$ 13.9	\$ 11.5	\$ 28.7	\$ 54.1
Balance, December 31, 2005	16.4	13.5	16.0	45.9

As a result of the pending FiberVisions transaction (Note 3), the company has reclassified \$11.1 million of Other intangible assets, net to FiberVisions assets held for sale as of December 31, 2005. Total amortization expense for other intangible assets for the years ended December 31, 2005, 2004 and 2003 was \$8.0 million, \$8.1 million and \$8.0 million, respectively, which was included in Profit from operations. It is estimated that amortization expense will be \$6.7 million for 2006, \$6.3 million for 2007, \$5.9 million for 2008, \$4.6 million for 2009 and \$4.4 million for 2010.

5. Debt

A summary of debt follows:

	<i>(Dollars in millions)</i>	
	2005	2004
Term B loan due 2010 (a)	\$ 393.0	\$ 397.0
6.60% notes due 2027 (b)	100.0	100.0
Term notes at various rates from 5.00% to 7.16% due in varying amounts through 2006 (c)	6.8	27.8
11.125% senior notes due 2007 (d)	130.0	226.0
6.75% senior subordinated notes due 2029 (e)	250.0	250.0
8% convertible subordinated debentures due 2010 (f)	2.6	2.6
6.5% junior subordinated deferrable interest debentures due 2029 (g)	217.0	229.0
Other	9.6	7.7
	1,109.0	1,240.1
Less: Current debt obligations	16.7	29.8
Long term debt	\$ 1,092.3	\$ 1,210.3

(a) The term loan, a component of the Company's Senior Credit Facility, matures on October 8, 2010 and bears interest at LIBOR + 1.75%, with the Company holding the option to reset interest rates for one, two, three or six month periods. The weighted average rate was 5.9% as of December 31, 2005. The Senior Credit Facility is also comprised of a \$150 million committed revolving credit facility (the "Revolving Facility") and provides Hercules the ability, subject to lender approval, to borrow an additional \$250 million in the form of an incremental term note. The Senior Credit Facility is secured by liens on the

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Notes to Consolidated Financial Statements

Company's assets (including real, personal and intellectual properties) and is guaranteed by substantially all of the Company's current and future wholly owned domestic subsidiaries (see Note 26).

As of December 31, 2005, the Company had \$105.5 million of outstanding letters of credit of which \$99.5 million were associated with the Revolving Facility. The remaining \$50.5 million was available for use. During June, 2005, the interest rate on the Revolving Facility was amended to LIBOR + 1.25% from LIBOR + 1.75%.

The Company's Senior Credit Facility requires quarterly compliance with certain financial covenants, including a debt/EBITDA ratio ("leverage ratio") and an interest coverage ratio, and established limitations on the permitted amount of capital expenditures.

- (b) 30-year debentures with a 10-year put option, exercisable by the bondholder at a redemption price equal to the principal amount.
- (c) Debt assumed in conjunction with the acquisition of FiberVisions L.L.C.
- (d) The senior notes accrue interest at 11.125% per annum, payable semi-annually. The senior notes are guaranteed by each of Hercules' current and future wholly-owned domestic restricted subsidiaries. The senior notes are not redeemable at Hercules' option prior to maturity. The Company is not required to make mandatory redemption or sinking fund payments with respect to the senior notes. If a change of control occurs, each holder of the notes will have the right to require Hercules to repurchase all or any part of that Holder's notes pursuant to a change of control offer on the terms set forth in the indenture. In the change of control offer, Hercules will offer a change of control payment in cash equal to 101% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased, to the date of purchase.
- (e) The Company completed a private placement of \$250 million aggregate principal amount of 6.75% senior subordinated notes due 2029 during April 2004. The senior subordinated notes are guaranteed by each of Hercules' current and future wholly-owned domestic restricted subsidiaries. On June 30, 2004, Hercules filed a Registration Statement on Form S-4 with the Securities and Exchange Commission pursuant to which the Company offered to exchange all of the \$250 million aggregate principal amount of the 6.75% senior subordinated notes due 2029 (the "old notes") for \$250 million aggregate principal amount of 6.75% senior subordinated notes due 2029 (the "new notes"). The form and terms of the new notes are the same as the form and terms of the old notes except that, because the new notes are registered under the Securities Act, the new notes do not bear legends restricting their transfer and are not entitled to certain registration rights under the registration rights agreement. The new notes evidence the same debt as the old notes and are governed by the same indenture. Hercules did not receive any proceeds from the exchange offer. All of the old notes have been exchanged for the new notes.
- (f) The convertible subordinated debentures are convertible into common stock at \$14.90 per share and are redeemable at the option of the Company at varying rates. The annual sinking fund requirement of \$5 million, beginning in 1996, has been satisfied through conversions of debentures.
- (g) The 6.5% junior subordinated deferrable interest debentures due 2029 (the "6.5% debentures") had an initial issue price of \$741.46 and have a redemption price of \$1,000. The 6.5% debentures were initially issued to Hercules Trust II ("Trust II"), a subsidiary trust established in 1999. Trust II had issued, in an underwritten public offering, 350,000 CRESTS Units, each consisting of a 6.5% preferred security of Trust II and a warrant (exercisable through 2029) to purchase 23.4192 shares of the Company's common stock. The preferred securities and the warrants were separable and were initially valued at \$741.46 and \$258.54, respectively. The Company and Trust II accreted the difference between the initial valuation of the 6.5% debentures and the preferred securities and the redemption value of \$1,000 over the term of the 6.5% debentures and the preferred securities. In connection with the Company's dissolution and liquidation of Trust II in December 2004, Trust II distributed the 6.5% debentures to the holders of the preferred securities and the preferred securities were cancelled. The CRESTS Units now consist of the 6.5% debentures and the warrants.

During 2004, the Board of Directors authorized the Company, from time to time, subject to market conditions and the Company's credit agreements and indentures, to repurchase up to \$200 million of its outstanding indebtedness on the open market. Under this program the Company repurchased \$96.0 million (book value) of its 11.125% senior notes for \$110.3 million during the year ended December 31, 2005 and recognized a \$14.3 million loss and a non-cash expense of \$1.8 million for the write-off of the related unamortized debt issuance costs in other expense, net. During December 2005, the Company acquired 17,000 CRESTS Units for \$12.9 million in an open market purchase. The market value of the preferred securities and warrant components of the CRESTS Units repurchased were \$12.9 and \$2.0 million, respectively. The accreted book value of the preferred securities and the 6.5% debentures at the time of purchase was \$14.8 million, resulting in the recognition of a \$1.9 million gain. The \$2.0 million associated with the warrants was recorded as a reduction in Additional paid-in capital. In February 2006, the Board of Directors terminated the unused portion of the existing debt repurchase authorization and authorized a new \$150 million debt repurchase program.

At December 31, 2005, Hercules had available and unused foreign lines of credit totaling \$32.9 million.

Debt maturities are \$16.7 million in 2006, \$134.4 million in 2007, \$4.4 million in 2008, \$4.5 million in 2009, \$380.1 million in 2010 and \$569.2 million thereafter.

6. Consolidation of Variable Interest Entities

The financial statements for the years ended December 31, 2005 and 2004 reflect the consolidation of two joint venture Variable Interest Entities (“VIEs”), ES FiberVisions Holdings A/S and ES FiberVisions L.P., that were previously accounted for using the equity method of accounting. These entities, which will no longer be consolidated subsequent to the completion of the sale of 51% of the Company’s interest in the FiberVisions division, serve as strategic global marketers of the Company’s bicomponent fibers. As of December 31, 2005, the fair value of the assets in these joint ventures was approximately \$5.1 million and the fair values of the associated liabilities and non-controlling interests were approximately \$5.1 million. There are no assets of the Company that serve as collateral for the VIEs and the creditors of the VIEs have no recourse to the general credit of the Company. The total investment in the joint ventures is less than \$0.1 million, representing the maximum exposure to loss.

7. Income Taxes

The domestic and foreign components of (loss) income before income taxes and equity (loss) income from continuing operations are listed below:

	<i>(Dollars in millions)</i>		
	2005	2004	2003
Domestic	\$ (56.8)	\$ (158.8)	\$ (68.4)
Foreign	11.5	189.3	164.2
(Loss) income before income taxes and equity loss	<u>\$ (45.3)</u>	<u>\$ 30.5</u>	<u>\$ 95.8</u>

The components of the tax provision from continuing operations are as follows:

Currently payable			
U.S. federal	\$ (2.1)	\$ (30.4)	\$ (28.1)
Foreign	40.9	38.1	39.9
State	8.9	13.4	0.6
Deferred			
Domestic	(48.3)	(21.5)	11.5
Foreign	(6.6)	2.8	(2.6)
(Benefit) provision for income taxes	<u>\$ (7.2)</u>	<u>\$ 2.4</u>	<u>\$ 21.3</u>

The components of the net deferred tax assets (liabilities) as of December 31, 2005 and 2004 are as follows:

	2005	2004
Depreciation	\$ (81.4)	\$ (105.9)
Pension	(8.2)	(1.1)
Inventory	(4.1)	(0.7)
Investments	(174.3)	(161.4)
Goodwill	(48.4)	(52.6)
Accrued expenses	(3.1)	(4.1)
Other	(13.1)	(29.8)
Gross deferred tax liabilities	<u>\$ (332.6)</u>	<u>\$ (355.6)</u>
Postretirement benefits other than pensions	\$ 45.5	\$ 52.5
Pension	113.4	84.7
Goodwill	7.1	7.8
Accrued expenses	216.1	192.1
Loss carryforwards	349.2	366.1
Credit carryforwards	126.9	97.1
Assets held for sale	21.5	-
Other	24.6	21.0
Gross deferred tax assets	<u>904.3</u>	<u>821.3</u>
Valuation allowance	(380.7)	(391.8)
Net deferred tax assets	<u>\$ 191.0</u>	<u>\$ 73.9</u>

Hercules Incorporated
Notes to Consolidated Financial Statements

The provision for income taxes attributable to discontinued operations and cumulative effect of changes in accounting principle is:

	<i>(Dollars in millions)</i>		
	2005	2004	2003
Provision on income from discontinued operations	\$ -	\$ -	\$ 2.1
Cumulative effect of changes in accounting principle	(1.4)	-	(18.2)
	<u>\$ (1.4)</u>	<u>\$ -</u>	<u>\$ (16.1)</u>

During the years ended December 31, 2005, 2004 and 2003 the Company incurred charges (benefits) related to the additional minimum liability of its defined benefit plans. The impact of the adjustments is posted, net of tax, directly to Accumulated other comprehensive loss (see Note 15). The tax impact of these charges (benefits) was as follows:

	<i>(Dollars in millions)</i>		
	2005	2004	2003
Additional minimum pension liability	\$ 24.8	\$ 14.5	\$ (10.5)
Other	0.2	-	-
Total	<u>\$ 25.0</u>	<u>\$ 14.5</u>	<u>\$ (10.5)</u>

The reconciliation of the U.S. statutory income tax rate to the effective rate from continuing operations is:

	2005	2004	2003
U.S. statutory income tax rate	35%	35%	35%
Gain on sale of CP Kelco ApS	-	(31)	-
Valuation allowances	(51)	(75)	(3)
Tax rate differences on subsidiary earnings	(6)	(44)	(9)
U.S. tax on foreign dividends and undistributed earnings	21	23	8
State taxes	(11)	34	1
Reserves	16	70	-
Exempt export income	4	(7)	(2)
Intellectual property	-	-	(9)
Tax refunds	9	-	-
Other	(1)	3	1
Effective tax rate	<u>16%</u>	<u>8%</u>	<u>22%</u>

Loss carryforwards include both net operating loss carryforwards and capital loss carryforwards. At December 31, 2005, the tax effect of such carryforwards approximated \$349.2 million. Of this amount, \$254.0 million are domestic capital loss carryforwards that expire in 2007 for which full valuation allowances have been established. State net operating loss carryforwards approximate \$78.7 million, with expiration dates ranging from 2006 to 2024, for which full valuation allowances have been established. Foreign net operating loss carryforwards approximate \$16.4 million and are offset by valuation allowances of \$7.6 million. Some of these foreign net operating loss carryforwards expire as early as 2006 and others have expiration dates that are indefinite in nature. The tax effect of the credit carryforwards approximated \$126.9 million at December 31, 2005, with expiration dates ranging from 2009 to 2025, for which no valuation allowances have been established.

The Company provides taxes on undistributed earnings of subsidiaries and affiliates to the extent such earnings are planned to be remitted and not permanently reinvested. The undistributed earnings of subsidiaries and affiliates on which no provision for foreign withholding or U.S. income taxes has been made amounted to approximately \$153.8 million and \$294.2 million at December 31, 2005 and 2004, respectively. U.S. and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the U.S. statutory rate because of the availability of tax credits.

8. Pension and Other Postretirement Benefits

The Company provides defined benefit pension plans and postretirement benefit plans to most U.S. employees and some foreign employees. Coverage is subject to an employee's date of hire and other eligibility requirements. The following table summarizes the changes in benefit obligations, plan assets, the funded status of the plans and the amounts recognized in the consolidated financial statements for the Company's defined benefit pension and other postretirement benefit plans.

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(Dollars in millions)

	Pension Benefits				Other Postretirement Benefits	
	2005		2004		2005	2004
	U.S.	Int'l.	U.S.	Int'l.		
Change in benefit obligation:						
Benefit obligation at January 1	\$ 1,413.5	\$ 325.7	\$ 1,421.3	\$ 282.2	\$ 181.0	\$ 206.1
Service cost	12.7	5.4	13.3	5.9	0.8	0.8
Interest cost	81.3	15.2	82.3	15.4	8.8	10.3
Plan amendments	-	(4.5)	(43.1)	(1.7)	(32.4)	-
Participant contributions	-	-	-	0.3	-	-
Foreign currency translation	-	(37.3)	-	27.3	0.1	0.2
Actuarial loss (gain)	136.1	49.2	42.7	10.2	19.8	(12.9)
Settlements/curtailments	-	-	-	(0.6)	-	-
Special benefits	-	-	1.1	-	-	-
Benefits paid from plan assets	(101.9)	(13.1)	(98.8)	(12.1)	-	-
Benefits paid from Company assets	(4.9)	-	(5.3)	(1.2)	(23.6)	(23.5)
Benefit obligation at December 31	\$ 1,536.8	\$ 340.6	\$ 1,413.5	\$ 325.7	\$ 154.5	\$ 181.0
Change in plan assets:						
Fair value of plan assets at January 1	\$ 1,176.2	\$ 245.7	\$ 1,115.1	\$ 217.9	\$ -	\$ -
Actual return on plan assets	105.0	20.9	119.9	15.6	-	-
Actuarial gain	-	14.7	-	0.1	-	-
Settlements/curtailments	-	-	-	(0.5)	-	-
Company contributions	40.0	13.7	40.0	3.2	-	-
Participant contributions	-	0.9	-	1.0	-	-
Foreign currency translation	-	(27.7)	-	20.5	-	-
Benefits paid from plan assets	(101.9)	(11.8)	(98.8)	(12.1)	-	-
Fair value of plan assets at December 31	\$ 1,219.3	\$ 256.4	\$ 1,176.2	\$ 245.7	\$ -	\$ -
Funded status of the plan	\$ (317.5)	\$ (84.2)	\$ (237.3)	\$ (80.0)	\$ (154.5)	\$ (181.0)
Unrecognized actuarial loss	671.2	104.5	584.4	89.9	120.1	106.6
Unrecognized prior service (benefit) cost	(22.0)	(2.7)	(23.0)	2.4	(55.4)	(30.5)
Accrued Expenses	-	(0.2)	-	(0.2)	-	-
Unrecognized net transition obligation	-	0.5	-	0.8	0.8	0.9
Net amount recognized	\$ 331.7	\$ 17.9	\$ 324.1	\$ 12.9	\$ (89.0)	\$ (104.0)
Components of the above amounts:						
Prepaid benefit cost	\$ 369.5	\$ 53.3	\$ 361.9	\$ 51.6	\$ -	\$ -
Accrued benefit liability	(37.8)	(35.4)	(37.8)	(38.7)	(89.0)	(104.0)
Additional minimum liability	(588.6)	(48.2)	(506.2)	(72.3)	-	-
Intangible asset	-	0.4	-	3.6	-	-
Accumulated other comprehensive loss (pre-tax)	588.6	47.8	506.2	68.7	-	-
Net amount recognized	\$ 331.7	\$ 17.9	\$ 324.1	\$ 12.9	\$ (89.0)	\$ (104.0)

Weighted-average assumptions used to determine the benefit obligation at December 31, 2005 and 2004 were:

	Pension Benefits				Other Postretirement Benefits	
	2005		2004		2005	2004
	U.S.	Int'l.	U.S.	Int'l.		
Weighted-average discount rate	5.70%	4.35%	5.75%	5.04%	5.59%	5.51%
Rate of compensation increase	4.30%	2.87%	4.50%	2.79%	4.29%	4.49%

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Net periodic benefit costs are summarized below:

(Dollars in millions)

Net periodic benefit cost:	Pension Benefits						Other Postretirement Benefits		
	2005		2004		2003		2005	2004	2003
	U.S.	Int'l.	U.S.	Int'l.	U.S.	Int'l.			
Service cost	\$ 12.7	\$ 5.4	\$ 13.3	\$ 5.9	\$ 12.1	\$ 5.9	\$ 0.8	\$ 0.8	\$ 0.6
Interest cost	81.3	15.2	82.3	15.4	86.3	13.1	8.8	10.3	13.4
Expected return on plan assets	(95.4)	(14.9)	(96.5)	(14.6)	(101.6)	(12.1)	-	-	-
Amortization and deferrals	(1.9)	0.2	1.3	0.6	3.5	0.8	(7.3)	(8.5)	(7.7)
Participant contributions	-	(0.5)	-	(0.7)	-	(0.6)	-	-	-
Settlements/Curtailments	-	-	-	(0.1)	-	-	-	-	-
Special benefits/terminations	-	-	1.1	-	4.7	-	-	-	-
Amortization of transition (asset) obligation	-	-	-	(0.1)	-	(0.1)	6.5	0.1	0.1
Actuarial losses recognized	40.7	3.4	33.9	3.1	19.9	1.3	-	5.2	6.7
Benefit cost	\$ 37.4	\$ 8.8	\$ 35.4	\$ 9.5	\$ 24.9	\$ 8.3	\$ 8.8	\$ 7.9	\$ 13.1

Weighted-average assumptions used to determine net periodic benefit cost:

	2005		2004		2003		2005	2004	2003
	U.S.	Int'l.	U.S.	Int'l.	U.S.	Int'l.			
Weighted-average discount rate	5.75%	5.04%	6.10%	5.35%	6.75%	5.35%	5.51%	6.08%	6.74%
Expected return on plan assets	8.50%	6.49%	8.75%	6.64%	8.75%	6.70%	N/A	N/A	N/A
Rate of compensation increase	4.50%	2.79%	4.50%	2.86%	4.50%	2.93%	4.49%	4.49%	4.50%

Defined Benefit Pension Plans

Assets of the Company's defined benefit plans are primarily invested in U.S. and international equity securities and U.S. and international fixed income securities. Both the assets and the projected benefit obligations ("PBO") of the United States defined benefit pension plan ("U.S. Plan") represent approximately 82% of the total plan assets and PBO for all defined benefit plans sponsored by the Company as of December 31, 2005. The Company uses a measurement date of December 31 for all material defined benefit pension and other postretirement benefit plans.

During 2005, the Company made contributions to its defined benefit plans totaling \$53.7 million, some of which were required by local funding requirements. The Company presently anticipates making voluntary cash contributions to the U.S. Plan of approximately \$40.0 million per year for the next five years. Additionally, the Company anticipates making contributions of approximately \$5.4 million to its international defined benefit plans in 2006.

At December 31, 2005 the accumulated benefit obligation ("ABO") of the defined benefit pension plans on a consolidated basis was \$1,800.3 million, of which \$1,476.3 million related to the U.S. Plan and the balance relates to the other defined benefit pension plans that reside in Europe, North America and Asia Pacific ("International Plans"). The Company is required to recognize an additional minimum liability ("AML") equal to the sum of such excess plus the prepaid pension asset balance, with a corresponding after-tax charge to Accumulated other comprehensive loss in Stockholders' (deficit) equity. For the years ended December 31, 2005, 2004 and 2003 there were pre-tax charges (benefits) to AML of \$69.1 million, \$42.7 million and \$(25.4) million, respectively. These impacts, net of tax, increased (decreased) the Accumulated other comprehensive loss on the Consolidated Balance Sheets by \$44.3 million, \$28.2 million, and (\$14.9) million for the three years ended December 31, 2005, 2004, and 2003, respectively. As of December 31, 2005, the Consolidated Balance Sheet reflects a non-cash, after-tax charge to Accumulated other comprehensive loss of \$417.6 million (see Note 15).

Other Postretirement Benefits

The non-pension postretirement benefit plans include group life insurance coverage and health care reimbursement for eligible employees/retirees in the U.S., Canada and The Netherlands. The benefit obligation of the U.S. other postretirement benefit plan constitutes more than 98% of the Company's consolidated benefit obligation at December 31, 2005 for non-pension postretirement benefits. The assumed participation rate in these plans for future eligible retirees was 60% for health care and 100% for life insurance. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are non-contributory for most retirees. The postretirement health care plans include a limit on the Company's share of costs for recent and future retirees and the related accounting anticipates future cost-sharing changes to the written plans that are consistent with the increase in health care cost. Participant contributions

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are directly applied to claim payments and as such are not included as contributions to plan assets. New employees are ineligible for retiree life insurance or benefits supplemental to Medicare health care.

The assumed health care cost trend rate as of December 31, 2005 was an initial rate of 10% in 2006 reducing to 5.0% in 2009 and thereafter. A one-percentage point increase in the assumed health care cost trend rate would increase the postretirement benefit obligation by approximately \$5.3 million and the aggregate service and interest cost components by \$0.3 million, while a decrease of the same magnitude would decrease the postretirement benefit obligations by approximately \$5.7 million and the aggregate service and interest cost components by \$0.4 million.

The PBO exceeds plan assets for all of the Company's other postretirement benefit plans. Benefits paid from Company assets under the postretirement benefit plans were \$23.6 million and \$23.5 million for the years ended December 31, 2005 and 2004, respectively.

U. S. Pension and Postretirement Benefit Plans

The Company provides both funded and unfunded non-contributory defined benefit pension plans to substantially all of its U.S. employees. During 2004, some terms of the U.S. Plan were amended, rendering new hires ineligible and changing the calculation formula from "final pay" to "career average pay," effective January 1, 2005. New employees are ineligible for retiree life insurance or benefits supplemental to Medicare health care.

Effective for 2006, Hercules changed its mortality assumption with the RP2000 mortality table replacing the 1983GAM mortality table. This transition increased the U.S. Plan's PBO and ABO as of December 31, 2005, by approximately \$78 million and \$74 million, respectively.

The asset allocation for the U.S. Plan as of December 31, 2005 and 2004 and the target allocation for 2006, by asset category, is as follows:

Asset category:	Target Allocation	Percentage of Plan Assets at December 31,	
	2006	2005	2004
Equity securities	62%	66%	66%
Fixed income	28%	26%	27%
Other	10%	8%	7%
Totals	100%	100%	100%

Equity securities are invested in both U.S. and non-U.S. (international) companies. U.S. equity includes the common stock of large, medium, and small companies that are predominantly U.S. based. The plan did not own Hercules common stock as of December 31, 2005 or December 31, 2004. Non-U.S. equity represents equity securities issued by companies domiciled outside the U.S. Fixed income securities include U.S. and non-U.S. government obligations, mortgage-backed securities, collateralized mortgage obligations and corporate debt obligations. In 2004, Hercules increased its exposure to below investment grade securities, allocating 2% of the total plan assets to a dedicated fixed income manager for investing in such securities. All other fixed income portfolio managers do not hold more than 12% of the fixed income securities in debt securities that are below investment grade. Other investments primarily include market neutral, long, short, and event driven-type hedge funds. Investment managers may employ limited use of derivatives, including futures contracts, options on futures, and interest rate swaps in place of direct investment in securities to gain efficient exposure to markets.

The expected long-term rate of return on plan assets was 8.5% for 2005 and 8.75% for 2004. The overall expected long-term rate of return on assets assumption is a function of the target asset allocation for plan assets, the long-term equilibrium rate of return for the asset class, plus an incremental return attributable to the active management of plan assets.

In developing its investment strategy, the Company considered the following factors for its U.S. Plan: the nature and relative size of the liabilities, the allocation of such liabilities between active and retired members, net cash flows and funded position. The Company also considers the applicable investment horizon, historical and expected capital market return, and the benefits of investment diversification.

The Company manages plan assets with the primary objective of maximizing the long-term investment return given available market opportunities and moderate levels of risk consistent with the nature and purpose of the plan. Plan assets are invested using a combination of active and passive investment strategies. Active strategies employ multiple investment management firms. Managers within each asset class cover a range of investment styles and approaches and are combined in a way that controls market capitalization, style (growth, value, and core) and interest rate risk versus benchmark indices. Security selection is the primary means where value is added from active management. Risk is

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controlled through diversification among multiple asset classes, managers, styles, and securities. Risk is further controlled both at the manager and asset class level by monitoring performance against assigned return and variability targets.

Expected cash flows for the U.S. Plan and the Company's other postretirement benefit plans, including the total anticipated contributions to be made by the Company in 2006 as well as the future benefit payments expected to be paid from plan or Company assets, are as follows:

(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits
	Qualified Plan	Non-qualified Plan	Total	
Expected employer contributions for 2006	\$ 40	\$ -	\$ 40	\$ -
Expected benefit payments				
2006	86	5	91	13
2007	85	5	90	13
2008	85	5	90	13
2009	86	5	91	12
2010	87	5	92	12
2011-2015	469	22	491	59

Benefits expected to be paid in 2006 include \$91 million in pension benefits and \$13 million in postretirement benefits, of which \$86 million is expected to be paid from plan assets.

International Pension Plans

The International Plans are Company provided defined benefit plans to eligible employees residing in Europe, North America and Asia Pacific. The International Plans provide benefits based on years of service and final average salary, except for the defined benefit pension plans in The Netherlands ("The Netherlands Plan") and the United Kingdom (the "U.K. Plan") which have both been amended to provide benefits based on a career average pay basis effective January 1, 2005.

The asset allocation for the International Plan as of December 31, 2005 and 2004 and the target allocation for 2006, by asset category, is as follows:

Asset category:	Target Allocation	Percentage of Plan Assets at December 31,	
	2006	2005	2004
	Equity securities	58%	61%
Fixed income	42%	38%	40%
Other	-	1%	1%
Totals	100%	100%	100%

The total assets held by The Netherlands Plan and the U.K. Plan account for approximately 90% of the total assets held by International Plans.

The Netherlands Plan's long-term target asset allocation is 58% global equity securities which are actively managed and 42% fixed income investments (debt and debt-like securities, including preferred securities). The fixed income securities are denominated in Euro and are issued and/or guaranteed by European Monetary Union governments (mainly Belgium, Germany, France, Italy and The Netherlands). The fixed income manager may invest on a tactical basis in investment grade corporate bonds denominated in Euro. Investment managers may employ limited use of derivatives, including futures contracts, options on futures, and interest rate swaps in place of direct investment in securities to gain efficient exposure to markets. Derivatives are not used to leverage portfolios.

The expected long-term rate of return on plan assets was 6.8% for both 2005 and 2004. The overall expected long-term rate of return on assets assumption is a function of the target asset allocation for plan assets, the long-term equilibrium rate of return for the asset class, plus an incremental return attributable to the active management of plan assets.

In developing an investment strategy for The Netherlands Plan, the Company has considered the following factors: the nature of the plan's liabilities, the allocation of such liabilities between active members and retired members, the funded status of the plan, the net cash flow of the plan, the investment horizon of the plan, the size of the plan, historical and expected capital market returns and the benefits of investment diversification.

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The target asset allocation for the U.K. Plan is 30% U.K. equity securities, 20% non-U.K. equity securities, 37.5% U.K. government bonds (gilts) and 12.5% corporate bonds. The expected long-term rate of return on plan assets was 5.6% and 6% for 2005 and 2004, respectively. The overall expected long-term rate of return on assets assumption is a function of the target asset allocation for plan assets, the long-term equilibrium rate of return for the asset class, plus an incremental return attributable to the active management of plan assets.

The Company considers the following factors in the development of its U.K. Plan investment strategy: the nature and relative size of the liabilities, the allocation of such liabilities between active and retired members, net cash flows and funded positions, the applicable investment horizon, historical and expected capital market returns, and the benefits of investment diversification.

The Company invests its U.K. Plan assets with a Manager of Managers, who invests them with a broad selection of investment managers, each specializing in a different asset class or market. This approach provides a diversified portfolio of managers in order to capitalize on the perceived strengths of each manager within this structure. The Company delegates responsibility for the selection and monitoring of the underlying investment managers to the Manager of Managers.

Expected cash flows for the International Plans, reflecting the total anticipated Company contributions to be made in 2006 and the total benefit payments expected to be paid from the plan assets or Company assets through the year 2015, are summarized in the table below:

	<i>(Dollars in millions)</i>
	Pension Plan Benefits
Expected employer contributions for 2006	\$ 5
Expected benefit payments:	
2006	13
2007	13
2008	14
2009	15
2010	15
2011-2015	85

9. Savings and Investment Plan

The Hercules Incorporated Savings and Investment Plan (“SIP Plan”) allows employees to invest 1% to 50% of eligible compensation, subject to certain limitations, through payroll deductions. The Company’s matching contributions, made in the form of Hercules’ common stock contributed through an Employee Stock Ownership Plan Trust (“ESOP Trust”) are equal to 50% of the first 6% of the employee’s contributed compensation and vest immediately. Shares used to fulfill the Company’s matching contribution are released at the fair market value of those shares in the period in which they are allocated. The pre-tax difference between cost and fair market value of these allocated shares, which was \$7.3 million, \$8.2 million and \$7.5 million for the years ended December 31, 2005, 2004 and 2003, respectively, is recorded in Additional paid-in capital. The Company also uses the shares in the ESOP Trust to fund a portion of the Hercules Incorporated Profit Sharing Plan. Total shares allocated to fund these plan payments were 103,717 and 111,167 for the years ended December 31, 2005 and 2004, respectively. The unallocated shares held by the trust are reflected in Unearned compensation as a reduction in Stockholders’ (deficit) equity on the balance sheet of \$53.6 million and \$66.4 million at December 31, 2005 and 2004, respectively. The unallocated shares have a cost basis of \$31.625 per share.

At December 31, 2005 and 2004, the ESOP Trust had \$39.2 million and \$51.2 million in long-term debt outstanding, respectively, under its loan agreement with the Company; the Company has an offsetting receivable in each year, which is eliminated upon consolidation.

	2005	2004
Allocated	1,458,065	1,464,530
Unallocated	1,695,387	2,099,176
Total shares held by ESOP Trust	3,153,452	3,563,706

The Company’s SIP related expense was approximately \$4.0 million, \$3.9 million and \$3.5 million for the years ended December 31, 2005, 2004 and 2003, respectively.

10. Long-term Incentive Compensation Plans

The Company's long-term incentive compensation plans provide for the grant of stock options and the award of common stock and other market-based units to certain key employees and non-employee directors. Restricted stock and other market-based units are awarded with respect to certain programs. During the restriction period, award holders have the rights of stockholders, including the right to vote and receive cash dividends, but they cannot transfer ownership and nonvested shares are subject to forfeiture. During 2005, the Company granted 197,229 options to its President and Chief Executive Officer, with a fair value of \$1.1 million. The Company did not grant any stock options covered by SFAS 123, as amended by SFAS 148, to employees in 2004. During 2005 and 2004, the Company granted 27,000 and 21,000 options, respectively, to its non-employee directors and expensed \$0.1 million in each year as the fair value of these stock options. Restricted stock awards under the Hercules Long-term Incentive Compensation Plan are recorded at the quoted market price (fair value) of the Company's stock on the grant date (measurement date). The number of awarded shares outstanding was 2,120,826 at December 31, 2005; 2,119,380 at December 31, 2004 and 1,299,214 at December 31, 2003.

At December 31, 2005, under the Company's incentive compensation plans, 7,726,070 shares of common stock were available for grant as stock awards or stock option awards. Stock awards are limited to approximately 15% of the total authorizations. Regular stock options are granted at the market price on the date of grant and are exercisable at various periods from one to five years after date of grant. Performance-accelerated stock options are also granted at the market price on the date of grant and are normally exercisable at nine and one-half years. Exercisability may be accelerated based upon the achievement of predetermined performance goals. Both regular and performance-accelerated stock options expire 10 years after the date of grant.

Restricted shares, stock options and performance-accelerated stock options are forfeited and revert to the Company in the event of employment termination, except in the case of death, disability, retirement, or other specified events.

The Company recognized \$6.9 million, \$3.1 million and \$4.3 million of expense in 2005, 2004, and 2003, respectively, in connection with restricted stock awards.

Below is a summary of outstanding stock option grants under the incentive compensation plans during 2003, 2004 and 2005:

	Regular		Performance Accelerated	
	Number of Shares	Weighted-average Price	Number of Shares	Weighted-average Price
December 31, 2002	13,207,634	\$ 25.21	5,188,925	\$ 43.91
Granted	21,000	10.09	-	-
Exercised	-	-	-	-
Forfeited	(922,075)	32.34	(409,225)	46.77
December 31, 2003	12,306,559	\$ 24.47	4,779,700	\$ 43.66
Granted	21,000	14.25	-	-
Exercised	(402,855)	11.48	-	-
Forfeited	(886,820)	33.19	(963,725)	38.25
December 31, 2004	11,037,884	\$ 24.22	3,815,975	\$ 45.03
Granted	224,229	14.01	-	-
Exercised	(200,752)	11.53	-	-
Forfeited	(2,679,349)	33.45	(2,473,860)	45.87
December 31, 2005	8,382,012	\$ 21.31	1,342,115	\$ 43.49

The fair value of regular stock options granted during 2005, 2004 and 2003 using the Black-Scholes option pricing model was \$5.13, \$5.38 and \$4.67 respectively. There were no performance-accelerated stock options granted during 2005, 2004 and 2003.

As of December 31, 2005, 2004, and 2003, respectively, there were 8,162,583, 10,793,876, and 10,973,895 regular stock options exercisable at weighted-average share prices of \$21.59, \$24.50, and \$26.09, respectively.

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At December 31, 2005, 2004 and 2003, respectively, there were no performance-accelerated stock options exercisable. Following is a summary of stock options outstanding at December 31, 2005:

	Outstanding Options			Exercisable Options	
	Number Outstanding at 12/31/2005	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	Number Exercisable 12/31/2005	Weighted-average Exercise Price
Regular Stock Options					
\$8.50 - \$11.75	1,015,975	5.85	\$ 11.18	988,975	11.19
\$11.76 - \$15.00	3,198,047	6.14	\$ 11.24	2,979,818	11.97
\$15.01 - \$22.50	1,257,025	4.16	\$ 17.12	1,257,025	17.12
\$22.51 - \$33.75	891,700	2.70	\$ 26.01	891,700	26.01
\$33.76 - \$40.00	1,465,865	2.40	\$ 38.50	1,486,665	38.51
\$40.01 - \$60.00	553,400	1.77	\$ 49.30	558,400	49.31
	<u>8,382,012</u>			<u>8,162,583</u>	
Performance-Accelerated Stock Options					
\$24.00 - \$36.00	17,925	3.46	\$ 31.27	-	-
\$36.01 - \$45.00	685,030	2.66	\$ 38.25	-	-
\$45.01 - \$50.00	480,310	1.70	\$ 47.48	-	-
\$50.01 - \$61.00	158,850	0.12	\$ 55.36	-	-
	<u>1,342,115</u>			<u>-</u>	<u>-</u>

The Company's Employee Stock Purchase Plan was originally a qualified non-compensatory plan, which allowed eligible employees to acquire shares of common stock through systematic payroll deductions. The plan was converted to a non-qualified employee stock purchase plan in 2001 and the shares were funded from treasury stock. The plan consisted of three-month subscription periods, beginning July 1 of each year. The purchase price was 85% of the fair market value of the common stock on either the first or last day of that subscription period, whichever was lower (the "look-back"). Purchases ranged from 2% to 15% of an employee's base salary each pay period, subject to certain limitations. Shares issued at December 31, 2001 under the qualified plan totaled 1,758,081. Pursuant to SFAS 123, the look-back constituted a stock option. The Company estimated and expensed the value of the option for the applicable subscription period using the Black-Scholes option pricing model. The expense attributable to the look-back provision was not significant. The 15% discount on the purchase price of the common stock was recognized as compensation expense for the non-qualified Employee Stock Purchase Plan. The plan was terminated effective April 1, 2004.

The following weighted-average assumptions are used in determining the fair value of stock options and shares awarded under the Employee Stock Purchase Plan for 2005, 2004 and 2003:

	Dividend Yield	Risk-free Interest Rate	Expected Life	Expected Volatility
2005:				
Regular Plan	0.00%	4.08%	6 yrs.	28.65%
Employee Stock Purchase Plan	NA	NA	NA	NA
2004:				
Regular Plan	0.00%	3.73%	6 yrs.	31.22%
Employee Stock Purchase Plan	0.00%	1.00%	3 mos.	32.90%
2003:				
Regular Plan	0.00%	3.54%	6 yrs.	42.79%
Employee Stock Purchase Plan	0.00%	1.00%	3 mos.	35.88%

The pro forma effect on net (loss) income and (loss) earnings per share, assuming the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation for all years reported, is presented in the Summary of Significant Accounting Policies.

11. Asset Retirement Obligations

In accordance with Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" ("FIN 47"), the Company has recorded asset retirement obligations ("ARO") in order to recognize legal obligations associated with the retirement of tangible long-lived assets. The most significant of these are primarily attributable to environmental remediation liabilities associated with current and former operations that were incurred during the course of normal operations. Other AROs are attributable to requirements to dismantle facilities and component assets upon their retirement as well as returning leased property to its original condition upon the expiration of their underlying lease terms.

The Company has a substantial number of AROs that are conditional in nature. As required by FIN 47, the Company identified certain conditional AROs upon which it was able to reasonably estimate their fair value and recognized approximately \$4.0 million as of December 31, 2005. Approximately \$2.8 million was attributable to AROs that were triggered upon commitments by the Company to take certain actions, including demolition, renovation and other retirement-related activities. These actions include the centralization and consolidation of the Company's U.S.-based research and development capabilities, the preparation of certain properties for sale or for alternative uses and the announced closure of the Pendlebury, UK manufacturing facility. Approximately \$0.2 million relates to the required dismantlement of the Company's manufacturing facilities in certain countries upon their ultimate retirement or land lease expiration dates. Additionally, approximately \$1.0 million is attributable to conditional requirements for asset component retirements as well as circumstances in which the Company can reasonably estimate both the amount of the required settlement as well as the range of settlement dates.

There are a number of remaining conditional AROs whereby the Company does not have sufficient information to estimate the fair value of the liabilities because the range of settlement dates has not been specified by others and/or cost estimates are not available to apply an expected present value technique. Most significant among these unrecognized conditional AROs are those attributable to the abatement of asbestos at manufacturing facilities, and environmental contamination. Asbestos is present in a substantial number of the Company's facilities. In general, regulations in the U.S. and other countries do not require removal or abatement unless the condition is hazardous or if the structure or component is disturbed through such activities as renovation or demolition. As of December 31, 2005, the Company has no plans or commitments, other than those referenced above, to engage in such activities that would otherwise disturb the asbestos present in its facilities.

With respect to environmental contamination, the Company operates within the requirements of numerous regulations at the local, state and national levels regarding issues such as the handling and disposal of hazardous chemicals, waste-water treatment and effluent and emissions limitations among others. From a practical standpoint, certain environmental contamination cannot be reasonably determined until a facility or asset is retired or an event occurs that otherwise requires the facility to be tested and monitored. In the absence of such requirements to test for environmental contamination prior to an asset or facility retirement, the Company has concluded that it cannot reasonably estimate the cost associated with such environmental-related AROs. In addition, the Company anticipates operating its manufacturing facilities indefinitely into the future thereby rendering the potential range of settlement dates as indeterminate.

As of December 31, 2005, the Company has accrued a total of \$90.3 million with respect to AROs. Approximately \$21.6 million is included in Accrued expenses representing amounts to be settled during 2006 and the remaining \$68.7 million is included in Deferred credits and other liabilities. The AROs have been recognized on a discounted basis using a credit-adjusted risk free rate. Accretion of the AROs is recorded in Other operating expenses for active, operating sites and facilities and Other expense, net for inactive sites associated with businesses that have been exited or divested.

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The following table provides a reconciliation of changes in the AROs during the period:

	Active Sites	Inactive Sites	Total
Balance at January 1, 2004	\$ 7.5	\$ 95.3	\$ 102.8
Liabilities incurred	0.3	-	0.3
Accretion	0.3	1.6	1.9
Settlement payments	(1.0)	(12.5)	(13.5)
Changes in estimated obligations	(0.2)	4.2	4.0
Foreign currency translation	0.2	0.6	0.8
Balance at December 31, 2004	<u>\$ 7.1</u>	<u>\$ 89.2</u>	<u>\$ 96.3</u>
Impact of FIN 47 adoption	4.0	-	4.0
Accretion	0.2	1.8	2.0
Settlement payments	(1.2)	(9.0)	(10.2)
Changes in estimated obligations	0.3	3.2	3.5
Transfers of obligations	-	(4.4)	(4.4)
Foreign currency translation	(0.2)	(0.7)	(0.9)
Balance at December 31, 2005	<u>\$ 10.2</u>	<u>\$ 80.1</u>	<u>\$ 90.3</u>

While not reflected in the table above, the Company has recognized approximately \$17.6 million of obligations for which it is reasonably likely that the Company has incurred a liability for costs associated with environmental remediation or for the settlement of related litigation. Liabilities included in this amount are attributable to sites that the Company formerly owned as well as sites that the Company did not have an ownership interest therein, but was associated with activities at such sites, including landfills, waste sites and other similar properties. The most significant among these is approximately \$15.0 million attributable to the Jacksonville, Arkansas site about which the Company has been litigating for several years (see Note 12).

12. Commitments and Contingencies

Guarantees

In accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), disclosures about each group of similar guarantees are provided below:

Indemnifications

In connection with the sale of the Company assets and businesses, the Company has indemnified respective buyers against certain liabilities that may arise in connection with the sales transactions and business activities prior to the ultimate closing of the sale. These indemnifications typically pertain to environmental, tax, employee and/or product related matters. If the indemnified party were to incur a liability or have a liability increase as a result of a successful claim, pursuant to the terms of the indemnification, the Company would be required to reimburse the buyer. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. As of December 31, 2005, the Company has recorded indemnifications totaling \$40 million. Although it is reasonably possible that future payments may exceed amounts accrued, due to the nature of indemnified items, it is not possible to make a reasonable estimate of the maximum potential loss or range of loss. Generally, there are no specific recourse provisions.

In addition, the Company provides certain indemnifications in the ordinary course of business such as product, patent and performance warranties in connection with the manufacture, distribution and sale of its products and services. Due to the nature of these indemnities, it is not possible to make a reasonable estimate of the maximum potential loss or range of loss.

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Debt Obligations

The Company has directly guaranteed up to \$44.2 million of various obligations under agreements with third parties related to subsidiaries and affiliates of which \$14.5 million is outstanding. The outstanding balance reflects guarantees related to the debt of the following entities with maturities at various dates through 2006; \$2.1 million for FiberVisions A/S, \$2.8 million for Shanghai Hercules Chemical, \$2.8 million for Hercules Taiwan and \$0.8 million for Hercules Trading (Shanghai). The Company also guarantees \$4.0 million related to a foreign-based pension plan with an indefinite term and \$2.0 million related to debt obligations of previously disposed operations that expire in 2007. In addition to the aforementioned \$4.0 million guarantee, the Company has provided approximately \$2.5 million in collateral through a mortgage security related to the pension plan liability. Existing guarantees for subsidiaries and affiliates arose from liquidity needs in normal operations.

Intercompany Guarantees

The Company and its subsidiaries have intercompany guarantees between and among themselves which aggregate approximately \$191.2 million of which \$155.7 million was outstanding as of December 31, 2005. These guarantees relate to intercompany loans used to facilitate normal business operations and have been eliminated from the Company's Consolidated Financial Statements.

Leases

Hercules has operating leases (including office space, transportation and data processing equipment) expiring at various dates. Lease expense of \$20.6 million, \$22.1 million and \$24.6 million in 2005, 2004 and 2003, respectively, is net of sub-lease income of \$5.2 million, \$5.4 million and \$4.3 million in 2005, 2004 and 2003, respectively.

At December 31, 2005, minimum rental payments under non-cancelable leases aggregated \$155.4 million with offsetting subleases of \$36.8 million. A significant portion of these payments relate to a long-term operating lease for corporate office facilities. The minimum payments over the next five years, net of minimum sublease receipts, are \$19.6 million in 2006, \$17.4 million in 2007, \$16.9 million in 2008, \$23.6 million in 2009, \$12.0 million in 2010 and \$29.1 million thereafter.

Environmental

In the ordinary course of its business, the Company is subject to numerous environmental laws and regulations covering compliance matters or imposing liability for the costs of, and damages resulting from, cleaning up sites, past spills, disposals and other releases of hazardous substances. Changes in these laws and regulations may have a material adverse effect on the Company's financial position and results of operations. Any failure by the Company to adequately comply with such laws and regulations could subject the Company to significant future liabilities.

Hercules has been identified as a potentially responsible party ("PRP") by U.S. federal and state authorities, or by private parties seeking contribution, for the cost of environmental investigation and/or cleanup at numerous sites. Hercules becomes aware of sites in which it may be named a PRP in investigatory and/or remedial activities through correspondence from the U.S. Environmental Protection Agency ("EPA") or other government agencies or from previously named PRPs, who either request information or notify the Company of its potential liability. The Company has established procedures for identifying environmental issues at its plant sites. In addition to environmental audit programs, the Company has environmental coordinators who are familiar with environmental laws and regulations and act as a resource for identifying environmental issues.

The range of the reasonably possible share of costs for the investigation and cleanup of current and former operating sites including those with identified asset retirement obligations and other locations where the Company may have a known liability, is between \$107.9 million and \$214.5 million as of December 31, 2005. In accordance with generally accepted accounting principles, the Company has accrued a liability of \$107.9 million at December 31, 2005, representing the low end of the range, since no amount within the range is a better estimate than any other amount (see Note 11). This accrued liability is evaluated quarterly based on currently available information, including the progress of remedial investigations at each site and the current status of negotiations with regulatory authorities regarding the method and extent of apportionment of costs among other PRPs.

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The actual costs for these matters will depend upon numerous factors, including the number of parties found responsible at each environmental site and their ability to pay; the actual methods of remediation required or agreed to; outcomes of negotiations with regulatory authorities; outcomes of litigation; changes in environmental laws and regulations; technological developments; and the years of remedial activity required, which could range from 0 to 30 or more years. While it is not feasible to predict the outcome of all pending environmental matters, the ultimate resolution of one or more of these environmental matters could have a material adverse effect upon the Company's financial position, results of operations and/or cash flows for any annual, quarterly or other period.

While the Company is involved in numerous environmental matters, the following matters are described below because they are currently viewed by management as potentially material to the Company's consolidated financial position, results of operations and cash flows.

United States, et al. v. Vertac Corporation, et al., USDC No. LR-C-80-109 and LR-C-80-110 (E.D. Ark.)

This case, a cost-recovery action based upon the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or the "Superfund statute"), as well as other statutes, has been pending since 1980, and involves liability for costs in connection with the investigation and remediation of the Vertac Chemical Company ("Vertac") site in Jacksonville, Arkansas. Hercules owned and operated the site from December 1961 until 1971. The site was used for the manufacture of certain herbicides and, at the order of the United States, Agent Orange. In 1971, the site was leased to Vertac's predecessor. In 1976, Hercules sold the site to Vertac. The site was abandoned by Vertac in 1987, and Vertac was subsequently placed into receivership. Both prior to and following the abandonment of the site, the EPA and the Arkansas Department of Pollution Control and Ecology ("ADPC&E") were involved in the investigation and remediation of contamination at and around the site. Pursuant to several orders issued under CERCLA, Hercules actively participated in many of these activities. The cleanup is essentially complete, except for certain on-going maintenance and monitoring activities. This litigation primarily concerns the responsibility and allocation of liability for the costs incurred in connection with the activities undertaken by the EPA and the ADPC&E.

The procedural history of this litigation is discussed in greater detail in the Company's periodic reports previously filed with the SEC. In summary, in 1999, the District Court finalized a ruling holding Hercules and Uniroyal jointly and severally liable for approximately \$100 million in costs incurred by EPA, as well as costs to be incurred in the future. In 2000, the District Court allocated 2.6% of such amounts to Uniroyal and 97.4% of such amounts to Hercules. Both Hercules and Uniroyal appealed those rulings to the US Court of Appeals for the Eighth Circuit. In 2001, the Appeals Court reversed the District Court's rulings as to joint and several liability and allocation, and remanded the case back to the District Court for several determinations, including a determination of whether the harms at the site giving rise to the EPA's claims were divisible. The trial on remand occurred in late 2001.

By Memorandum Opinion and Order dated March 30, 2005, the District Court largely affirmed its prior findings and prior judgment against the Company and Uniroyal and the prior allocation with respect to the Company and Uniroyal, although the District Court did agree that the Company should not be liable for costs associated with a particular off-site landfill, and held that the judgment should be reduced accordingly. By Order dated June 6, 2005, the District Court entered a Final Judgment in favor of the United States and against Hercules for \$119.3 million of which Uniroyal is jointly and severally liable for \$110.4 million. The Final Judgment also provided that both Hercules and Uniroyal are responsible for any additional response costs incurred or to be incurred by the United States after June 1, 1998, as well as post-judgment interest running from the date of the Final Judgment. In addition, the District Court re-affirmed its prior allocation holding which allocated 2.6% of the \$110.4 million in response costs for which Uniroyal is jointly and severally liable, or \$2.9 million, to Uniroyal. Finally, the Final Judgment found Uniroyal liable to Hercules for 2.6% of the response costs incurred by Hercules of approximately \$27.4 million, or \$0.7 million. The Company believes that the District Court committed reversible error in reaching its conclusions and has appealed the District Court's judgment to the United States Court of Appeals for the Eighth Circuit. As a result of some of the findings set forth by the District Court in its opinion, however, the Company determined that it has a probable and reasonably estimable liability of \$14.8 million plus interest and established an accrual in that amount in March 2005. The Company will continue to accrue interest on this amount until final disposition of the judgment.

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Alleghany Ballistics Laboratory

The Alleghany Ballistics Laboratory (“ABL”) is a government-owned facility which was operated by Hercules from 1945 to 1995 under contract with the United States Department of the Navy. The Navy has notified Hercules that it would like to negotiate with Hercules with respect to certain environmental liabilities which, the Navy alleges, are attributable to Hercules’ past operations at ABL. During the course of discussions, the Navy has stated that, pursuant to CERCLA, it has spent a total of approximately \$25.0 million and expects to spend an additional \$44.0 million over the next 10 years. The Company has conducted an investigation of the Navy’s allegations, including the basis of the Navy’s claims, and believes the contracts with the government pursuant to which the Company operated ABL may provide the Company with a defense from some or all of the amounts sought. The Company has exchanged information with the Navy and discussions with the Navy are continuing. At this time, however, the Company cannot reasonably estimate its liability, if any, with respect to ABL and, accordingly, has not included this site in the range of its environmental liabilities reported above.

Kim Stan Landfill

Hercules is one of a limited number of industrial companies that have been identified by the EPA as a PRP at the Kim Stan Landfill, near Covington, Virginia. The EPA is seeking to have the PRPs undertake the remediation of the site at a currently estimated cost of \$12.0 million (including EPA oversight charges). Based on the investigation conducted to date, the Company believes that parties not named by the EPA as PRPs may be responsible for the majority of the costs that have been and will be incurred at the site and intends to seek contribution from those parties to the extent it is required to pay any monies in connection with the site. The Company is continuing to evaluate the EPA’s allegations and, pending further investigation, is not able to determine its exposure, if any, with respect to this site. EPA has invited the Company and two other PRPs (collectively “the PRP Group”) to engage in negotiations to resolve EPA’s claims.

Clean Air Act Notice of Violation

On December 23, 2005, EPA Region III issued a Notice of Violation to the Company and to Eastman Company (Eastman) that alleges various violations of the Clean Air Act, primarily focused on the Act’s requirements governing emissions of volatile organic compounds, at a manufacturing facility located in West Elizabeth, PA. (In the Matter of Eastman Company and Hercules Incorporated, EPA Region III, Docket No. CAA-III-06-011.) That facility was sold to Eastman as part of the Company’s divestiture of its Resins business in May 2001. EPA has not specifically made a demand for monetary penalties upon the Company and Eastman. The Company is in the process of investigating the allegations set forth in the Notice of Violation.

Litigation

The Company is involved in litigation arising out of or incidental to the conduct of its business. Such litigation typically falls within the following broad categories: environmental (previously discussed); antitrust; commercial; intellectual property; labor and employment; personal injury; property damage; product liability; and toxic tort. These matters typically seek unspecified or large monetary damages or other relief. While it is not feasible to predict the outcome of all pending matters, the ultimate resolution of one or more of these matters could have a material adverse effect upon the Company’s financial position, results of operations and/or cash flows for any annual, quarterly or other period. While the Company is involved in numerous matters, the following matters are described below because they are currently viewed by management as potentially material. From time to time, management may determine (based on further analysis or additional information that becomes available through discovery or otherwise) that other matters are or have become potentially material to the Company. As appropriate, descriptions of such matters will be included in the periodic report following such determination. Occasionally, management may not determine that a matter is material until it has been settled or otherwise resolved. In such a situation, that matter may not have been described in the Company’s periodic reports prior to such settlement or resolution, but the impact of such settlement or resolution would be reflected in the financial statements included in the periodic report following such settlement or resolution.

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Asbestos

The Company is a defendant in numerous asbestos-related personal injury lawsuits and claims which typically arise from alleged exposure to asbestos fibers from resin encapsulated pipe and tank products which were sold by one of the Company's former subsidiaries to a limited industrial market ("products claims"). The Company is also a defendant in lawsuits alleging exposure to asbestos at facilities formerly or presently owned or operated by the Company ("premises claims"). Claims are received and settled or otherwise resolved on an on-going basis.

As of December 31, 2005, there were approximately 29,875 unresolved claims, of which approximately 995 were premises claims and the rest were products claims. There were also approximately 1,775 unpaid claims which have been settled or are subject to the terms of a settlement agreement. In addition, as of December 31, 2005, there were approximately 687 claims which have either been dismissed without payment or are in the process of being dismissed without payment, but with plaintiffs retaining the right to re-file should they be able to establish exposure to an asbestos-containing product for which the Company bears liability.

Between January 1, 2005 and December 31, 2005, the Company received approximately 4,408 new claims. During that same period, the Company spent approximately \$37.5 million on these matters, including approximately \$27.7 million in settlement payments and approximately \$9.8 million for defense costs.

The Company's primary and first level excess insurance policies that provided coverage for these asbestos-related matters exhausted their products limits at or before the end of July 2003. On November 27, 2002, the Company initiated litigation against the solvent excess insurance carriers that provided insurance coverage for asbestos-related liabilities in a matter captioned Hercules Incorporated v. OneBeacon, et al., Civil Action No. 02C-11-237 (SCD), Superior Court of Delaware, New Castle County. Beginning in August 2004 and continuing through October 2004, the Company entered into settlements with all of the insurers named in that lawsuit. As a result, the lawsuit was dismissed in early November 2004.

Effective August 23, 2004, the Company entered into a comprehensive confidential settlement agreement with respect to those insurance policies issued by certain underwriters at Lloyd's, London, and reinsured by Equitas Limited and related entities ("Equitas") (the "First Settlement Agreement"). As part of that settlement, Equitas paid \$30.0 million to the Company and placed \$67.0 million into a trust set up to reimburse the Company for a portion of the costs incurred by the Company to defend and resolve certain asbestos claims, subject to certain monthly monetary limitations. In exchange, the Company released the underwriters from past, present and future claims under those policies, agreed to the cancellation of those policies, and agreed to indemnify the underwriters from any claims asserted under those policies. In addition, the Company agreed that if federal asbestos reform legislation is enacted into law on or prior to January 3, 2007, the Company will be required to return any funds remaining in the trust to Equitas should certain criteria be met. If such legislation is not enacted by that date, any funds remaining in the trust will be available to the Company to pay asbestos-related liabilities or to use for other corporate purposes. The Company has and continues to reimburse itself from the trust for a portion of the monies spent to defend and resolve certain asbestos claims. As of February 21, 2006, \$51.2 million remains in the trust.

In addition, effective October 8, 2004, the Company entered into a comprehensive confidential settlement agreement with respect to certain insurance policies issued by various insurance companies operating in the London insurance market, and by one insurance company located in the United States (the "Second Settlement Agreement"). Under the terms of the Second Settlement Agreement, the participating insurers agreed to place into trust over a four year period commencing in January 2005 and ending in 2008 monies which will ultimately total approximately \$102.2 million. In exchange, the Company released the insurers from past, present and future claims under those policies, agreed to the cancellation of those policies, and agreed to indemnify the insurers from any claims asserted under those policies. The trust funds have been and are continuing to be used to reimburse the Company for costs it incurs to resolve asbestos claims. Any funds remaining in trust subsequent to December 31, 2008 may be used by the Company to pay both asbestos-related claims and non-asbestos related claims. As of February 21, 2006, \$66.1 million of the \$102.2 million has been placed into the trust, of which \$34.6 million remains in the trust.

The Company also reached settlement agreements with additional insurers whose level of participation in the Company's insurance program is substantially lower than the aggregate participation of the insurers referred to above (the "Other Settlement Agreements"). Pursuant to the Other Settlement Agreements, the Company has released or partially released its rights to coverage under insurance policies issued by such insurers. The Company has received all amounts due under the Other Settlement Agreements.

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In addition, effective October 13, 2004, the Company reached a confidential settlement agreement with the balance of its solvent excess insurers whereby a significant portion of the costs incurred by the Company with respect to future asbestos product liability claims will be reimbursed, subject to those claims meeting certain qualifying criteria (the "Future Coverage Agreement"). That agreement is not expected to result in reimbursement to the Company, however, unless and until defense costs and settlement payments for qualifying asbestos products claims paid by the Company subsequent to the effective date of the agreement aggregate to approximately \$330 million to \$370 million, with the foregoing approximation based on various assumptions, including that there are sufficient qualifying claims to require such payments, that for such qualifying claims the time periods of each claimant's alleged exposure to asbestos products falls within the time periods covered by the participating insurers' policies, and that each of the participating insurers remain solvent and honor their commitments under the terms of the Future Coverage Agreement. The Company expects that such amounts, if required to be paid, would be paid by the Company using monies from the above settlements and from other sources. If and when such amounts are paid by the Company, the insurers' obligations pursuant to the terms of the Future Coverage Agreement would be triggered, and the participating insurers would thereafter be required to pay their allocated share of defense costs and settlement payments for asbestos product liability claims that qualify for reimbursement subject to the limits of their insurance policies, which limits are believed to be sufficient to cover the insurers' allocated shares of an amount that exceeds the high end of the reasonably possible range of financial exposure described below. The Company will be responsible for payment of the share of such costs and payments that are not reimbursed by the participating insurers pursuant to the terms of the Future Coverage Agreement, as well as for such costs and payments for those claims that do not qualify for reimbursement under the terms of the Future Coverage Agreement. Should asbestos reform legislation be passed, some or all of the obligations under the Future Coverage Agreement will be suspended for so long as such legislation remains in effect.

As a result of the above settlements, the Company is expected to have available to it a combination of cash and trust fund monies which can be used to pay or reimburse the Company for a significant portion of the defense costs and settlement payments that may be incurred by the Company with respect to its asbestos-related liabilities. If such liabilities exceed the total amount of the cash and trust fund monies received by the Company as a result of such settlements, then the Company will be required to fund such liabilities itself until such time as the insurers' obligations under the Future Coverage Agreement are triggered. If and when those obligations are triggered, the Company and the insurers who are participants in the Future Coverage Agreement will share such costs and payments at varying levels over time, with the Company typically bearing a slightly larger share than such participating insurers. Of note, as a result of the First Settlement Agreement, Second Settlement Agreement and Other Settlement Agreements, substantially all of the Company's insurance coverage applicable to asbestos products claims has been cancelled (except for obligations under the Future Coverage Agreement), and such insurance coverage will no longer be available to cover any such claims. In addition and as described above, as a result of the First Settlement Agreement, Second Settlement Agreement and Other Settlement Agreements, substantial amounts of insurance coverage that would have been available to cover insured claims other than asbestos products claims have been cancelled and will no longer be available to cover such claims.

Based on the current number of claims pending, the amounts the Company anticipates paying to resolve those claims which are not dismissed or otherwise resolved without payment, and anticipated future claims, the Company believes that the total monetary recovery under the settlements noted above will cover the majority of the Company's monetary exposure for its current and estimated future asbestos-related liabilities. The foregoing, however, assumes that all of the monies received and to be received from the settlements described above will be utilized only for asbestos liabilities. In fact, due to timing differences between the receipt of cash settlements and the payment of asbestos claims by the Company, the Company has and will likely continue to use some of the proceeds received and to be received from the settlements described above for other corporate purposes. As a result, from a cash flow perspective, in any particular period of time, the Company may be required to fund some or all of its asbestos-related liabilities using cash flows from operations or sources other than the settlements described above. Further, as monies received and to be received from the settlements described above are used by the Company, and as the balance remaining on amounts yet to be received from the settlements described above decline, it is likely that there will come a time when the Company will be responsible for payment of all or a majority of such liabilities until such time as the obligations under the Future Coverage Agreement are triggered, at which point in time the Company is expected to share such liabilities with the participating insurers, with it being anticipated that the Company will typically bear a slightly larger share than the participating insurers. In any period of time, including after obligations under the Future Coverage Agreement are triggered, the amounts paid by the Company in connection with the defense and settlement of asbestos claims versus the amounts funded and to be funded by settlement monies and amounts anticipated to be reimbursed by the Future Coverage Agreement are expected to vary significantly.

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Moreover, as described in greater detail below, the Company's projection of its current and estimated future asbestos-related liabilities may change. As a result of these and other factors, although the Company believes that the majority of its total monetary exposure will ultimately be covered by the total monetary recovery under the settlements described above, there can be no assurance such will be the case.

In October 2004, the Company first commissioned a study of its asbestos-related liabilities by a recognized expert at a major national university, who is a member of the American Academy of Actuaries with broad experience in estimating such liabilities. Since that time, such study has been updated several times to take into account the then most current data concerning, among other factors, the Company's claims and payment experience. In January 2006, the study was updated again and, as a result, the reasonably possible exposure for these matters as of December 31, 2005 was revised to a range of \$270 million to \$790 million, an increase from the previously established range. Due to inherent uncertainties in estimating the timing and amounts of future payments, the foregoing range does not include the effects of inflation and has not been discounted for the time value of money. In addition, the range of financial exposures set forth above does not include estimates for future legal costs. It is the Company's policy to expense these legal costs as incurred. As stated above, the Company presently believes that the majority of this range of financial exposures will ultimately be funded by the settlements which it has made with the Company's insurers. Cash payments related to this exposure are expected to be made over an extended number of years and actual payments, when made, could be for amounts in excess of the range due to potential future changes in estimates as well as the effects of inflation.

The foregoing is based on the Company's assumption that the number of future claims filed per year and claim resolution payments will vary considerably from year-to-year and by plaintiff, disease, venue and other circumstances, but will, when taken as a whole, remain relatively consistent with the Company's experience to date and will decline as the population of potential future claimants expires due to non-asbestos-related causes. It is also based on the results of the updated study and the status of the Company's settlements with its insurers, as described above. However, the Company recognizes that the number of future claims filed per year and claim resolution payments could greatly exceed those reflected by its past experience and contemplated by the study referenced above, that the Company's belief of the range of its reasonably possible financial exposure could change as the study referenced above is periodically updated, and that its evaluation of the total payments to be received from its insurers may change depending upon numerous variables including potential legislation and the risk that one or more insurance carriers may refuse or be unable to meet their obligations to the Company.

Due to the dynamic nature of asbestos litigation, the Company's estimates are inherently uncertain, and these matters may present significantly greater financial exposures than presently anticipated. In addition, the Company intends to periodically update the asbestos study referenced above, and further analysis combined with new data received in the future could result in a material modification of the range of reasonably possible financial exposure set forth above. As a result of all of the foregoing, the Company's liability with respect to asbestos-related matters could vary significantly from present estimates and may require a material change in the accrued liability for these matters within the next 12 months. If the Company's liability does exceed amounts recorded in the balance sheet, the Company presently believes that the majority of the liability it may reasonably anticipate will be paid or reimbursed as a result of the settlements the Company has made with its insurers, as described above. However, there can be no assurance that such liabilities will be reimbursed.

The findings of the updated study referenced above identified a range of the Company's reasonably possible financial exposure for these asbestos-related matters. The Company adjusted its accrual for present and future potential asbestos claims before anticipated insurance recoveries at December 31, 2005 to \$270.0 million, reflecting the low end of the range noted above in accordance with generally accepted accounting principles (since no amount within the range is a better estimate than any other amount).

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The following table presents the beginning and ending balances and balance sheet activity for the Company's asbestos-related accounts for the year ended December 31, 2005.

	<u>Balance</u> <u>January 1,</u> <u>2005</u>	<u>Interest</u> <u>Income/</u> <u>Additional</u> <u>Accruals</u>	<u>Insurance</u> <u>Recovered/</u> <u>Liabilities</u> <u>Settled</u>	<u>Accretion/</u> <u>Reclassifi-</u> <u>cation</u>	<u>Balance</u> <u>December 31,</u> <u>2005</u>
Asbestos-related assets:					
Insurance receivable	\$ 6.3	\$ (0.3)	\$ (6.0)	\$ -	\$ -
Asbestos-related assets, current	6.3	(0.3)	(6.0)	-	-
Insurance receivable	98.9	-	(35.3)	1.6	65.2
Restricted cash in trust ⁽¹⁾	63.6	1.8	(9.9)	-	55.5
Asbestos-related assets, non-current	162.5	1.8	(45.2)	1.6	120.7
Total asbestos-related assets	<u>\$ 168.8</u>	<u>\$ 1.5</u>	<u>\$ (51.2)</u>	<u>\$ 1.6</u>	<u>\$ 120.7</u>
Asbestos-related liabilities:					
Asbestos-related liabilities, current	\$ 46.8	\$ -	\$ (27.7)	\$ 17.3	\$ 36.4
Asbestos-related liabilities, non-current	213.4	37.5	-	(17.3)	233.6
Total asbestos-related liabilities	<u>\$ 260.2</u>	<u>\$ 37.5</u>	<u>\$ (27.7)</u>	<u>\$ -</u>	<u>\$ 270.0</u>

⁽¹⁾ Amount is reflected as a non-current asset as its availability for reimbursement to the Company is restricted to asbestos claims and related defense costs reimbursable to the Company as discussed above in connection with the First Settlement Agreement.

The Company, in conjunction with outside advisors, will continue to study its asbestos-related matters, insurance recovery expectations and reserves on an ongoing basis, and make adjustments as appropriate.

Of note, in April, May and June 2005, respectively, Georgia, Texas and Florida passed legislation aimed at reforming the way that civil asbestos litigation is handled in the courts of those states. In general, such legislation establishes medical criteria which define whether a claimant has a physical impairment allegedly caused by exposure to asbestos, and defers the claims of those claimants who have no or minimal physical impairment, while allowing the claims of claimants who have an alleged physical impairment to proceed. While it is too early to tell what impact these legislative enactments will have or whether or to what extent these legislative enactments will survive any legal challenges to their constitutionality or applicability, the Company is optimistic that, over time, the net effect of these legislative enactments will be beneficial, although there can be no assurance that the effect of such laws will be beneficial. Of the state legislative reforms that have passed to date, the Texas legislation appears to have the most potential significance to the Company because of the number of claims historically filed and currently pending in Texas and the amount of money spent to date to defend and resolve claims filed in Texas. The Texas legislation, which became effective on September 1, 2005, largely applies to claims pending as of or filed after December 1, 2005. In addition to the medical criteria described above, the Texas legislation also prevents the "bundling" of groups of claims. While the Company is optimistic that, over time, the net effect of the Texas legislation will be beneficial, there can be no assurance that the legislation will have such effect. The Company continues to closely follow the federal legislative developments in the United States Senate as efforts to develop a comprehensive national solution to the asbestos litigation problem proceed. Should the current proposed version of the Fairness in Asbestos Injury Resolution Act (also referred to as the FAIR Act) become law, civil litigation of asbestos bodily injury lawsuits in state and federal courts would end or abate and would be replaced by a national trust fund. While the Company believes that the current version of the FAIR Act, if enacted into law, would be beneficial, there can be no assurance that the effect of such legislation would be beneficial, nor can there be any assurance that such proposed legislation will be enacted into law.

Composite Products Antitrust and Qui Tam Matters

Commencing in 1999, the Company was one of several companies sued in a series of civil antitrust and related lawsuits concerning the pricing and sale of carbon fiber and carbon prepreg products (together referred to as "carbon fiber products"). These products were manufactured and sold by the Company's former Composite Products division, which division was sold to Hexcel Corporation in 1996. These lawsuits encompassed the following: (a) a federal class action brought on behalf of direct purchasers of carbon fiber products captioned Thomas & Thomas Rodmakers v. Newport Adhesives and Composites, Case No. CV-99-07796-GHK (CTX) (U.S. District Court, Central District of California); (b) a total of nine California state purported class actions brought on behalf of indirect purchasers of carbon fiber products, all consolidated under the caption Carbon Fiber Cases I, II, and III, Judicial Council Coordination Proceeding Nos. 4212, 4216

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and 4222, Superior Court of California, County of San Francisco; (c) a Massachusetts state purported class action brought on behalf of indirect purchasers of carbon fiber products captioned Saul M. Ostroff, et al. v. Newport Adhesives, et al., Civil Action No. 02-2385, Superior Court of Middlesex County; and (d) a lawsuit brought by Horizon Sports Technologies, a company that had “opted out” of the federal class action lawsuit referred to above and captioned Horizon Sports Technologies, Inc. v. Newport Adhesives and Composites, Inc., et al., Case No. CV02-8126 FMC (RNEX), U.S. District Court, Central District of California, Western Division. In addition, the Company and the other defendants in the foregoing lawsuits were sued in a related “Qui Tam” action captioned Randall M. Beck, et al. v. Boeing Defense and Space Group, Inc., et al., (Civil Action No. 99 CV 1557 JM JAH), which lawsuit was originally filed under seal in 1999 pursuant to the False Claims Act, 31 U.S.C. Section 729 et seq. Throughout 2005, the Company entered into agreements to resolve each of the foregoing lawsuits, and the results of such settlements are reflected in the Company’s financial statements with such amounts not yet paid reflected in the paragraph below entitled “Amounts Accrued for Non-Asbestos Litigation.” At this time, all of the foregoing lawsuits have been resolved except for the Massachusetts state purported class action, where a settlement in principle has been reached, and except as described in the following sentence. One of the Company’s customers has “opted-out” of the Federal and California state class actions referred to above, and the Company anticipates that this will result in an additional claim by such customer. Each of the foregoing lawsuits have been resolved by the Company without any admission of liability and each of the settlements was entered into by the Company in order to avoid the risks, uncertainties and costs inherent in litigation.

In December 2004, the Company filed a lawsuit against Hexcel Corporation (Hercules Incorporated v. Hexcel Corporation, Supreme Court of the State of New York, County of New York, Index No. 04/604098) seeking indemnification for the settlements described above. The lawsuit against Hexcel is based on the terms of the purchase and sale agreement by which the Company sold to Hexcel its Composite Products division in 1996. In response, Hexcel Corporation has denied liability and has filed a counter-claim also seeking indemnification. That lawsuit is proceeding through discovery.

Agent Orange Litigation

Agent Orange is a defoliant that was manufactured by several companies, including Hercules, at the direction of the U.S. Government, and used by the U.S. Government in military operations in both Korea and Vietnam from 1965 to 1970. In 1984, as part of a class action settlement, the Company and other defendants settled the claims of persons who were in the U.S., New Zealand and Australian Armed Forces who alleged injury due to exposure to Agent Orange. In Re “Agent Orange” Prod. Liab. Litig., 597 F. Supp. 740 (E.D.N.Y. 1984). Following that settlement, all claims for alleged injuries due to exposure to Agent Orange by persons who had served in the Armed Forces of those countries were treated as covered by that class action settlement.

On June 9, 2003, the United States Supreme Court affirmed the decision of the United States Court of Appeals for the Second Circuit in a case captioned Dow Chemical Company, et al. v. Daniel Raymond Stephenson, et al., 123 S. Ct. 2161 (2003), where plaintiffs Stephenson and Isaacson (in a separate but consolidated case) alleged that they were injured from exposure to Agent Orange and that such injury did not manifest until after exhaustion of the settlement fund created through the 1984 class action settlement. As a result of that decision, the claims of persons who allege injuries due to exposure to Agent Orange and whose injuries first manifest themselves after exhaustion of the settlement fund created through the 1984 class action settlement may no longer be barred by the 1984 class action settlement and such persons may now be able to pursue claims against the Company and the other former manufacturers of Agent Orange.

Since 1998, the Company has been sued in approximately twenty-eight lawsuits (including two purported class actions) where plaintiffs allege that exposure to Agent Orange caused them to sustain various personal injuries. On February 9, 2004, the U.S. District Court for the Eastern District of New York issued a series of rulings granting several motions filed by defendants in the two cases that had been remanded to the U.S. District Court by the U.S. Court of Appeals for the Second Circuit on remand from the U.S. Supreme Court (In re: “Agent Orange” Product Liability Litigation: Joe Isaacson, et al v. Dow Chemical Company, et al. and Daniel Raymond Stephenson, et al. v. Dow Chemical Company, et al. (MDL 381, CV 98-6383 (JBW), CV 99-3056 (JBW))). In relevant part, those rulings held that plaintiffs’ claims against the defendant manufacturers of Agent Orange that were brought in the state courts are properly removable to federal court under the “federal officer removal statute” and that such claims are subject to dismissal by application of the “government contractor defense.” The Court then dismissed plaintiffs’ claims, but stayed its decision to allow plaintiffs to obtain additional discovery and to move for reconsideration of the Court’s decision. A hearing on the motion for reconsideration was held on February 28, 2005. By Orders dated March 2, 2005, the Court denied reconsideration, lifted the stay of the earlier decision, and dismissed plaintiffs’ claims in all of the lawsuits that were before the Court at that time. Plaintiffs have appealed those dismissals to the United States Court of Appeals for the Second Circuit.

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In addition, in January 2004, the Company was sued in a purported class action filed in the United States District Court for the Eastern District of New York by The Vietnam Association for Victims of Agent Orange/Dioxin and several individuals who claim to represent between two and four million Vietnamese who allege that Agent Orange used by the United States during the Vietnam War caused them or their families to sustain personal injuries. (The Vietnam Association for Victims of Agent Orange/Dioxin, et al. v. The Dow Chemical Company, et al., Civil Action No. 04 CV 0400 (JBW)). That complaint alleges violations of international law and war crimes, as well as violations of the common law for products liability, negligence and international torts. The defendants moved to dismiss this case on several grounds, including failure to state a claim under the Alien Tort Claims Statute, lack of jurisdiction and justiciability, the bar of the statute of limitations, failure to state claims for violations of international law, and the “government contractor defense.” A hearing on these motions was held on February 28, 2005. By order dated March 10, 2005, the Court dismissed this lawsuit. Plaintiffs have appealed that dismissal to the United States Court of Appeals for the Second Circuit.

In addition, in 1999, approximately 17,200 Korean veterans of the Vietnam War filed suit in the 13th Civil Department of the District Court in Seoul, Korea, against The Dow Chemical Company (“Dow”) and Monsanto Company (“Monsanto”) for their alleged injuries from exposure to Agent Orange. These lawsuits were filed under various captions, including Dong Jin Kim and 9 others, 99 Gahap 84123, Il Joo La and 9 others, 99 Gahap 84147, and Dae Jin Jang, 99 Gahap 84130. Following the commencement of those lawsuits, Dow and Monsanto petitioned the court to issue Notices of Pendency to each of the non-defendant manufacturers of Agent Orange, including the Company, in an attempt to bind those companies to factual and legal findings which may be made in the Korean courts if Dow and Monsanto are held liable to plaintiffs and sue those companies for contribution. Thereafter, the Company was served with such notices through diplomatic channels. In 2002, the District Court dismissed the plaintiffs’ claims, and the plaintiffs appealed. Based on news stories only (because the Company has not yet received a copy of the Court’s opinion), on January 26, 2006, the intermediate appellate court in Seoul reversed the District Court and awarded damages of \$65.2 million plus pre- and post-judgment interest to approximately 6,800 of the approximately 17,200 plaintiffs that filed these lawsuits. The Company has been informed that Dow and Monsanto intend to appeal. If Dow and Monsanto are not successful on appeal, it is possible that they might initiate an action seeking contribution from the non-defendant manufacturers of Agent Orange, including the Company. Further, if the intermediate appellate court’s decision is ultimately upheld, it is possible that new lawsuits could be brought in Korea against the Agent Orange manufacturers, including the Company, by other Korean veterans of the Vietnam War.

The Company believes that it has substantial meritorious defenses to all of the Agent Orange-related claims described above and those that may yet be brought. To that end, the Company denies any liability to plaintiffs, and will vigorously defend all actions now pending or that may be brought in the future.

Other Litigation

In November 2002, an action for declaratory judgment was filed in the U.S. District Court for the District of Delaware under the caption of Atofina Chemicals, Inc. and Atofina v. Hercules Incorporated (Civil Action No. 02-1613). In this action, Atofina sought a declaratory judgment that the Company cannot recover antitrust damages for purchases of monochloroacetic acid (“MCAA”) that the Company made outside of the United States or for purchases from producers of MCAA not alleged to have participated in any conspiracy to fix prices and allocate the market for MCAA. In response, the Company filed a counter-claim, seeking damages from and injunctive relief against Akzo Nobel Chemicals, Atofina Chemicals, Hoechst AG, Hoechst Celanese, Clariant and others related to the fixing of prices of MCAA and sodium monochloroacetate from approximately 1995 through 2000. In January 2006, the Company reached a settlement in principle with the last of the parties with whom the Company had not previously settled. While the terms of those settlements are confidential, each resulted in payments to the Company.

The Company is one of several defendants that had been sued by over 2,000 individuals in a series of lawsuits, including a purported class action lawsuit, captioned Jerry Oldham, et al. v. The State of Louisiana, et al., Civil Action No. 55,160, John Capone, et al. v. The State of Louisiana, et al., Civil Action No. 56,048C, and Georgenner Batton, et al. v. The State of Louisiana, et al., Civil Action No. 55,285, all brought in the 18th Judicial District Court, Parish of Iberville, Louisiana. The purported class members and plaintiffs, who claimed to have worked or lived at or around the Georgia Gulf facility in Iberville Parish, Louisiana, alleged injury and fear of future illness from the consumption of contaminated water and, specifically, elevated levels of arsenic in that water. As to the Company, plaintiffs alleged that the Company itself and as part of a joint venture operated a nearby plant and, as part of those operations, used a groundwater injection well to dispose of various wastes, and that those wastes contaminated the potable water supply at Georgia Gulf. In August 2005,

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the Company and several other defendants entered into an agreement in principle to settle these matters with the Company agreeing to pay \$1,412,000. That settlement, which will be structured as a class action settlement and which was agreed to by the Company without any admission of liability, is pending Court approval.

On May 7, 2004, Ciba Specialty Chemicals Corporation ("Ciba") filed a Complaint against Hercules Incorporated and Cytec Industries, Inc. ("Cytec") in the United States District Court for the District of Delaware alleging infringement of two patents owned by Ciba (Ciba Specialty Chemicals Corporation v. Hercules Incorporated and Cytec Industries, Inc., C.A. No. 04-293 (KAJ)). The two patents in question are U.S. Patent 5,167,766 (issued on December 1, 1992) entitled "Charged Organic Polymer Microbeads in Paper Making Process" and U.S. Patent 5,171,808 (issued on December 15, 1992) entitled "Cross-linked Anionic and Amphoteric Polymeric Microparticles." The alleged conduct relates to the manufacture, use, sale and offer to sell of certain products of the Company's Pulp and Paper division. Ciba seeks to enjoin alleged continued infringement, obtain a judgment that the defendants have infringed the patents, and obtain an award of damages and reasonable attorney's fees. In June 2005, Hercules filed a motion for leave to file an Amended Answer and Counterclaims alleging, in relevant part, that Ciba's patents are invalid and unenforceable, and seeking a declaratory judgment as to invalidity. In October 2005, that motion was granted by the Court. The Company believes that there are substantial meritorious defenses to this action, and has denied liability to Ciba and will vigorously defend against this action. The Company has agreed to indemnify Cytec with respect to the patent infringement charges. Discovery has closed and various motions for summary judgment have been filed by the parties but have not yet been ruled upon by the Court. Trial has been scheduled to begin on August 14, 2006.

In June 2004, a purported class action captioned Charles Stepnowski v. Hercules Inc.; The Pension Plan of Hercules Inc.; The Hercules Inc. Finance Committee; and Edward V. Carrington, Hercules' Vice President Human Resources, Civil Action No. 04-cv-2296, was filed in the United States District Court, Eastern District of Pennsylvania. The Stepnowski lawsuit seeks the payment of benefits under the Pension Plan of Hercules Incorporated (the "Plan"), and alleges violations of the Employee Retirement Income Security Act, 29 U.S.C. § 1001 et seq. ("ERISA"). Under the Plan, eligible retirees of the Company may opt to receive a single cash payment of 51% of the present value of their accrued benefit (with the remaining 49% payable as a monthly annuity). In the Stepnowski lawsuit, it is alleged that the Company's adoption of a new interest rate assumption used to determine the 51% cash payment constitutes a breach of fiduciary duty and a violation of the anti-cutback requirements of ERISA, the Internal Revenue Code and the terms of the Plan, and that its communications to employees concerning the new interest rate assumption constitute a breach of fiduciary duty. The Stepnowski lawsuit seeks the payment of additional benefits under ERISA (as well as costs and attorneys fees), seeks to compel the Company to use an interest rate assumption that is more favorable to eligible retirees, and seeks to establish a class comprised of all Plan participants who retired (or who will retire) on or after December 1, 2001. By Memorandum and Order dated May 26, 2005, the Court denied without prejudice plaintiff's motion for class certification and dismissed plaintiff's anti-cutback claim, but allowed plaintiff's claim for benefits and breach of fiduciary duty to proceed. In December 2005, a virtually identical purported class action lawsuit was filed in the same Court in a matter captioned Samuel J. Webster, et al. v. Hercules, Inc.; The Pension Plan of Hercules Inc.; The Hercules Inc. Finance Committee; and Edward V. Carrington, Hercules' Vice President Human Resources, Civil Action No. 05-6404. In January 2006, the Court consolidated both the Stepnowski and Webster lawsuits for discovery and trial and set both cases for trial on March 27, 2006. The Company denies all liability, and intends to vigorously defend this action.

Acevedo, et al. v. Union Pacific Railroad Company, et al., Case No. C-4885-99-F. 332nd Judicial District Court, Hidalgo County, Texas (2001) is a mass toxic tort lawsuit alleging pesticide exposure relating to operations at a former pesticide formulation facility in Mission, Texas. There are currently approximately 1,700 plaintiffs and approximately 30 defendants, including the Company. Plaintiffs include former workers at the pesticide formulation facility, and persons who currently reside, or in the past resided, near the facility. All plaintiffs allege personal injuries and some plaintiffs also allege property damage. The vast majority of the plaintiffs allege residential exposure to a variety of pesticide and chemical products as a result of leaks, spills, flooding, and airborne emissions from the pesticide formulation facility. It is alleged that certain of the Company's products were sold to or used by the pesticide formulation facility prior to its ceasing operations in 1967. In November 2004, Defendants filed a Petition for a Writ of Mandamus in the Texas Supreme Court seeking to set aside an order consolidating the claims of certain plaintiffs for trial, and seeking to require the plaintiffs to provide certain evidence of exposure and injury before being permitted to proceed in court. In response, the Texas Supreme Court issued a partial stay of the underlying litigation. In November 2005, oral argument with respect to Defendants' Petition for Writ of Mandamus was held before the Texas Supreme Court. No decision has yet been rendered with respect to that petition. The Company denies any liability to plaintiffs and intends to vigorously defend these matters.

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The Company and others have been sued by approximately 250 former employees and employees of third-party contractors who allege hearing loss as a result of their having worked at plants located in or about Lake Charles, Louisiana. The Company formerly owned and operated a plant in Lake Charles. In July 2005, the Company and other defendants reached a settlement in principle with plaintiffs' lawyers which provides for the resolution of these claims over a period of approximately two years. The Company has accrued its probable and reasonably estimable liability as a portion of the amount described in the paragraph below entitled "Amounts Accrued for Non-Asbestos Litigation." The lawsuits at issue are all pending in the 14th Judicial District Court of Calcasieu Parish, Louisiana, and are captioned as follows: James Allee, et al. v. Canadianoxy Offshore Production Co., et al., Case No. 2001-4085, James Hollingsworth, et al. v. Hercules Inc., Civil Action No. 2001-4064, Joseph Kelley, et al. v. Canadianoxy Offshore Production Co., et al., Civil Action No. 98-2802, and Robert Corbin, et al. v. Canadianoxy Offshore Production Co., et al., Civil Action No. 98-1097.

Amounts Accrued for Non-Asbestos Litigation

During the period January 1, 2005 through December 31, 2005, the Company incurred charges totaling \$16.5 million and paid \$28.4 million in settlement payments with respect to the settlement of non-asbestos and non-environmental litigation, including matters described above. The December 31, 2005 Consolidated Balance Sheet reflects a current liability of \$3.5 million for non-asbestos and non-environmental related litigation matters, representing management's best estimate of the probable and reasonably estimable losses for such matters. While it is not feasible to predict the outcome of all pending legal proceedings, it is reasonably possible that an exposure to loss exists in excess of the amounts accrued for these and other matters, and the ultimate resolution of one or more of these matters could have a material adverse effect upon the Company's financial position, results of operations and/or cash flows for any annual, quarterly or other period.

13. Series Preferred Stock

There are 2,000,000 shares of series preferred stock without par value authorized for issuance, none of which have been issued.

14. Common Stock

Hercules common stock has a stated value of \$25/48, and 300,000,000 shares are authorized for issuance. At December 31, 2005, a total of 24,344,057 shares were reserved for issuance for the following purposes: 9,724,127 shares for the exercise of awards under the Stock Option Plan; 7,726,070 shares for awards under incentive compensation plans; 172,550 shares for conversion of debentures; and 6,721,310 shares for exercise of the warrant component of the CRESTS Units.

In 1991, the Board of Directors authorized the Company to repurchase up to 74,650,000 shares under its stock repurchase program. Total shares reacquired pursuant to this program were 66,614,242, at an average price of \$37.31 per share. The program was suspended in 1999.

15. Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss are as follows:

	<i>(Dollars in millions)</i>		
	December 31,		
	2005	2004	2003
Additional minimum pension liability, net of tax	\$ (417.6)	\$ (373.3)	\$ (345.1)
Foreign currency translation adjustment	30.3	96.9	27.2
Other, net of tax	(0.3)	-	-
	<u>\$ (387.6)</u>	<u>\$ (276.4)</u>	<u>\$ (317.9)</u>

The tax impact of charges to the above components of Accumulated other comprehensive loss for the years ended December 31, 2005, 2004 and 2003 is summarized in Note 7.

16. Additional Balance Sheet Detail

	<i>(Dollars in millions)</i>	
	2005	2004
Property, plant and equipment:		
Land	\$ 10.6	\$ 19.6
Buildings and equipment	1,613.6	1,998.9
Construction in progress	38.0	70.8
Total	1,662.2	2,089.3
Accumulated depreciation	(1,126.8)	(1,393.9)
Property, plant and equipment, net	<u>\$ 535.4</u>	<u>\$ 695.4</u>

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was \$80.5 million, \$74.9 million and \$73.2 million, respectively.

	<i>(Dollars in millions)</i>	
	2005	2004
Other current assets:		
Value-added tax receivable	\$ 13.1	\$ 4.4
Federal tax receivable	12.6	12.6
Supplier rebates receivable	0.3	14.6
Assets held for sale	0.2	5.8
Other	21.9	16.4
	<u>\$ 48.1</u>	<u>\$ 53.8</u>

Assets held for sale at December 31, 2005 includes surplus land at the Company's manufacturing sites located in Savannah, Georgia, Sobernheim, Germany and Tarragona, Spain. Also included is surplus land at several of the Company's former operating sites in both domestic and foreign locations. The combined carrying value of these properties is \$0.2 million. Marketing efforts that are currently underway are expected to result in dispositions during 2006. Assets held for sale at December 31, 2004 included the Company's former sites in Langhorne, Pennsylvania and Burlington, New Jersey. These properties were subsequently sold in 2005 for \$6.4 million and \$6.8 million, respectively. In addition to the cash proceeds for the Burlington property, an asset retirement obligation of \$4.4 million attributable to the remediation of soil and groundwater contamination was assumed by the buyer.

	<i>(Dollars in millions)</i>	
	2005	2004
Deferred charges and other assets:		
Tax deposits	\$ 66.1	\$ 89.1
Capitalized software, net	62.6	73.2
Prepaid pension assets	42.4	7.0
Cash surrender value of life insurance policies	21.4	19.4
Unamortized debt issuance costs	10.3	14.2
Investments	9.8	6.0
Unrecognized prior period service costs	0.4	3.6
Other	32.1	33.0
	<u>\$ 245.1</u>	<u>\$ 245.5</u>

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Amortization expense of capitalized software, including related development costs, was \$15.3 million, \$15.0 million and \$13.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

	<i>(Dollars in millions)</i>	
	2005	2004
Accrued expenses:		
Compensation and benefits	\$ 37.0	\$ 45.0
Current portion of postretirement benefits	23.5	23.5
Current portion of asset retirement obligations	21.6	19.3
Severance and other exit costs	16.6	5.8
Income taxes payable	14.5	4.7
Interest payable	12.9	12.8
Current deferred income taxes	12.9	7.5
Sales rebate accrual	9.3	11.1
Current pension liability	6.2	7.1
Litigation accrual	3.5	18.0
Current portion of deferred rent	3.0	3.2
Other taxes payable	2.3	1.7
Other	56.0	52.4
	<u>\$ 219.3</u>	<u>\$ 212.1</u>
Deferred credits and other liabilities:		
Non-current income tax liabilities	\$ 95.7	\$ 108.0
Asset retirement obligations - non-current	68.7	77.0
Indemnifications	40.0	40.0
Deferred rent	30.6	35.7
Environmental accrual	17.6	2.8
Workers compensation	14.6	21.9
Other	23.3	24.5
	<u>\$ 290.5</u>	<u>\$ 309.9</u>

17. Restructuring Programs

During the year ended December 31, 2005, the Company executed a number of restructuring and rationalization programs designed to improve organizational efficiency in all key phases of operations, including research and development, regional and functional management, global sales and marketing, manufacturing, and corporate support. The actions were consistent with long-range plans to reposition the Company's operations to capitalize on strategic market opportunities on both a regional as well as a product and service offering basis.

At the end of 2004, the Company announced the first phase of its program to realign and consolidate its significant research and development efforts into regional centers in Europe and North America, respectively. In connection with that program, the Company closed its research facility in Barneveld, The Netherlands during the third quarter of 2005. The Company terminated approximately 50 employees at the Barneveld facility and relocated 8 employees to the Company's Helsingborg, Sweden site, which will now serve as the primary center for Pulp and Paper application activities in Europe. The Company recognized approximately \$3.0 million in severance charges and benefits, incurred ratably over the service period from the announcement date through closure in September 2005 in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). The Company recognized an additional \$1.4 million as incurred in connection with other exit costs related to the closure of the Barneveld facility.

The second phase of the research realignment and consolidation program began during the fourth quarter of 2005 with the announcement of the Company's intention to close its Jacksonville, Florida facility which houses certain research and development capabilities specific to pulp and paper technology including a small scale pilot plant. Concurrent with that action and in connection with a grant received from the State of Delaware, the Company announced plans to substantially expand and upgrade its research facility in Wilmington, Delaware. The plan includes the transfer of certain employees and equipment from the Jacksonville facility to the Wilmington facility. The Company plans to terminate approximately 60 employees at the Jacksonville site and recognized a charge of \$0.3 million during the fourth quarter of 2005. In accordance with SFAS 146, the Company will recognize approximately \$2.0 million of additional charges during 2006 as

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the activities are terminated and the site is prepared for closure. While the Wilmington site is undergoing expansion and will eventually increase its headcount, certain functions were realigned, resulting in the elimination of approximately 10 positions for which a charge of approximately \$0.5 million was recognized in accordance with Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112").

As a result of these actions, the Company accelerated the depreciation of its facilities in Barneveld and Jacksonville through the periods prior to their estimated closure. The Company also accelerated the depreciation of certain assets at the Wilmington facility for the period prior to their demolition or reconfiguration. As of December 31, 2005, the Jacksonville site is still in operation and will continue through a portion of 2006, during which accelerated depreciation will continue.

Throughout 2005, the Performance Products segment engaged in significant actions designed to realign its global marketing infrastructure and de-layer management as part of its strategic plans and to improve responsiveness to emerging market trends and opportunities. Accordingly, the Company eliminated approximately 80 positions worldwide and recognized charges for severance and related benefits of \$14.5 million in accordance with SFAS 112. Of the total, approximately \$12.7 million was attributable to the Pulp and Paper division and the remaining \$1.8 million was attributable to the Aqualon division.

The Performance Products restructuring activities also included the rationalization of certain manufacturing assets. The Company closed its Pandaan, Indonesia manufacturing facility concurrent with the strategic realignment of its Pulp and Paper division in the Asia Pacific region. In connection with the closing, the Company terminated approximately 50 employees and recognized severance and related benefits charges of approximately \$0.2 million and \$0.4 million, respectively, in accordance with SFAS 146 and SFAS 112. The Company also announced its intention to close its Pendlebury manufacturing facility in the United Kingdom during 2006 as part of the Pulp and Paper strategic realignment in Europe. As a result of this action, the Company recognized a SFAS 112 charge of \$1.3 million related to the termination of approximately 40 employees. Also during 2005, the Aqualon division terminated 7 employees in connection with a program at its Parlin, New Jersey manufacturing facility resulting in the accrual of approximately \$0.3 million of SFAS 146 charges which were recognized during the period in which certain energy-related assets were taken out of service. The Company accelerated the depreciation of its Pandaan and Pendlebury manufacturing facilities during the periods of continued operational use prior to estimated closure. As of December 31, 2005, the Pendlebury site is still in operation and will continue as such into 2006. Accordingly, accelerated depreciation charges are expected to continue until their estimated closure dates during 2006.

Both the Pinova and FiberVisions divisions executed plans to curtail certain production activities and reduce headcount at their manufacturing facilities in North America and Europe. In November, Pinova announced its intention to exit the Terpenes Specialties business in early 2006. The Company accrued SFAS 112 charges of approximately \$3.4 million in connection with the termination of approximately 70 employees at the Brunswick, Georgia manufacturing facility. As a result of this action, an impairment charge was recorded for certain assets directly attributable to the production of those products at the Company's Brunswick, Georgia manufacturing facility. Additionally, Pinova recorded an impairment charge at the Company's Hattiesburg, Mississippi manufacturing facility attributable to the termination of production of certain rosins which serve as an intermediate to other finished products, as well as \$0.2 million charged as incurred in connection with the termination of a product distribution agreement as an exit cost pursuant to SFAS 146.

Primarily as a result of declining market demand for certain products, FiberVisions ceased production on certain lines at its facilities in North American and reduced headcount at its Varde, Denmark manufacturing facility resulting in the termination of approximately 80 employees and the accrual of SFAS 112 severance and related benefit charges of \$3.4 million.

The Company also recorded write-downs in the value of certain inventories and spare parts for both the Terpenes Specialties business of Pinova as well as similar items at FiberVisions' Covington, Georgia manufacturing facility.

In order to support the various initiatives to realign and restructure the Company's operations on a global basis, the Company also initiated several corporate actions including the establishment of a centralized European headquarters facility in Schaffhausen, Switzerland. During 2005, the Company accrued approximately \$0.5 million in relocation costs related to this move in accordance with SFAS 146. In addition, the Company streamlined other support functions resulting in headcount reductions of approximately 40 employees in various functional departments including Information Management and Procurement. In connection with the reduction, the Company recorded approximately \$4.8 million of severance and related benefits in accordance with SFAS 112.

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A summary of the actions executed in 2005 for severance and other exit costs as well as asset-related charges, all of which have been recorded in Other operating expenses, is provided as follows:

	Charges by Type		
	SFAS 112	SFAS 146	Total
Employee severance, relocation and related benefits accrued:			
Research and development consolidation	\$ 0.5	\$ 3.3	\$ 3.8
Global marketing and management realignment	14.5	-	14.5
Performance products manufacturing rationalization	1.7	0.5	2.2
Pinova manufacturing rationalization	3.4	-	3.4
FiberVisions manufacturing rationalization	3.4	-	3.4
Corporate support realignment	4.8	0.5	5.3
	<u>28.3</u>	<u>4.3</u>	<u>32.6</u>
Other exit costs charged as incurred:			
Barneveld, The Netherlands exit and site closure costs	-	1.4	1.4
Pinova product distribution agreement termination	-	0.2	0.2
	-	1.6	1.6
Total severance and other exit costs	\$ 28.3	\$ 5.9	\$ 34.2

	Accelerated Depreciation	Asset Impairment	Inventory Write-Down	Total
Research & development consolidation				
Barneveld, The Netherlands	\$ 1.8	\$ -	\$ -	\$ 1.8
Jacksonville, FL	0.1	-	-	0.1
Wilmington, DE	0.5	-	-	0.5
	<u>2.4</u>	<u>-</u>	<u>-</u>	<u>2.4</u>
Performance Products manufacturing rationalization				
Pandaan, Indonesia	0.3	-	-	0.3
Pendlebury, UK	0.8	-	-	0.8
	<u>1.1</u>	<u>-</u>	<u>-</u>	<u>1.1</u>
Engineered Materials and Additives manufacturing rationalization				
Brunswick, GA	-	5.2	0.5	5.7
Hattiesburg, MS	-	0.5	-	0.5
Covington, VA	-	-	1.5	1.5
	<u>-</u>	<u>5.7</u>	<u>2.0</u>	<u>7.7</u>
Total asset charges	\$ 3.5	\$ 5.7	\$ 2.0	\$ 11.2

Restructuring charges recorded during the years ended December 31, 2004 and 2003, respectively, are primarily related to employee severance and related benefits in connection with various regional and functional restructuring and general headcount reduction programs. Charges related to SFAS 112-type programs amounted to approximately \$9.0 million and \$7.0 million in 2004 and 2003, respectively, while 2004 also included \$0.3 million of charges recorded in accordance with SFAS 146 attributable to the initial actions at the Barneveld facility as discussed above. All charges recorded have been included in the Statement of Operations as a component of Other operating expenses.

The year ended December 31, 2004 included asset impairment charges of \$9.2 million. Of the total, approximately \$3.6 million was attributable to a raw material production line at the Hopewell, Virginia manufacturing facility, \$2.9 million related to the closure of the former Kalamazoo, Michigan manufacturing facility and \$0.5 million and \$0.3 million for certain lines at the Pendlebury, UK and Savannah, Georgia manufacturing facilities, respectively. These charges, attributable to the Performance products segment were recorded in Other operating expenses. In addition, an impairment of approximately \$1.9 million was recorded in Other expense, net attributable to the inactive Langhorne, Pennsylvania site in connection with its reclassification as an asset held for sale.

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During the year ended December 31, 2003, the Company recorded a \$2.0 million asset impairment charge in Other expense, net in connection with the closure of the Langhorne facility

Total cash payments for severance benefits and other restructuring costs that have been accrued during the year ended December 31, 2005 were approximately \$21.4 million including \$17.2 million under SFAS 112 plans, \$3.5 million under SFAS 146 plans and \$0.7 million related to continuing payment streams under plans initiated in 1998 and 2001.

A reconciliation of activity with respect to the liabilities for these plans is as follows:

	<i>(Dollars in millions)</i>	
	2005	2004
Balance at beginning of the year	\$ 5.8	\$ 6.0
Additional severance and related costs recognized (SFAS 112)	28.3	9.3
Charges for SFAS 146 terminations and relocations	4.3	0.3
Cash payments	(21.4)	(9.9)
Other, including foreign currency translation	(0.4)	0.1
Balance at end of the year	<u>\$ 16.6</u>	<u>\$ 5.8</u>

The balance at December 31, 2005 is comprised of \$14.4 million related to the severance and related costs accounted for in accordance with SFAS 112, \$1.0 million associated with SFAS 146 related termination benefits and relocation costs and approximately \$1.2 million pertaining to continuing benefit streams under the 1998 and 2001 restructuring plans.

18. Other Operating Expense, Net

Other operating expense, net, consists of the following:

	<i>(Dollars in millions)</i>		
	Year Ended December 31,		
	2005	2004	2003
Severance, restructuring and other exit costs, net	\$ 34.2	\$ 9.5	\$ 4.9
Nitrocellulose facility shutdown costs	-	6.5	-
Asset impairment charges	5.7	7.3	0.6
Accelerated depreciation	3.5	-	-
Special executive pension adjustment	-	1.6	7.3
Proxy costs	-	-	3.6
Net environmental expense	-	-	0.8
Other miscellaneous charges	4.1	2.0	(0.2)
	<u>\$ 47.5</u>	<u>\$ 26.9</u>	<u>\$ 17.0</u>

19. Interest and Debt Expense

Interest and debt costs are summarized as follows:

	<i>(Dollars in millions)</i>		
	Year Ended December 31,		
	2005	2004	2003
Incurred	\$ 89.8	\$ 109.8	\$ 131.2
Capitalized	(0.4)	(1.1)	(0.4)
Net expensed	<u>\$ 89.4</u>	<u>\$ 108.7</u>	<u>\$ 130.8</u>

Interest and debt expense includes \$2.1 million, \$3.2 million and \$5.7 million of amortization of deferred financing costs for the years ended December 31, 2005, 2004 and 2003, respectively. Pursuant to the Company's adoption of SFAS 150 on July 1, 2003, interest and debt costs on the preferred securities has been recognized as interest and debt expense for each of the years presented (see Note 5).

Hercules Incorporated
Notes to Consolidated Financial Statements

20. Other Expense, Net

Other expense, net, consists of the following:

(Dollars in millions)

	Year Ended December 31,		
	2005	2004	2003
Asbestos-related costs, net	\$ 44.6	\$ 48.8	\$ 12.0
Loss (gain) on repurchase of debt	14.2	41.0	(2.3)
Environmental charges	22.4	7.6	5.0
Asset impairment charges	-	1.9	2.0
Net gains on dispositions	(10.9)	-	-
Other litigation settlements and accruals	18.9	19.2	7.8
Other, net	(2.9)	(1.8)	4.4
	<u>\$ 86.3</u>	<u>\$ 116.7</u>	<u>\$ 28.9</u>

Costs summarized above, excluding loss (gain) on repurchase of debt, represent charges, settlements and accruals associated with former operations of the Company.

21. Changes in Accounting Principle

FIN 47

Effective December 31, 2005, the Company recorded a \$2.5 million cumulative effect adjustment, net of tax in accordance with the provisions of FIN 47. As discussed further in Note 11, the cumulative effect adjustment includes the recognition of approximately \$4.0 million in AROs and the capitalization of approximately \$0.2 million in related asset retirement costs offset by accumulated depreciation on those assets of \$0.1 million. The following table reflects the pro forma effect of FIN 47 on net (loss) income and net (loss) earnings per share as if the provisions had been in effect for the periods presented.

(Dollars in millions)

	Year Ended December 31,		
	2005	2004	2003
Net (loss) income before cumulative effect of changes in accounting principle:			
As reported	\$ (38.6)	\$ 28.1	\$ 78.7
Accretion and depreciation	-	(0.1)	(0.1)
Adjusted net (loss) income before cumulative effect of changes in accounting principle	<u>\$ (38.6)</u>	<u>\$ 28.0</u>	<u>\$ 78.6</u>
Basic (loss) earnings per share before cumulative effect of changes in accounting principle:			
As reported	\$ (0.36)	\$ 0.26	\$ 0.74
Adjusted	<u>\$ (0.36)</u>	<u>\$ 0.26</u>	<u>\$ 0.74</u>
Diluted (loss) earnings per share before cumulative effect of changes in accounting principle:			
As reported	\$ (0.36)	\$ 0.26	\$ 0.73
Adjusted	<u>\$ (0.36)</u>	<u>\$ 0.26</u>	<u>\$ 0.73</u>
Net (loss) income:			
As reported	\$ (41.1)	\$ 28.1	\$ 45.4
Accretion and depreciation	-	(0.1)	(0.1)
Adjusted net income (loss)	<u>\$ (41.1)</u>	<u>\$ 28.0</u>	<u>\$ 45.3</u>
Basic (loss) earnings per share:			
As reported	\$ (0.38)	\$ 0.26	\$ 0.43
Adjusted	<u>\$ (0.38)</u>	<u>\$ 0.26</u>	<u>\$ 0.43</u>
Diluted (loss) earnings per share:			
As reported	\$ (0.38)	\$ 0.26	\$ 0.42
Adjusted	<u>\$ (0.38)</u>	<u>\$ 0.26</u>	<u>\$ 0.42</u>

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Inventories

Effective January 1, 2005, the Company elected to change its method of accounting for inventories located in the United States and previously valued using the LIFO method to the weighted average method to better reflect the current value of inventory in the balance sheet and to provide a better matching of revenue and expense in the statement of operations. Comparative financial statements of prior years have been adjusted to apply the weighted average method retrospectively. As a result of the accounting change, retained earnings as of January 1, 2003 was increased by \$13.2 million from \$1,449.8 million, as originally reported, to \$1,463.0 million.

The following tables reflect the changes to those financial statement line items of the prior year financial statements:

(Dollars in millions)

For the Years Ended December 31,

	2004			2003		
	As Originally Reported	Effect of Change	As Adjusted	As Originally Reported	Effect of Change	As Adjusted
Statement of Operations Line Items:						
Cost of sales	\$ 1,309.6	\$ (2.0)	\$ 1,307.6	\$ 1,167.6	\$ (0.7)	\$ 1,166.9
Profit from operations	226.9	2.0	228.9	254.8	0.7	255.5
Provision for income taxes	1.7	0.7	2.4	21.1	0.2	21.3
Net income from continuing operations	26.8	1.3	28.1	74.0	0.5	74.5
Net income	\$ 26.8	\$ 1.3	\$ 28.1	\$ 44.9	\$ 0.5	\$ 45.4
Basic earnings per share from:						
Continuing operations	\$ 0.25	\$ 0.01	\$ 0.26	\$ 0.69	\$ 0.01	\$ 0.70
Net income	\$ 0.25	\$ 0.01	\$ 0.26	\$ 0.42	\$ 0.01	\$ 0.43
Diluted earnings per share from:						
Continuing operations	\$ 0.25	\$ 0.01	\$ 0.26	\$ 0.69	\$ -	\$ 0.69
Net income	\$ 0.25	\$ 0.01	\$ 0.26	\$ 0.42	\$ -	\$ 0.42
Statement of Cash Flows Line Items:						
Net income	\$ 26.8	\$ 1.3	\$ 28.1	\$ 44.9	\$ 0.5	\$ 45.4
Deferred income tax provision	(19.4)	0.7	(18.7)	7.5	0.2	7.7
Inventories	6.0	(2.0)	4.0	(6.7)	(0.7)	(7.4)
Net cash provided by operating activities	\$ 120.5	\$ -	\$ 120.5	\$ 22.8	\$ -	\$ 22.8

As of December 31, 2004

	As Originally Reported	Effect of Change	As Adjusted
Balance Sheet Line Items:			
Inventories	\$ 189.4	\$ 23.0	\$ 212.4
Deferred income taxes - current	44.8	(8.1)	36.7
Total assets ⁽¹⁾	\$ 2,710.2	\$ 10.1	\$ 2,720.3
Retained earnings	1,521.5	15.0	1,536.5
Total liabilities and stockholders' equity ⁽¹⁾	\$ 2,710.2	\$ 10.1	\$ 2,720.3

⁽¹⁾ Also includes the reclassification of \$4.9 million related to VAT receivables and payables.

SFAS 143

Effective January 1, 2003, the Company recorded a \$28.6 million cumulative effect adjustment, net of tax in accordance with the provisions of SFAS 143 associated with a change in the method of accounting for AROs. The cumulative effect adjustment reflects the recognition of \$27.4 million of AROs and an \$18.3 million write-off of capitalized environmental remediation costs provided in accordance with the prior method of accounting offset by the capitalization of \$2.0 million of asset retirement costs.

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FIN 46(R)

As a result of the adoption of FIN 46R effective December 31, 2003, the Company recognized a \$4.7 million cumulative effect adjustment, net of tax in connection with gains realized upon the repurchase of CRESTS Units (see Note 5). The CRESTS were initially issued by Trust II, which was a consolidated subsidiary prior to the adoption of FIN 46R. Deconsolidation of Trust II as a result of FIN 46R resulted in the deferral of previously recognized gains on the repurchase of CRESTS Units until Trust II was liquidated. Trust II was subsequently dissolved and liquidated in December 2004 resulting in the recognition of the previously deferred gains in net income for 2004.

ESOP

Effective December 31, 2003, the Company changed its method of accounting for the ESOP from the method prescribed by Statement of Position No. 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans" to the method prescribed by Statement of Position No. 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP 93-6"). Upon the adoption, the Company retroactively applied the provisions of SOP 93-6 to all prior periods and adjusted the beginning balance of retained earnings accordingly.

22. (Loss) Earnings per Share

The following table shows the amounts used in computing basic and diluted (loss) earnings per share and the weighted-average number of shares of basic and dilutive common stock:

(Dollars in millions, except per share)

	For the years ended December 31,					
	2005		2004		2003	
	Loss	Loss per share	Income	Earnings per share	Income (loss)	Earnings (loss) per share
Basic:						
Continuing operations	\$ (38.6)	\$ (0.36)	\$ 28.1	\$ 0.26	\$ 74.2	\$ 0.70
Discontinued operations	-	-	-	-	4.5	0.04
Cumulative effect of changes in accounting principle	(2.5)	(0.02)	-	-	(33.3)	(0.31)
Net (loss) income	<u>\$ (41.1)</u>	<u>\$ (0.38)</u>	<u>\$ 28.1</u>	<u>\$ 0.26</u>	<u>\$ 45.4</u>	<u>\$ 0.43</u>
Weighted average number of basic shares (millions)	108.7		107.3		106.2	
Diluted:						
Continuing operations	\$ (38.6)	\$ (0.36)	\$ 28.1	\$ 0.26	\$ 74.2	\$ 0.69
Discontinued operations	-	-	-	-	4.5	0.04
Cumulative effect of changes in accounting principle	(2.5)	(0.02)	-	-	(33.3)	(0.31)
Net (loss) income	<u>\$ (41.1)</u>	<u>\$ (0.38)</u>	<u>\$ 28.1</u>	<u>\$ 0.26</u>	<u>\$ 45.4</u>	<u>\$ 0.42</u>
Weighted average number of diluted shares (millions)	108.7		109.0		107.2	

For the years ended December 31, 2005, 2004 and 2003, respectively, the Company had convertible subordinated debentures, stock options and restricted stock that were convertible into approximately 1.7 million, 1.7 million and 1.0 million shares of common stock. Stock options, restricted stock and convertible debentures in 2005 were anti-dilutive and are not included in the calculation of diluted earnings per share. The related interest on the convertible subordinated debentures has an immaterial impact on (loss) earnings per share calculations.

The following table shows the number of options and warrants that have been excluded from the computation of diluted earnings per share as their exercise price exceeded their current market value:

	Year ended December 31,		
	2005	2004	2003
Options to purchase common stock (millions)	5.8	10.6	12.4
Warrants to purchase common stock (millions)	6.7	7.1	7.1

23. Operations by Industry Segment and Geographic Area

The financial information that follows regarding the Company's segments, which includes Net sales, Profit from operations and Total assets, is presented in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). The Company has identified two reportable segments, Performance Products and Engineered Materials and Additives.

Performance Products (Pulp and Paper and Aqualon divisions): Products and services offered by the Pulp and Paper division are designed to enhance customers' profitability by improving production yields and overall product quality, and to better enable customers to meet their environmental objectives and regulatory requirements.

The Company believes its Pulp and Paper division is one of the largest suppliers of functional, process and water management chemicals for the pulp and paper industry. The division offers a wide and highly-sophisticated range of technology and applications expertise with in-mill capabilities which run from influent treatment through the pulp and paper making process to paper finishing. The division is a broad-based global supplier able to offer a complete portfolio of products to its pulp and paper customers.

The products in Aqualon are principally derived from natural resources and are sold as key raw materials to other manufacturers. Principal products and markets include water-soluble polymers used as thickeners, emulsifiers and stabilizers for water-based paints, oil and gas exploration, building materials and personal care products.

Engineered Materials and Additives (FiberVisions and Pinova divisions): Products in this segment provide low-cost, technology driven solutions to meet customer needs and market demands. Principal products and markets include polyolefin staple fibers used in disposable diapers, wipes and other hygienic products; industrial fiber products; rosin and hydrocarbon resins for adhesives; food and beverage; and construction specialties.

The Company evaluates performance and makes decisions based primarily on cash flow, profit from operations and return on invested capital. Other assets and liabilities, primarily goodwill and other intangibles, not specifically allocated to business segments, are reflected as Corporate in the following table.

Geographic Reporting

For geographic reporting, no single country, outside the United States, is material for separate disclosure. However, because the Company has significant foreign operations, Net sales and Property, plant and equipment, net are disclosed by geographic region.

Net sales are reported on a "customer basis," meaning that they are included in the geographic area in which the customer is located. Property, plant and equipment, net is included in the geographic areas in which the producing entities are located.

Intersegment sales are eliminated in consolidation.

Geographic Areas	United States	Europe	Americas (a)	Asia Pacific	Total
2005					
Net Sales	\$ 981.0	\$ 747.9	\$ 106.0	\$ 233.9	\$ 2,068.8
Property, plant and equipment, net	262.1	233.8	15.7	23.8	535.4
2004					
Net Sales	\$ 921.2	\$ 762.2	\$ 98.8	\$ 214.5	\$ 1,996.7
Property, plant and equipment, net	325.2	331.4	16.2	22.6	695.4
2003					
Net Sales	\$ 884.8	\$ 692.9	\$ 93.8	\$ 174.5	\$ 1,846.0
Property, plant and equipment, net	345.3	302.6	12.2	17.3	677.4

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(Dollars in millions)

Industry Segments	Performance Products	Engineered Materials and Additives	Corporate	Consolidated
2005				
Net sales	\$ 1,686.0	\$ 382.8	\$ -	\$ 2,068.8
Profit (loss) from operations	220.0	(77.9)	(11.7) (b)	130.4
Interest and debt expense				89.4
Other expense, net				86.3
(Loss) before income taxes and equity loss				(45.3)
Total assets	1,474.9	234.0	859.9 (c)	2,568.8
Capital expenditures	53.5	6.5	7.5	67.5
Depreciation and amortization	80.2	17.0	8.7	105.9
2004				
Net sales	\$ 1,616.5	\$ 380.2	\$ -	\$ 1,996.7
Profit (loss) from operations	248.6	(14.4)	(5.3) (b)	228.9
Interest and debt expense				108.7
Gain on sale of CP Kelco ApS				(27.0)
Other expense, net				116.7
Income before income taxes and equity loss				30.5
Total assets	1,622.0	369.4	728.9 (c)	2,720.3
Capital expenditures	63.7	8.2	5.5	77.4
Depreciation and amortization	73.5	17.7	9.9	101.1
2003				
Net sales	\$ 1,483.5	\$ 362.5	\$ -	\$ 1,846.0
Profit (loss) from operations	261.9	9.1	(15.5) (b)	255.5
Interest and debt expense				130.8
Other expense, net				28.9
Income before income taxes and equity loss				95.8
Total assets	1,525.6	372.1	824.1 (c)	2,721.8
Capital expenditures	39.3	4.9	3.8	48.0
Depreciation and amortization	74.1	20.8	5.7	100.6

(a) Excluding operations in the United States of America.

(b) Includes \$7.1 million of severance and other exit costs in 2005, \$6.5 million in facility shutdown costs in 2004, and \$4.6 million, \$7.3 million and \$3.6 million of severance, special pension adjustment and proxy costs, respectively, in 2003.

(c) Includes assets not specifically allocated to business segments, primarily intangible assets and other long-term assets.

24. Financial Instruments and Risk Management, Including Derivatives

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of the derivative contracts summarized below do not represent the amounts exchanged by the parties involved and thus, are not a measure of the Company's exposure to various risks through its use of derivatives. The amounts exchanged by the parties are calculated on the basis of the notional amounts, underlyings such as interest rates and foreign currency rates of exchange and other terms of the derivative contracts.

Foreign Exchange Risk Management

The Company has selectively used foreign currency forward contracts and currency swaps to offset the effects of foreign currency exchange rate changes on reported earnings, cash flow and net asset positions. The primary exposures are denominated in the Euro, Swedish kroner, Danish kroner and British pound sterling. Some of the contracts involved the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The term of the currency derivatives is rarely more than three months. At December 31, 2005 and 2004, the Company had \$0- and \$0.4 million, respectively, of outstanding forward-exchange contracts to purchase foreign currencies. The Company had outstanding forward-exchange contracts to sell foreign currencies aggregating \$12.8 million and \$12.3 million at December 31, 2005 and 2004,

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Notes to Consolidated Financial Statements

respectively. Cross-currency trades entered into by non-U.S. dollar denominated entities aggregated \$329.8 million and \$410.4 million at December 31, 2005 and 2004, respectively. The foreign exchange contracts outstanding at December 31, 2005 mature on or before January 27, 2006.

Fair Values

The following table presents the net carrying amounts and fair values of the Company's financial instruments at December 31, 2005 and 2004:

	<i>(Dollars in millions)</i>			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment securities (available for sale)	\$ 1.0	\$ 1.0	\$ 1.5	\$ 1.5
Total debt	(1,109.0)	(1,092.1)	(1,240.1)	(1,265.2)
Foreign exchange contracts, net	(0.2)	(0.2)	0.6	0.6

Fair values of the above financial instruments are indicative of cash that would have been required had settlement been made at December 31, 2005 and 2004.

Basis of Valuation

- Investment securities: Present value of expected future cash flows.
- Long-term debt: Present value of expected cash flows related to existing borrowings discounted at rates currently available to the Company for long-term borrowings with similar terms and remaining maturities.
- Foreign exchange contracts: Year-end exchange rates.

25. Divestitures

On February 12, 2004, a subsidiary of the Company completed the sale of its minority ownership in CP Kelco ApS to a subsidiary of J. M. Huber Corporation for \$27.0 million. The book value of the Company's investment in CP Kelco ApS had been written down to zero in 2002 as the result of an after-tax impairment charge of \$19.0 million.

Net (loss) income for the month ended January 31, 2004 and the year ended December 31, 2003 was \$(2.2) million and \$59.3 million, respectively. At the time of disposal, the CP Kelco ApS balance sheet was comprised of total assets and total liabilities of \$932.1 million and \$816.3 million, respectively.

26. Condensed Consolidating Financial Information of Guarantor Subsidiaries

The 11.125% senior notes due 2007 are guaranteed by substantially all of the Company's current and future wholly-owned domestic restricted subsidiaries (the "guarantor subsidiaries"). The Senior Credit Facility entered into in April 2004 also provides for a guarantee by each guarantor subsidiary. The guarantees by each guarantor subsidiary are full and unconditional and joint and several. The indenture under which the Company's 6.60% notes due 2027 and 6.625% notes, redeemed in 2003, were issued requires such notes to be guaranteed or secured on the same basis as any other subsequently issued debt that is guaranteed or secured. As a result, at December 31, 2005, the following wholly-owned domestic restricted subsidiaries fully and unconditionally and jointly and severally guarantee the Senior Credit Facility, the 6.60% notes due 2027, the 11.125% notes due 2007 and the 6.75% notes due 2029.

Aqualon Company	FiberVisions Products, Inc.
Athens Holding Inc.	Hercules Euro Holdings, LLC
Covington Holdings, Inc.	Hercules Finance Company
East Bay Realty Services, Inc.	Hercules Flavor, Inc.
FiberVisions Incorporated	Hercules Hydrocarbon Holdings, Inc.
FiberVisions, L.L.C.	Hercules Paper Holdings, Inc.
FiberVisions L.P.	WSP, Inc.

The non-guarantor subsidiaries include all of the Company's foreign subsidiaries and certain domestic subsidiaries. The Company conducts much of its business through and derives much of its income from its subsidiaries. Therefore, the Company's ability to make required payments with respect to its indebtedness and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries. There are no restrictions on the ability of any of the guarantor subsidiaries to transfer funds to the Company; however, there may be such restrictions for certain foreign non-guarantor subsidiaries.

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The following condensed consolidating financial information for the Company presents the financial information of Hercules, the guarantor subsidiaries and the non-guarantor subsidiaries based on the Company's understanding of the Securities and Exchange Commission's interpretation and application of Rule 3-10 under the Securities and Exchange Commission's Regulation S-X. The financial information may not necessarily be indicative of results of operations or financial position had the guarantor subsidiaries or non-guarantor subsidiaries operated as independent entities.

In this presentation, Hercules consists of parent company operations. Guarantor subsidiaries and non-guarantor subsidiaries of Hercules are reported on an equity basis. Additionally, prior year information has been reclassified to conform to the presentation in the Consolidated Balance Sheets.

Hercules Incorporated
Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Operations

Year Ended December 31, 2005

(Dollars in millions)

	Unconsolidated				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Consolidated
Net sales	\$ 562.7	\$ 491.2	\$ 1,175.2	\$ (160.3)	\$ 2,068.8
Cost of sales	401.4	382.7	794.7	(172.5)	1,406.3
Selling, general, and administrative expenses	104.0	130.0	148.8	-	382.8
Research and development	19.3	18.4	3.2	-	40.9
Intangible asset amortization	6.0	1.5	0.5	-	8.0
Impairment of Fibervisions goodwill	-	52.9	-	-	52.9
Other operating expenses, net	16.1	9.0	22.4	-	47.5
Profit (loss) from operations	15.9	(103.3)	205.6	12.2	130.4
Interest and debt expense (income), net	173.1	(71.6)	(12.1)	-	89.4
Other expense (income), net	87.3	2.4	(3.4)	-	86.3
(Loss) income before income taxes and equity (loss) income	(244.5)	(34.1)	221.1	12.2	(45.3)
(Benefit) provision for income taxes	(103.7)	20.0	72.2	4.3	(7.2)
Equity (loss) income of affiliated companies	-	(1.1)	0.5	0.1	(0.5)
Equity income (loss) from consolidated subsidiaries	102.2	10.0	(3.2)	(109.0)	-
Net (loss) income from continuing operations	(38.6)	(45.2)	146.2	(101.0)	(38.6)
Cumulative effect of changes in accounting principles	(2.5)	-	-	-	(2.5)
Net (loss) income	\$ (41.1)	\$ (45.2)	\$ 146.2	\$ (101.0)	\$ (41.1)

Hercules Incorporated
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Condensed Consolidating Statement of Operations

Year Ended December 31, 2004

(Dollars in millions)

	Unconsolidated				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Adjustments	Consolidated
Net sales	\$ 540.8	\$ 474.8	\$ 1,131.9	\$ (150.8)	\$ 1,996.7
Cost of sales	374.8	352.5	731.1	(150.8)	1,307.6
Selling, general, and administrative expenses	101.1	126.0	155.3	-	382.4
Research and development	19.8	17.4	5.6	-	42.8
Goodwill and intangible asset amortization	6.1	1.5	0.5	-	8.1
Other operating expenses, net	4.8	12.9	9.2	-	26.9
Profit (loss) from operations	34.2	(35.5)	230.2	-	228.9
Interest and debt expense (income), net	177.6	(59.7)	(9.2)	-	108.7
Gain on sale of CP Kelco ApS	-	-	(27.0)	-	(27.0)
Other expense (income), net	256.6	3.9	(143.8)	-	116.7
Income (loss) before income taxes and equity income (loss)	(400.0)	20.3	410.2	-	30.5
Provision (benefit) for income taxes	(88.2)	38.1	52.5	-	2.4
Equity income (loss) of affiliated companies	-	(0.7)	0.9	(0.2)	-
Equity income (loss) from consolidated subsidiaries	339.9	6.0	(1.6)	(344.3)	-
Net income (loss) from continuing operations	28.1	(12.5)	357.0	(344.5)	28.1
Cumulative effect of changes in accounting principle, net of tax	-	-	-	-	-
Net income (loss)	\$ 28.1	\$ (12.5)	\$ 357.0	\$ (344.5)	\$ 28.1

Hercules Incorporated
Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Operations

Year Ended December 31, 2003

(Dollars in millions)

	Unconsolidated			Eliminations and Adjustments	Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net sales	\$ 509.2	\$ 445.1	\$ 1,023.5	\$ (131.8)	\$ 1,846.0
Cost of sales	331.7	320.0	643.2	(128.0)	1,166.9
Selling, general, and administrative expenses	83.7	84.6	191.6	-	359.9
Research and development	17.0	16.8	4.9	-	38.7
Goodwill and intangible asset amortization	6.3	1.7	-	-	8.0
Other operating expenses, net	9.2	3.9	3.9	-	17.0
Profit from operations	61.3	18.1	179.9	(3.8)	255.5
Interest and debt expense (income), net	174.2	(58.8)	15.4	-	130.8
Other expense, net	23.1	4.8	1.0	-	28.9
Income (loss) before income taxes and equity (loss) income	(136.0)	72.1	163.5	(3.8)	95.8
Provision (benefit) for income taxes	(52.3)	29.2	45.7	(1.3)	21.3
Equity (loss) income of affiliated companies	-	(0.7)	0.7	(0.3)	(0.3)
Equity income from consolidated subsidiaries	157.9	15.0	1.6	(174.5)	-
Net income from continuing operations	74.2	57.2	120.1	(177.3)	74.2
Net income on discontinued operations, net of tax	4.5	-	-	-	4.5
Net income before cumulative effect of changes in accounting principle	78.7	57.2	120.1	(177.3)	78.7
Cumulative effect of changes in accounting principle, net of tax	(33.3)	-	-	-	(33.3)
Net income	\$ 45.4	\$ 57.2	\$ 120.1	\$ (177.3)	\$ 45.4

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Condensed Consolidating Balance Sheet

December 31, 2005

(Dollars in millions)

Assets	Unconsolidated			Eliminations and Adjustments	Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Current assets					
Cash and cash equivalents	\$ 9.1	\$ 1.0	\$ 67.2	\$ -	\$ 77.3
Accounts receivable, net	63.4	35.8	191.6	0.2	291.0
Intercompany receivable	68.7	17.5	21.4	(107.6)	-
Inventories	58.1	52.4	76.6	(2.1)	185.0
Deferred income taxes	24.0	2.9	12.4	-	39.3
FiberVisions assets held for sale	-	138.8	63.9	-	202.7
Other current assets	25.4	1.8	20.7	0.2	48.1
Total current assets	248.7	250.2	453.8	(109.3)	843.4
Property, plant and equipment, net	145.6	107.2	282.6	-	535.4
Investments in subsidiaries and advances, net	2,461.4	88.3	44.9	(2,594.6)	-
Goodwill and other intangible assets, net	196.4	27.8	359.6	-	583.8
Deferred income taxes	361.7	-	18.3	(139.6)	240.4
Asbestos-related assets	120.7	-	-	-	120.7
Deferred charges and other assets	171.6	13.8	59.7	-	245.1
Total assets	\$ 3,706.1	\$ 487.3	\$ 1,218.9	\$ (2,843.5)	\$ 2,568.8
Liabilities and Stockholders' (Deficit) Equity					
Current liabilities					
Accounts payable	\$ 52.0	\$ 16.7	\$ 104.5	\$ 0.2	\$ 173.4
FiberVisions liabilities held for sale	-	51.2	15.4	-	66.6
Asbestos-related liabilities	36.4	-	-	-	36.4
Intercompany payable	1.5	60.7	42.0	(104.2)	-
Current debt obligations	4.0	-	12.7	-	16.7
Accrued expenses	78.5	60.5	80.3	-	219.3
Total current liabilities	172.4	189.1	254.9	(104.0)	512.4
Long-term debt	1,088.6	-	3.7	-	1,092.3
Deferred income taxes	-	142.6	72.2	(139.0)	75.8
Pension liability	251.7	-	71.7	-	323.4
Other postretirement benefits	63.1	2.1	0.3	-	65.5
Deferred credits and other liabilities	254.2	18.8	17.5	-	290.5
Asbestos-related liabilities	233.6	-	-	-	233.6
Intercompany notes payable (receivable)	1,667.2	(1,208.7)	(458.5)	-	-
Total stockholders' (deficit) equity	(24.7)	1,343.4	1,257.1	(2,600.5)	(24.7)
Total liabilities and stockholders' (deficit) equity	\$ 3,706.1	\$ 487.3	\$ 1,218.9	\$ (2,843.5)	\$ 2,568.8

Hercules Incorporated
Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheet

December 31, 2004

(Dollars in millions)

Assets	Unconsolidated			Eliminations and Adjustments	Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Current assets					
Cash and cash equivalents	\$ 42.8	\$ 0.9	\$ 82.8	\$ -	\$ 126.5
Accounts receivable, net	64.8	55.6	225.6	0.7	346.7
Intercompany receivable	74.4	25.2	29.9	(129.5)	-
Inventories	59.0	63.2	105.0	(14.8)	212.4
Deferred income taxes	18.3	16.3	2.1	-	36.7
Asbestos-related assets	6.3	-	-	-	6.3
Other current assets	23.4	10.1	20.3	-	53.8
Total current assets	289.0	171.3	465.7	(143.6)	782.4
Property, plant and equipment, net	162.7	152.7	380.0	-	695.4
Investments in subsidiaries and advances, net	2,279.4	88.0	48.8	(2,416.2)	-
Goodwill and other intangible assets, net	195.9	88.2	428.5	-	712.6
Deferred income taxes	266.3	(159.1)	14.7	-	121.9
Asbestos-related assets	162.5	-	-	-	162.5
Deferred charges and other assets	206.2	5.6	33.7	-	245.5
Total assets	\$ 3,562.0	\$ 346.7	\$ 1,371.4	\$ (2,559.8)	\$ 2,720.3
Liabilities and Stockholders' Equity					
Current liabilities					
Accounts payable	\$ 43.1	\$ 24.4	\$ 120.2	\$ (0.7)	\$ 187.0
Asbestos-related liabilities	46.8	-	-	-	46.8
Intercompany payable	7.7	76.4	45.4	(129.5)	-
Current debt obligations	4.0	-	25.8	-	29.8
Accrued expenses	81.9	73.4	56.8	-	212.1
Total current liabilities	183.5	174.2	248.2	(130.2)	475.7
Long-term debt	1,200.6	0.2	9.5	-	1,210.3
Deferred income taxes	-	-	77.2	-	77.2
Pension liability	176.8	0.6	64.0	-	241.4
Other postretirement benefits	78.3	2.2	-	-	80.5
Deferred credits and other liabilities	247.2	40.4	22.3	-	309.9
Asbestos-related liabilities	213.4	-	-	-	213.4
Intercompany notes payable (receivable)	1,350.3	(1,181.9)	(168.4)	-	-
Total stockholders' equity	111.9	1,311.0	1,118.6	(2,429.6)	111.9
Total liabilities and stockholders' equity	\$ 3,562.0	\$ 346.7	\$ 1,371.4	\$ (2,559.8)	\$ 2,720.3

Hercules Incorporated
Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2005

(Dollars in millions)

	Unconsolidated				Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	
Net Cash Provided By (Used In) Operating Activities	\$ (4.6)	\$ 29.1	\$ (81.2)	\$ 195.9	\$ 139.2
Cash Flow From Investing Activities:					
Capital expenditures	(16.7)	(26.7)	(24.1)	-	(67.5)
Proceeds of investment and fixed asset disposals	13.3	-	3.3	-	16.6
Other, net	-	-	(6.8)	-	(6.8)
Net cash used in investing activities	(3.4)	(26.7)	(27.6)	-	(57.7)
Cash Flow From Financing Activities:					
Long-term debt payments	(112.8)	-	(18.4)	-	(131.2)
Change in short-term debt	-	-	1.9	-	1.9
Change in intercompany advances	84.8	(2.3)	156.6	(239.1)	-
Treasury stock issued	2.7	-	-	-	2.7
Dividends paid	-	-	(43.2)	43.2	-
Other	(0.4)	-	-	-	(0.4)
Net cash used in financing activities	(25.7)	(2.3)	96.9	(195.9)	(127.0)
Effect of exchange rate changes on cash	-	-	(3.7)	-	(3.7)
Net (decrease) increase in cash and cash equivalents	(33.7)	0.1	(15.6)	-	(49.2)
Cash and cash equivalents at beginning of year	42.8	0.9	82.8	-	126.5
Cash and cash equivalents at end of year	\$ 9.1	\$ 1.0	\$ 67.2	\$ -	\$ 77.3

Hercules Incorporated
Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2004

(Dollars in millions)

	Unconsolidated				Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	
Net Cash Provided By Operating Activities	\$ 155.4	\$ 40.9	\$ 490.0	\$ (565.8)	\$ 120.5
Cash Flow From Investing Activities:					
Capital expenditures	(22.5)	(15.4)	(39.4)	(0.1)	(77.4)
Proceeds of investment and fixed asset disposals	0.8	-	0.6	-	1.4
Proceeds from sale of minority interests in CP Kelco ApS	27.0	-	-	-	27.0
Other, net	0.8	(1.5)	0.7	(0.1)	(0.1)
Net cash (used in) provided by investing activities	6.1	(16.9)	(38.1)	(0.2)	(49.1)
Cash Flow From Financing Activities:					
Long-term debt proceeds	650.0	-	-	-	650.0
Long-term debt payments	(713.2)	-	(16.3)	-	(729.5)
Change in short-term debt	-	-	1.6	-	1.6
Payment of debt issuance costs and underwriting fees	(7.8)	-	-	-	(7.8)
Change in intercompany advances	(68.4)	(25.2)	(262.2)	355.8	-
Treasury stock issued	5.5	-	-	-	5.5
Dividends paid	-	-	(210.2)	210.2	-
Other	6.1	-	-	-	6.1
Net cash used in financing activities	(127.8)	(25.2)	(487.1)	566.0	(74.1)
Effect of exchange rate changes on cash	-	-	2.9	-	2.9
Net increase (decrease) in cash and cash equivalents	33.7	(1.2)	(32.3)	-	0.2
Cash and cash equivalents at beginning of year	9.1	2.1	115.1	-	126.3
Cash and cash equivalents at end of year	\$ 42.8	\$ 0.9	\$ 82.8	\$ -	\$ 126.5

Hercules Incorporated
Notes to Consolidated Financial Statements

Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2003

(Dollars in millions)

	Unconsolidated				Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	
Net Cash Provided By Operating Activities	\$ 11.8	\$ 53.3	\$ 130.3	\$ (172.6)	\$ 22.8
Cash Flow From Investing Activities:					
Capital expenditures	(13.5)	(12.9)	(21.6)	-	(48.0)
Proceeds of investment and fixed asset disposals	4.3	0.7	5.4	-	10.4
Decrease in restricted cash	125.0	-	-	-	125.0
Acquisitions, net of cash acquired	-	-	(8.9)	-	(8.9)
Investment in CRESTS Units preferred securities	(27.4)	-	-	-	(27.4)
Other, net	(0.7)	0.9	(1.6)	-	(1.4)
Net cash provided by (used in) investing activities	87.7	(11.3)	(26.7)	-	49.7
Cash Flow From Financing Activities:					
Long-term debt repayments	(151.2)	-	(14.0)	-	(165.2)
Change in short-term debt	-	-	(0.7)	-	(0.7)
Change in intercompany, non-current	(65.1)	(46.9)	(105.4)	217.4	-
Repurchase of CRESTS Units warrants	(7.0)	-	-	-	(7.0)
Treasury stock issued	1.9	-	-	-	1.9
Dividends paid	-	-	44.8	(44.8)	-
Net cash used in financing activities	(221.4)	(46.9)	(75.3)	172.6	(171.0)
Effect of exchange rate changes on cash	-	-	15.8	-	15.8
Net (decrease) increase in cash and cash equivalents	(121.9)	(4.9)	44.1	-	(82.7)
Cash and cash equivalents at beginning of year	131.0	7.0	71.0	-	209.0
Cash and cash equivalents at end of year	\$ 9.1	\$ 2.1	\$ 115.1	\$ -	\$ 126.3

Hercules Incorporated
Notes to Consolidated Financial Statements

27. Summary of Quarterly Results (Unaudited)

(Dollars in millions except per share amounts)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Year	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Net sales	\$ 505.1	\$ 474.9	\$ 538.6	\$ 510.5	\$ 522.9	\$ 500.5	\$ 502.2	\$ 510.8	\$ 2,068.8	\$ 1,996.7
Cost of sales	341.5	305.1	355.3	325.5	357.5	327.0	352.0	350.0	1,406.3	1,307.6
Selling, general and administrative expenses	99.8	97.9	99.9	97.9	92.8	94.7	90.3	91.9	382.8	382.4
Research and development	10.4	10.5	10.0	11.7	10.1	10.4	10.4	10.2	40.9	42.8
Goodwill and intangible asset amortization	2.0	1.9	2.0	2.1	2.0	2.0	2.0	2.1	8.0	8.1
Impairment if FiberVisions goodwill	-	-	-	-	-	-	52.9	-	52.9	-
Other operating expense, net	10.0	12.9	10.4	8.7	11.1	1.4	16.0	3.9	47.5	26.9
Profit (loss) from operations	41.4	46.6	61.0	64.6	49.4	65.0	(21.4)	52.7	130.4	228.9
Interest and debt expense	22.2	30.4	22.8	29.4	22.5	25.1	21.9	23.8	89.4	108.7
Gain on sale of CP Kelco ApS	-	(26.0)	-	-	-	-	-	(1.0)	-	(27.0)
Other expense, net	21.1	17.4	25.8	26.4	0.2	49.8	39.2	23.1	86.3	116.7
(Loss) income before income taxes	(1.9)	24.8	12.4	8.8	26.7	(9.9)	(82.5)	6.8	(45.3)	30.5
(Benefit) provision for income taxes	(6.9)	(1.7)	3.0	4.8	2.6	41.2	(5.9)	(41.9)	(7.2)	2.4
(Loss) income before equity income (loss)	5.0	26.5	9.4	4.0	24.1	(51.1)	(76.6)	48.7	(38.1)	28.1
Equity (loss) of affiliated companies, net of tax	(0.1)	(0.2)	(0.2)	0.1	(0.1)	(0.2)	(0.1)	0.3	(0.5)	-
Net (loss) income before cumulative effect of changes in accounting principle	4.9	26.3	9.2	4.1	24.0	(51.3)	(76.7)	49.0	(38.6)	28.1
Cumulative effect of changes in accounting principle	-	-	-	-	-	-	(2.5)	-	(2.5)	-
Net (loss) income	\$ 4.9	\$ 26.3	\$ 9.2	\$ 4.1	\$ 24.0	\$ (51.3)	\$ (79.2)	\$ 49.0	\$ (41.1)	\$ 28.1
(Loss) earnings per share										
Basic (loss) earnings per share:										
Continuing operations	\$ 0.05	\$ 0.25	\$ 0.08	\$ 0.04	\$ 0.22	\$ (0.47)	\$ (0.71)	\$ 0.45	\$ (0.36)	\$ 0.26
Cumulative effect of changes in accounting principle	-	-	-	-	-	-	(0.02)	-	(0.02)	-
Net (loss) income	\$ 0.05	\$ 0.25	\$ 0.08	\$ 0.04	\$ 0.22	\$ (0.47)	\$ (0.73)	\$ 0.45	\$ (0.38)	\$ 0.26
Diluted (loss) earnings per share:										
Continuing operations	\$ 0.04	\$ 0.24	\$ 0.08	\$ 0.04	\$ 0.22	\$ (0.47)	\$ (0.71)	\$ 0.45	\$ (0.36)	\$ 0.26
Cumulative effect of changes in accounting principle	-	-	-	-	-	-	(0.02)	-	(0.02)	-
Net (loss) income	\$ 0.04	\$ 0.24	\$ 0.08	\$ 0.04	\$ 0.22	\$ (0.47)	\$ (0.73)	\$ 0.45	\$ (0.38)	\$ 0.26

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING
AND FINANCIAL DISCLOSURE**

On April 18, 2005, the Audit Committee of the Board of Directors (“Audit Committee”) of Hercules dismissed PricewaterhouseCoopers LLP (“PwC”) as the Company’s independent registered public accounting firm effective upon completion of services related to the review of the Company’s financial statements for the first quarter ended March 31, 2005.

PwC’s reports on the Company’s financial statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. During the two most recent fiscal years and through April 18, 2005, there have been no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of the disagreement in connection with its reports on the financial statements for such years.

During the two most recent fiscal years and through April 18, 2005, there have been no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K, except that:

- The Company included a disclosure, in “Item 4. Controls and Procedures”, of its Form 10-Q for the quarter ended September 30, 2004 as filed on November 15, 2004 and as amended in a Form 10-Q/A filed on January 7, 2005, that the Company’s disclosure controls and procedures were not effective as of September 30, 2004 solely as a result of a material weakness in internal control over financial reporting relating to the calculation of available foreign tax credits and over the tax settlement process. In connection with a restatement of previously issued financial statements, the Company made improvements to its disclosure controls and procedures that effectively remediated the underlying material weakness such that the Company’s President and Chief Executive Officer and the Company’s Vice President and Chief Financial Officer believed that the Company’s disclosure controls and procedures implemented over the tax process, including the collection and analysis of information used to calculate foreign tax credits and the tax settlement process, were effective. Accordingly, the material weakness in the tax process was remediated permitting management to conclude that, as of December 31, 2004, the Company’s internal control over financial reporting was effective. As reflected in their Report of Independent Registered Public Accounting Firm dated as of March 16, 2005 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004, PwC stated that in its opinion, management’s assessment, included in Management’s Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by COSO, is fairly stated, in all material respects, based on those criteria. Furthermore, in PwC’s opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO.
- The Company included a disclosure in “Item 9A. Controls and Procedures”, of its Form 10-K for the year ended December 31, 2003, as filed on March 15, 2004 and as amended in a Form 10-K/A filed on March 25, 2004, with respect to the accounting for a special pension benefit granted in the quarter ended September 30, 2003. In connection with a restatement of previously issued financial statements, the Company made improvements to its disclosure controls and procedures that effectively remediated the underlying material weakness such that the Company’s President and Chief Executive Officer and the Company’s Vice President and Controller (Principal Accounting Officer) concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2003.
- In the second quarter of 2003, the Company implemented the provisions of Statement of Financial Accounting Standards No. 148 (“SFAS No. 148”) “Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123.” The Company adopted SFAS No. 148 on a prospective basis. During the year-end audit procedures of the Company’s stock compensation plans, it was noted that the Company continued to account for its employee stock purchase plan under APB 25, “Accounting for Stock Issued to Employees” resulting in an immaterial (\$130,000) understatement of its compensation expense during the first three quarters of 2003. The error was corrected in the fourth quarter of 2003.

Hercules provided PwC with a copy of the above statements as documented for issuance in the Company's April 18, 2005 Form 8-K. The Company received a response letter, dated as of April 22, 2005 and filed with the aforementioned Form 8-K as Exhibit 16.1, regarding PwC's concurrence with the statements.

On April 18, 2005, the Audit Committee unanimously voted to engage BDO Seidman, LLP ("BDO") as its independent registered public accounting firm to audit the Company's financial statements and internal control over financial reporting for the year ending December 31, 2005.

Hercules has not consulted with BDO during the two most recent fiscal years and through April 18, 2005 regarding either the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Company as well as any matters or reportable events described in Items 304(a)(2)(i) or (ii) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of December 31, 2005. Based upon that evaluation, the Company's President and Chief Executive Officer and the Company's Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the Company's fourth fiscal quarter, that have materially affected, or are reasonably likely to materially affect the registrant's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting is on page 30 of this Form 10-K.

The certifications of the Company's President and Chief Executive Officer and the Company's Vice President and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K. Additionally, as required by Section 303A.12(a) of the New York Stock Exchange ("NYSE") Listed Company Manual, the Company's President and Chief Executive Officer filed a certification with the NYSE on June 22, 2005 reporting that he was not aware of any violation by us of the NYSE's Corporate Governance listing standards.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

BOARD OF DIRECTORS

Information regarding directors and nominees for directors of Hercules will be included in the Company's Proxy Statement and is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age and current position of each executive officer of Hercules as of February 28, 2006 is listed below. There are no family relationships among the executive officers.

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Craig A. Rogerson	49	President, Chief Executive Officer and Director
Fred G. Aanonsen	58	Vice President and Controller
Edward V. Carrington	63	Vice President, Human Resources
Richard G. Dahlen	66	Chief Legal Officer
Israel J. Floyd	59	Corporate Secretary and General Counsel
Vincenzo M. Romano	52	Vice President, Taxes
Stuart C. Shears	55	Vice President and Treasurer
Allen A. Spizzo	48	Vice President and Chief Financial Officer

Craig A. Rogerson joined Hercules in 1979 and has held his current position since December 2003. He had been Vice President and General Manager, FiberVisions and Pinova since April 2002. Prior to that, he had been Vice President and General Manager of BetzDearborn since August 2000 and Vice President of Business Operations for BetzDearborn Division since May 2000.

Fred G. Aanonsen joined Hercules in July 2001. Prior to joining Hercules, he spent 25 years at Union Carbide Corporation, where most recently he had been the Director of Accounting and Financial Processing since 1998 and Business Director for the Finance SAP Design and Implementation Team from 1995 to 1998. Mr. Aanonsen is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants and the Financial Executives Institute.

Edward V. Carrington originally joined Hercules when it acquired Radiant Color in 1969 and assumed his current position in June 2001. Prior to that, he had served in a consulting role since October 2000. From 1997 until 2000, he was Vice President of Buttonwood Cottages, Inc., a vacation resort complex, and President of Rentals in Paradise, Inc., a vacation home rental business. Mr. Carrington is a trustee of Christiana Care.

Richard G. Dahlen originally joined Hercules in 1996. Mr. Dahlen assumed his current position in June 2001. Prior to that, he had served in a consulting role since October 2000.

Israel J. Floyd joined Hercules in 1973 and has held his current position since 2001. He had been Vice President, Secretary and General Counsel since 1999.

Vincenzo M. Romano joined Hercules in March 2003 as Director, Federal Tax and has held his current position since July 2004. He was self-employed as a tax consultant from September 2001 until March 2003. Prior to that, he was a Tax Director for PricewaterhouseCoopers from January 1999 to August 2001.

Stuart C. Shears joined Hercules in 1978 and has held his current position since 1999.

Allen A. Spizzo joined Hercules in 1979 and has held his current position since March 2004. He had been Vice President, Corporate Affairs, Strategic Planning and Corporate Development from July 2002 to March 2004. Prior to that, Mr. Spizzo had been Vice President, Investor Relations and Strategic Planning since 2000.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding compensation of Hercules' directors and executive officers will be included in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding beneficial ownership of Hercules common stock by certain beneficial owners and by directors and executive officers of Hercules will be included in the Company's Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2005 concerning the number of shares of common stock to be issued upon the exercise of outstanding options, warrants and rights issued under all of the Company's existing equity compensation plans, including the Hercules Incorporated Long-Term Incentive Compensation Plan, the Hercules Incorporated Non-Employee Director Stock Accumulation Plan, and the Hercules Incorporated Omnibus Equity Compensation Plan for Non-employee Directors; the weighted-average exercise price of such options, warrants and rights and the number of securities remaining available for future issuance under such plans. All of the Company's equity compensation plans have been approved by the Company's shareholders.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	9,724,127 (1) (2)	\$ 24.08	7,726,070
Equity compensation plans not approved by security holders (3)	-	-	-
Total	<u>9,724,127</u>	<u>\$ 24.08</u>	<u>7,726,070</u>

(1) Includes 4,253,080 options with exercise prices in excess of the weighted average price of \$24.08.

(2) Includes options to purchase 1,561,544 shares that were not vested at December 31, 2005.

(3) There are no equity compensation plans that have not been approved by the Company's shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding relationships or transactions between directors and officers and the Company will be included in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services will be included in the Company's Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

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Management's Report on Internal Control over Financial Reporting	34
Report of Independent Registered Public Accounting Firm	35
Consolidated Statements of Operations and Comprehensive (Loss) Income for the Years Ended December 31, 2005, 2004 and 2003	38
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2. Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts

	(Dollars in millions)				
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
Year 2005					
Tax valuation allowance	\$ 391.8	\$ 23.1	\$ (34.2)	\$ -	\$ 380.7
Year 2004					
Tax valuation allowance	\$ 399.8	\$ (22.9)	\$ 14.9	\$ -	\$ 391.8
Year 2003					
Tax valuation allowance	\$ 373.0	\$ (2.9)	\$ 29.7	\$ -	\$ 399.8

All other schedules are omitted because they are not applicable, not required or the information required is either presented in the Notes to the Consolidated Financial Statements or has not changed materially from that previously reported.

3. Exhibits:

A complete listing of exhibits is included in the Exhibit Index that precedes the exhibits filed with this Report.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 1, 2006.

By: HERCULES INCORPORATED
/s/ Craig A. Rogerson

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 1, 2006.

Principal Executive Officer and Director:

President and Chief Executive Officer

/s/ Craig A. Rogerson

Craig A. Rogerson

Principal Financial Officer:

Vice President and Chief Financial Officer

/s/ Allen A. Spizzo

Allen A. Spizzo

Principal Accounting Officer:

Vice President and Controller

/s/ Fred G. Aanonsen

Fred G. Aanonsen

Directors:

/s/ John K. Wulff

John K. Wulff, Chairman of the Board

/s/ Burton M. Joyce

Burton M. Joyce

/s/ Anna Cheng Catalano

Anna Cheng Catalano

/s/ Robert D. Kennedy

Robert D. Kennedy

/s/ Patrick Duff

Patrick Duff

/s/ Jeffrey M. Lipton

Jeffrey M. Lipton

/s/ Thomas P. Gerrity

Thomas P. Gerrity

/s/ Joe B. Wyatt

Joe B. Wyatt

/s/ John C. Hunter, III

John C. Hunter, III

EXHIBIT INDEX

Number	Description	Incorporated by Reference to
2.1	Agreement and Plan of Merger among Hercules, Water Acquisition Company and BetzDearborn Inc., dated July 30, 1998	Exhibit 2.1, BetzDearborn Inc. Current Report on Form 8-K, filed July 30, 1998
3.1	Restated Certificate of Incorporation of Hercules, as revised and amended July 6, 1988	Exhibit 3-A, Annual Report on Form 10-K filed March 26, 1993
3.2	Certificate of Amendment dated October 24, 1995, to Hercules' Restated Certificate of Incorporation as revised and amended July 5, 1998	Exhibit 4.1a, Registration Statement on Form S-3, filed September 15, 1998
3.3	By-Laws of Hercules, as revised and amended as of July 15, 2003	Exhibit 3.1, Quarterly Report on Form 10-Q filed August 7, 2003
4.1	Officers' Certificate, dated as of July 27, 1999, pursuant to the Junior Subordinated Debentures Indenture between Hercules and Chase, dated as of November 12, 1998	Exhibit 4.1, Current Report on Form 8-K, dated July 27, 1999
4.2	Unit Agreement, dated July 27, 1999, among Hercules, Hercules Trust II and The Chase Manhattan Bank, as unit agent	Exhibit 4.3, Current Report on Form 8-K, dated July 27, 1999
4.3	Warrant Agreement, dated July 27, 1999, between Hercules and The Chase Manhattan Bank, as warrant agent	Exhibit 4.4, Current Report on Form 8-K, dated July 27, 1999
4.4	Form of Series A Junior Subordinated Deferrable Interest Debentures	Exhibit 4.5, Current Report on Form 8-K, dated July 27, 1999
4.5	Form of CRESTS Unit	Exhibit 4.7, Current Report on Form 8-K, dated July 27, 1999
4.6	Form of Warrant	Exhibit 4.8, Current Report on Form 8-K, dated July 27, 1999
4.7	Rights Agreement, dated as of August 24, 2000, between Hercules Incorporated and Chase Mellon Shareholder Services, L.L.C.	Exhibit 4.1 to Hercules Registration of Certain Classes of Securities on Form 8-A filed August 10, 2000
4.8	Indenture, dated as of November 14, 2000, between Hercules Incorporated, as issuer and Wells Fargo Bank Minnesota, N.A., as trustee (including the form of 11.125% senior notes due 2007 included as Exhibit A thereto).	Exhibit 4-A, Quarterly Report on Form 10-Q, filed November 14, 2000
4.9	Registration Rights Agreement, dated as of November 14, 2000, among Hercules Incorporated and all of its domestic subsidiaries and Donaldson, Lufkin & Jenrette Securities Corporation and Credit Suisse First Boston Corporation, as the initial purchasers.	Exhibit 4-B Quarterly Report on Form 10-Q, filed November 14, 2000
4.10	Amendment No. 1 to the Hercules Incorporated Rights Agreement, dated as of June 5, 2003	Exhibit 4.2, Registration Statement on Form 8-A, filed June 5, 2003
4.11	Amendment No. 2 to the Hercules Incorporated Rights Agreement, dated as of August 21, 2003	Exhibit 4.1, Current Report on Form 8-K, filed September 22, 2003
4.12	Indenture, dated as of April 8, 2004, between Hercules Incorporated and each of the Guarantors party thereto and Wells Fargo Bank, National Association	Exhibit 4.1, Quarterly Report on Form 10-Q filed May 10, 2004

4.13	Registration Rights Agreement, dated April 8, 2004, between Hercules Incorporated and the Guarantors listed on Schedule A thereto and Credit Suisse First Boston LLC, Wachovia Capital Markets, LLC, Scotia Capital (USA) Inc. and Deutsche Bank Securities Inc.	Exhibit 4.2, Quarterly Report on Form 10-Q, filed May 10, 2004
10.1	Hercules Executive Survivor Benefit Plan	Exhibit 10-D, Annual Report on Form 10-K, filed March 27, 1981
10.2	Hercules 1993 Non-Employee Director Stock Accumulation and Deferred Compensation Plan	Exhibit 4.1, Registration Statement on Form S-8, filed July 16, 1993
10.3	Hercules Employee Pension Restoration Plan	Exhibit 10-L, Annual Report on Form 10-K, filed March 26, 1993
10.4	Hercules Amended and Restated Long Term Incentive Compensation Plan	Exhibit 10-K, Annual Report on Form 10-K, filed March 29, 2000
10.5	CRESTS Units Underwriting Agreement, dated July 21, 1999, among Hercules, Hercules Trust II and the Underwriters named therein	Exhibit 1.1, Current Report on Form 8-K, dated July 27, 1999
10.6	Common Stock Underwriting Agreement, dated July 21, 1999, among Hercules and the Underwriters named therein	Exhibit 1.2, Current Report on Form 8-K, dated July 27, 1999
10.7	Form of Change-of-Control Employment Agreements entered into as of August 24, 2000 by Hercules Incorporated and each of Robert C. Flexon and Craig A. Rogerson	Exhibit 10-19, Registration Statement S-4, filed August 9, 2001
10.8	Form of Change-of-Control Employment Agreements entered into as of June 15, 2001 by Hercules Incorporated and Richard G. Dahlen	Exhibit 10-25, Registration Statement S-4, filed August 9, 2001
10.9	Change-of-Control Employment Agreement, dated as of July 2, 2001, by and between Hercules Incorporated and Fred G. Aanonsen	Exhibit 10-28, Registration Statement on Form S-4, filed August 9, 2001
10.10	Stock and Asset Purchase Agreement, dated as of February 12, 2002, by and among Hercules Incorporated, General Electric Company and Falcon Acquisition Corp.	Exhibit 10.1, Current Report on Form 8-K, dated February 12, 2002
10.11	Amendment 2002-1 to Amended and Restated Long Term Incentive Compensation Plan	Exhibit I, Proxy Statement, dated May 15, 2002
10.12	Amendment 2002-1 to Non-Employee Director Stock Accumulation Plan	Exhibit II, Proxy Statement, dated May 15, 2002
10.13	Hercules Incorporated Compensation Benefits Grantor Trust Agreement for Management Employees	Exhibit 10-Ee, Annual Report on Form 10-K/A, filed May 1, 2003
10.14	Hercules Incorporated Compensation Benefits Grantor Trust Agreement for Non-Employee Directors	Exhibit 10-Ff, Annual Report on Form 10-K/A, filed May 1, 2003
10.15	Amended and Restated Hercules Incorporated Management Incentive Compensation Plan, dated February 21, 2003	Exhibit 10-Gg Annual Report on Form 10-K/A, filed May 1, 2003
10.16	Hercules Deferred Compensation Plan, restated December 1995	Exhibit 10-B, Quarterly Report on Form 10-Q, filed May 15, 2003

10.17	Employment Offer Letter - Fred G. Aanonsen, dated June 27, 2001	Exhibit 10-C, Quarterly Report on Form 10-Q, filed May 15, 2003
10.18	Hercules Executive Survivor Benefit Plan II dated January 1, 1987 - benefit structure is only applicable to one executive officer	Exhibit 10-E, Quarterly Report on Form 10-Q, filed May 15, 2003
10.19	First Amendment to Credit Agreement, dated December 17, 2003, among Hercules Incorporated, certain subsidiaries of Hercules several banks and other financial institutions identified in the agreement and Credit Suisse First Boston, as administrative agent	Exhibit 10-Mm, Annual Report on Form 10-K, filed March 15, 2004
10.20	Omnibus Equity Compensation Plan for Non-Employee Directors	Appendix II, Proxy Statement dated June 20, 2003
10.21	Amended and Restated Credit Agreement, dated as of April 8, 2004, between Hercules Incorporated and the Guarantors listed on Schedule A thereto and Credit Suisse First Boston LLC, Wachovia Capital Markets, LLC, Scotia Capital (USA) Inc. and Deutsche Bank Securities Inc.	Exhibit 10.1, Quarterly Report on Form 10-Q, filed May 10, 2004
10.22	First Amendment to Amended and Restated Credit Agreement dated as of August 12, 2004, among Hercules Incorporated and the Guarantors listed on Schedule A thereto and Credit Suisse First Boston LLC and Wachovia Bank, National Association	Exhibit 10.1, Quarterly Report on Form 10-Q, filed November 15, 2004
10.23	Employment Agreement between Hercules Incorporated and Israel J. Floyd, dated August 24, 2000	Exhibit 10.27, Annual Report on Form 10-K, filed March 16, 2005
10.24	First Amendment to the Employment Agreement between Hercules Incorporated and Israel J. Floyd, dated August 24, 2000	Exhibit 10.28, Annual Report on Form 10-K, filed March 16, 2005
10.25	Employment Agreement between Hercules Incorporated and Allen A. Spizzo, dated August 24, 2000	Exhibit 10.29, Annual Report on Form 10-K, filed March 16, 2005
10.26	First Amendment to the Employment Agreement between Hercules Incorporated and Allen A. Spizzo, dated August 24, 2000	Exhibit 10.30, Annual Report on Form 10-K, filed March 16, 2005
10.27	First Amendment to the Employment Agreement between Hercules Incorporated and Craig A. Rogerson, dated August 24, 2000	Exhibit 10.31, Annual Report on Form 10-K, filed March 16, 2005
10.28	Pension Service Credit Agreement between Hercules Incorporated Compensation Committee of the Hercules Board of Directors and John Televantos, dated September 1, 2004	Exhibit 10.33, Annual Report on Form 10-K, filed March 16, 2005
10.29	Employment Offer Letter - Paul C. Raymond III, dated December 28, 2004	Exhibit 10.34, Annual Report on Form 10-K, filed March 16, 2005
10.30	Special Pension Agreement between Hercules Incorporated and William H. Joyce, approved August 21, 2003	Exhibit 10.35, Annual Report on Form 10-K, filed March 16, 2005
10.31	General Terms of Employment between Hercules Incorporated and Certain Executive Officers	Exhibit 10.36, Annual Report on Form 10-K, filed March 16, 2005

10.32	Employment Offer Letter - John E. Panichella, dated December 15, 2005	Exhibit 10.1, Current Report on Form 8-K/A, dated December 15, 2005
10.33 *	Contribution Agreement between Hercules Incorporated, WSP, Inc., SPG/FV Investor LLC and Fibervisions Delaware Corporation dated January 31, 2006	
14	Directors Code of Business Conduct and Ethics	Appendix VII, Proxy Statement dated June 20, 2003
18	Letter Regarding Change in Accounting Principle	Exhibit 18, Annual Report on Form 10-K, filed March 15, 2004
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31.2*	Certification of Vice President and Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)	
32.1*	Section 1350 Certification of President and Chief Executive Officer	
32.2*	Section 1350 Certification of Vice President and Chief Financial Officer	

*Filed herewith

CONTRIBUTION AGREEMENT

DATED AS OF JANUARY 31, 2006

among

HERCULES INCORPORATED,

WSP, INC.,

SPG/FV INVESTOR LLC

and

FIBERVISIONS DELAWARE CORPORATION

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CONTRIBUTION AGREEMENT

THIS CONTRIBUTION AGREEMENT dated as of January 31, 2006 is made by and among Hercules Incorporated, a Delaware corporation (“Hercules”), WSP, Inc., a Delaware corporation (“WSP” and together with Hercules, the “Stockholders”) and a wholly-owned subsidiary of Hercules, SPG/FV INVESTOR LLC, a Delaware limited liability company (“SPG”) and FiberVisions Delaware Corporation, a Delaware corporation (including any predecessor entity, the “Company”).

Background

WHEREAS, Hercules presently owns 510 shares of common stock, par value \$.01 per share of the Company (“Hercules Shares”), which represents 51% of the Stock (as defined below) ;

WHEREAS, WSP presently owns 490 shares of common stock, par value \$.01 per share of the Company (“WSP Shares”), which represents 49% of the Stock;

WHEREAS, the Hercules Shares and the WSP Shares, collectively, constitute all of the issued and outstanding capital stock of the Company (collectively, the “Stock”);

WHEREAS, on the Closing Date (as defined below), the Company and FiberVisions, A/S, a corporation organized and existing under the laws of the Kingdom of Denmark (“FV Denmark”) and a wholly owned subsidiary of the Company, shall incur the Debt Financing (as defined below) on the terms provided herein;

WHEREAS, FV Denmark, holds all of the outstanding equity (“FPI Equity”) of FiberVisions Products, Inc., a Georgia corporation (“FPI”).

WHEREAS, on the Closing Date, FV Denmark shall make a dividend of the FPI Equity to the Company and, upon the consummation of such dividend, FPI shall be a wholly-owned subsidiary of the Company and (ii) FV Denmark shall dividend its portion of the Debt Financing proceeds to the Company (the “Restructuring”).

WHEREAS, immediately following the consummation of the Debt Financing and the Restructuring on the Closing Date, the Company shall pay the Hercules Dividend (as defined below) to Hercules and the WSP Dividend (as defined below) to WSP;

WHEREAS, on the Closing Date, SPG shall contribute the Contribution Amount (as defined below) to the Company in exchange for 33.78% of the Stock of the Company (the “SPG Shares”);

WHEREAS, immediately following the Contribution on the Closing, the Company shall redeem all of the Hercules Shares in exchange for the payment by the Company to Hercules of the Redemption Price (as defined below) and the right to receive the Earnout Payments (as defined below);

WHEREAS, WSP and SPG shall have entered into the Option Agreement (as defined below), pursuant to which WSP shall grant to SPG an option to acquire 140 shares of Stock, which represents 14% of the Stock, from WSP on the terms set forth in the Option Agreement; and

WHEREAS, this Agreement provides for, among other things, each of the following, which are expressly conditioned on each other: (i) the Debt Financing; (ii) the Restructuring; (iii) certain dividends to each of Hercules and WSP; (iv) the Contribution by SPG; and (v) the redemption by the Company of the Hercules Shares.

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, the parties hereto, intending to be legally bound, agree as follows:

SECTION 1. Definitions

. For purposes of this Agreement, the following terms when appearing with initial capital letters will have the following meanings:

“Adjusted EBITDA Floor” shall have the meaning set forth in Section 2.3(e).

“Affiliate” of a Person shall mean a Person Controlling, Controlled by or under common Control with such Person.

“Agent” shall mean Credit Suisse First Boston, as administrative agent under the Credit Agreement.

“Agreement” shall mean this Contribution Agreement and the Schedules and Exhibits attached hereto.

“Basket Amount” shall have the meaning set forth in Section 8.2(b).

“Cap Amount” shall have the meaning set forth in Section 8.2(b).

“Certificate of Incorporation” shall mean the certificate of incorporation of the Company as filed with the Secretary of State of the State of Delaware and attached hereto as Exhibit A.

“Closing” shall have the meaning set forth in Section 2.1(b).

“Closing Date” shall have the meaning set forth in Section 2.1(b).

“Closing Date Financial Statements” shall have the meaning set forth in Section 2.3(a).

“Closing Date Net Working Capital Statement” shall have the meaning set forth in Section 2.3(a).

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Company” shall have the meaning set forth in the preamble hereto.

“Company Group” shall have the meaning set forth in Section 3.20(c).

“Company Indemnified Parties” shall have the meaning set forth in Section 8.1(d).

“Company Indemnifying Parties” shall have the meaning set forth in Section 8.1(a).

“Competing Business” shall mean the development, manufacture, marketing, sale and distribution of viscose, polypropylene, polyethylene, polyester, bi-component (defined as but not limited to staple fibers and continuous filaments made of two or more thermoplastic polymers having different melting points), staple fibers and filament yarns with and without additives to impart properties to the staple fibers and/or the filament yarns such as, but not limited to, color (solution dyed), dyeability, wettability and antimicrobial, and used in applications such as, but not limited to the production of nonwoven fabrics using a carded thermal bonded process, spunlace process, needlepunch process, airlaid process and combination thereof, the production of woven and knitted fabrics and the use in industrial applications such as, but not limited to, concrete reinforcement, concrete cracking prevention, automotive nonwoven, tea bags, wet laid applications, and binder fibers.

“Confidential Information” shall have the meaning set forth in Section 10.8(a).

“Contract” means any agreement, contract, obligation, promise, or undertaking (whether written or oral, express or implied) that is legally binding.

“Contribution” shall have the meaning set forth in Section 2.1(b)(i).

“Contribution Amount” shall have the meaning set forth in Section 2.1(b)(i).

“Control” and each derivative thereof shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management of a Person, whether through ownership of voting securities, by contract or otherwise.

“Control Premium” shall mean the Earnout Payments payable to Hercules by the Company, in respect of Hercules’ ownership of a controlling interest in the Company, which distribution amount shall be calculated in accordance with Section 5.2 hereof.

“Credit Agreement” shall mean the Amended and Restated Credit Agreement dated as of April 8, 2004 by and among Hercules, certain subsidiaries of Hercules, several banks and financial institutions named therein, and Agent, as amended by that certain First Amendment dated as of August 12, 2004, as further amended by that certain Second Amendment dated as of June 29, 2005, and as further amended, restated, modified or supplemented.

“Debt Financing” shall have the meaning set forth in Section 5.3 of this Agreement.

“Debt Financing Costs” shall mean those certain fees and expenses specifically listed on Schedule 2.2(a) incurred by the Company in connection with the consummation of the Debt Financing.

“Definitive Agreements” shall mean this Agreement, the Stockholders Agreement, the Transition Services Agreement, the Option Agreement and all other agreements, documents, certificates and other instruments to be executed and delivered by any party at the Closing.

“Divestiture Notice” shall have the meaning set forth in Section 5.10(a)(iii).

“Earnout Accountant” shall have the meaning set forth in Section 5.2(c)(ii).

“Earnout EBITDA” shall have the meaning set forth in Section 5.2(c)(i).

“Earnout Payment” shall have the meaning set forth in Section 5.2(a).

“Election Notice” shall have the meaning set forth in Section 5.10(a)(iii).

“Encumbrance” shall mean any encumbrance, security interest, mortgage, lien, pledge, claim, lease, agreement, right of first refusal, option, limitation on transfer or use or assignment or licensing, restrictive easement, charge or any other restriction or third party rights of any kind with respect to any property or assets (tangible or intangible), including any restriction on the ownership, use, voting, transfer, possession, receipt of income or other exercise of any attributes of ownership of such property or assets (whether tangible, intangible, real or personal).

“Environmental Laws” shall mean any Law relating to pollution or protection of the environment or human health or safety, including, without limitation, the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

“Environmental Permits” shall mean any permit, approval, identification number, license or other authorization required under or issued pursuant to any Environmental Law.

“ERISA” shall have the meaning set forth in Section 3.20(a).

“Estimated Earnout EBITDA” shall have the meaning set forth in Section 5.2(b)(i).

“Executive Officers” shall have the meaning set forth in Section 5.15(a).

“FiberVisions Business” shall mean the development, manufacture, marketing, sale and distribution of nonwoven polypropylene staple fiber used in carded thermal bonded fabrics for hygiene coverstock as well as olefin fiber for the domestic textile and industrial markets.

“FiberVisions Group” shall have the meaning set forth in Section 3.1(a).

“FiberVisions Real Property” shall have the meaning set forth in Section 3.10(b).

“Final 2005 Adjusted EBITDA” shall have the meaning set forth in Section 2.3(b).

“Final 2005 Adjusted EBITDA Statement” shall have the meaning set forth in Section 2.3(b).

“Final Closing Date Net Working Capital” shall have the meaning set forth in Section 2.3(b).

“Final Closing Date Net Working Capital Statement” shall have the meaning set forth in Section 2.3(b).

“Final Earnout EBITDA” shall have the meaning set forth in Section 5.2(c)(iii).

“Financial Statements” shall have the meaning set forth in Section 3.5.

“FPI” shall have the meaning set forth in the preamble hereto.

“FPI Equity” shall have the meaning set forth in the preamble hereto.

“FV Denmark” shall have the meaning set forth in the preamble hereto.

“GAAP” shall mean accounting principles generally accepted in the United States consistently applied.

“Governmental Entity” shall mean any court, arbitrator or other foreign, federal, state or local governmental, regulatory or other administrative body, authority, department, commission, board, bureau, agency or instrumentality.

“Gross Revenues” shall have the meaning set forth in Section 5.10(a)(iii).

“Group Employees” shall have the meaning set forth in Section 3.20(a).

“Hazardous Material” shall mean (a) petroleum, petroleum products, by-products or breakdown products, radioactive materials, asbestos or polychlorinated biphenyls, and (b) any chemical, material or substance defined or regulated as hazardous, dangerous, infectious or toxic or as a pollutant, contaminant or waste, or any other term of similar import under any Law relating to pollution or protection of the environment or human health or safety or that could otherwise reasonably be expected to result in the imposition of liability under any Law relating to pollution or protection of the environment or human health or safety.

“Hercules Dividend Amount” shall have the meaning set forth in Section 2.1(a)(iii).

“Hercules’ Knowledge” or any other phrase referring to the knowledge of Hercules means the actual knowledge, without independent verification, of the individuals listed on Schedule 1.1.

“Hercules Shares” shall have the meaning set forth in the preamble hereto.

“HSR Act” shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“Indemnified Party” shall have the meaning set forth in Section 8.5.

“Indemnifying Party” shall have the meaning set forth in Section 8.5.

“Infringe” shall have the meaning set forth in Section 3.11(a).

“Intellectual Property Rights” shall mean all intellectual property rights of any nature, including, without limitation, patents, patent applications, patent rights, trademarks, trade names, service marks, domain names, copyrights and works of authorship, computer programs, software and related items, trade secrets, proprietary processes, methodologies, technology, know-how and formulae.

“Intercompany Balances” means any and all intercompany balances between the FiberVisions Group, on the one hand, and the Hercules and WSP, and their Affiliates (other than the FiberVisions Group), on the other hand, arising from transactions of any kind between or among the FiberVisions Group, whether shown on the Most Recent Financial Statements or arising after the date of the Most Recent Financial Statements.

“Investment Assets” shall mean all debentures, notes and other evidences of indebtedness, stocks, securities (including rights to purchase and securities convertible into or exchangeable for other securities), interests in joint ventures and general and limited partnerships, mortgage loans and other investment or portfolio assets owned of record or beneficially by the Company (other than trade receivables generated in the Ordinary Course of Business).

“Laws” shall mean laws and binding governmental requirements, including constitutions, statutes, rules, regulations, compacts, treaties, codes, plans, injunctions, judgments, orders, decrees, rulings, charges, and other restrictions thereunder of each Governmental Entity.

“Leased Real Property” shall have the meaning set forth in Section 3.10(b).

“Losses” shall have the meaning set forth in Section 8.1(a).

“Material Adverse Effect” shall mean any change or effect that (a) is individually or together with any other change or effect materially adverse to the business, operations, properties (including intangible properties), condition (financial or otherwise), assets or liabilities of the Company and the Subsidiaries, taken as a whole, or (b) impairs in any material respect the ability of the Company and the Subsidiaries, taken as a whole, to perform its obligations under this Agreement or the Stockholders Agreement; provided that none of the following shall be deemed to constitute, and none of the following shall be taken into account in determining whether there has been, a Material Adverse Effect: any adverse change, event, development, or effect arising from or relating to (i) general business or economic conditions, including such conditions related to the business of the Company and the Subsidiaries; (ii) national or

international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States; (iii) financial, banking, or securities markets (including any disruption thereof and any decline in the price of any security or any market index); (iv) changes in United States generally accepted accounting principles; (v) changes in laws, rules, regulations, orders or other binding directives issued by any Governmental Entity; (vi) the taking of any action contemplated by this Agreement or any of the other Definitive Agreements or any other agreements contemplated hereby and thereby; or (vii) any existing event, occurrence or circumstance set forth or referenced in Schedule 3.6(a) or Schedule 5.1; provided that the events described in clauses (ii)-(v) above do not have a disproportionate impact on the Company and the Subsidiaries relative to other participants in the Company's industry.

"Most Recent Financial Statements" shall have the meaning set forth in Section 3.5.

"Net Working Capital" shall have the meaning set forth on Schedule 2.3.

"Neutral Accountant" shall have the meaning set forth in Section 2.3(b).

"Objection Notice" shall have the meaning set forth in Section 2.3(b).

"Option Agreement" shall mean the Option Agreement between WSP and SPG, substantially in the form attached to this Agreement as Exhibit C, to be executed and delivered at the Closing.

"Order" shall mean any judgment, order, writ, decree, injunction or other determination of any authority or arbitrator or similar body whose finding, ruling or holding is legally binding or is enforceable as a matter of right (in any case, whether preliminary or final).

"Ordinary Course of Business" shall mean the ordinary course of business of the Company consistent with past custom and practice since January 1, 2003.

"Owned Real Property" shall have the meaning set forth in Section 3.10(a).

"PBGC" shall have the meaning set forth in Section 3.20(f).

"Pension Plan" shall have the meaning set forth in Section 5.16(c).

"Permitted Encumbrance" shall mean as of any particular time: (a) liens for current state and local property taxes not yet due and payable; (b) covenants, restrictions, liens, encumbrances, servitudes, rights-of-way, easements, exceptions, limitations and agreements contained in instruments of record which, individually or in the aggregate, are not material in character, amount or extent and which do not materially adversely affect, detract from or inhibit the use or ownership of such assets or the conduct of the FiberVisions Business as presently used, owned or conducted; (c) any liens or encumbrances in connection with the Debt Financing; and (d) the items, if any, listed in Schedule 1.2.

“Person” shall mean an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, any other form of business organization, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“Plan” shall have the meaning set forth in Section 3.20(a).

“Principal Officer” shall have the meaning set forth in Section 3.6(j).

“Projections” shall mean the twelve-month financial projections of the Company prepared by SPG for fiscal 2007 based on the unaudited financial statements for the ten-month period ended October 31, 2007 and projections for the fourth quarter ending on December 31, 2007, which shall include the computation of the Estimated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).

“Purchasing Person” shall have the meaning set forth in Section 5.10(a)(iii).

“Real Property” shall mean with respect to each parcel of land, such land, together with all buildings, facilities, houses and other structures and improvements thereon; all rights, privileges, hereditaments and appurtenances appertaining thereto; and to the extent constituting fixtures under applicable law, all installations, equipment and other property attached thereto or located thereon.

“Registered Company IP” shall have the meaning set forth in Section 3.11(a).

“Registered Intellectual Property Rights” shall mean all registered patents, trademarks, copyrights and domain names.

“Required Consent Contract” shall mean any Company Contract that requires the consent of another party to such Contract upon a change in control of the Company as is provided for in this Agreement.

“Restructuring” shall have the meaning set forth in the preamble hereto.

“Retained Employees” shall have the meaning set forth in Section 5.16(a).

“Schedules” shall mean the disclosure schedules delivered by each of the parties hereto, and which form a part of this Agreement.

“Securities Act” shall have the meaning set forth in Section 3.12(d).

“SPG Indemnified Parties” shall have the meaning set forth in Section 8.1(a).

“SPG Indemnifying Parties” shall have the meaning set forth in Section 8.1(d).

“SPG Representatives” shall have the meaning set forth in Section 5.21.

“SPG Shares” shall have the meaning set forth in the preamble hereto.

“SPG Transaction Costs Cap” shall have the meaning set forth in Section 2.2(c).

“Stock” shall have the meaning set forth in the preamble hereto.

“Stockholders” shall have the meaning set forth in the preamble hereto.

“Stockholders Agreement” shall mean the form of the Stockholders Agreement attached hereto as Exhibit B.

“Straddle Period” shall have the meaning set forth in Section 8.1(a).

“Subsidiaries” shall mean any corporation, partnership, limited liability company or other entity a majority of the equity interests of which are held, directly or indirectly, by the Company.

“Tax” or “Taxes” shall mean any and all federal, state, local, or foreign taxes, charges, fees, levies or other assessments, including, without limitation, income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, and estimated taxes, or any other tax custom, duty, or governmental fee, or other like assessment or charge of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

“Tax Election” shall have the meaning set forth in the preamble hereto.

“Tax Return” shall mean any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof, required to be filed with the Internal Revenue Service or any other governmental body or tax authority or agency, whether domestic or foreign, including any consolidated, combined or unitary tax return.

“Term Note” shall mean any term note issued in connection with Section 5.2(c)(v) with the terms set forth in Schedule 5.2(c)(v).

“Third Person” shall have the meaning set forth in Section 8.6.

“Third-Person Claim” shall have the meaning set forth in Section 8.6.

“Title IV Plan” shall have the meaning set forth in Section 3.20(d).

“Transactions” shall mean all of the transactions contemplated in this Agreement, collectively, including, but not limited to, each of the transactions contemplated in Section 2 hereof and all actions in furtherance thereof.

“Transaction Costs Holdback” shall have the meaning set forth in Section 2.1(a)(iii).

“Transferred Employees” shall have the meaning set forth in Section 5.16(a).

“Transition Services Agreement” shall mean the Transition Services and Facilities Use and License Agreement between Hercules, the Company and SPG, substantially in the form attached to this Agreement as Exhibit D, to be executed and delivered at the Closing.

“Treasury Regulations” shall mean the regulations issued under the Code.

“Working Capital Floor” shall have the meaning set forth in Section 2.3(d)(i).

“WSP Dividend Amount” shall have the meaning set forth in Section 2.1(a)(iii) of this Agreement.

“WSP Shares” shall have the meaning set forth in the preamble to this Agreement.

“WSP Transaction Costs Cap” shall have the meaning set forth in Section 2.2(d).

“2005 Adjusted EBITDA” shall mean the Company’s adjusted EBITDA for fiscal year 2005 calculated from the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2005 in accordance with Schedule 2.1(b)(iii).

“2005 Adjusted EBITDA Statement” shall have the meaning set forth in Section 2.3(a).

SECTION 2. Transactions

2.1 Transactions and Closing

(a) The following transactions shall take place on the Closing Date and are expressly conditioned upon each other:

(i) Debt Financing. On the Closing Date, the Company shall effectuate the Debt Financing as set forth in Section 5.3.

(ii) Restructuring. On the Closing Date immediately following the consummation of the Debt Financing, FV Denmark shall effectuate the Restructuring.

(iii) Dividends to Stockholders. On the Closing Date immediately following the consummation of the Debt Financing and the Restructuring, the Company shall pay a dividend from the proceeds of the Debt Financing (1) to Hercules in the amount of Forty-One Million Eight Hundred Thousand Dollars (\$41,800,000) (the “Hercules Dividend Amount”), and (2) to WSP in the amount of Forty Million Two Hundred Thousand Dollars (\$40,200,000) (the “WSP Dividend Amount”). The remaining Eight Million Dollars (\$8,000,000) in proceeds from the Debt Financing (the “Transaction Costs Holdback”) shall be used by the Company for payment of the Total Transaction Costs to the parties as set forth in Section 2.2(b).

(b) In addition, the following transactions shall take place on the Closing Date immediately following the transactions described in Section 2.(a)(i), (ii) and (iii) above and are expressly conditioned upon each other:

(i) Contribution and Issuance of the SPG Shares. On the terms and subject to the conditions set forth in this Agreement, on the Closing Date, SPG shall contribute to the Company in cash Twenty-Seven Million Dollars (\$27,000,000) (the “Contribution Amount”) in exchange for the SPG Shares (the “Contribution”). Immediately following the Contribution, each of SPG and Hercules shall hold 33.78% of the Stock of the Company and WSP shall hold 32.44% of the Stock of the Company.

(ii) Redemption of the Hercules Shares. On the terms and subject to the conditions set forth in this Agreement on the Closing Date immediately following the Contribution, the Company shall redeem all of the Hercules Shares for (i) the redemption price of Twenty-Seven Million Dollars (\$27,000,000) (the “Redemption Price”), subject to the post-closing adjustments as set forth in Section 2.3; and (ii) the right to the Earnout Payments as set forth in Section 5.2. Upon satisfaction of the conditions set forth in this Agreement, SPG shall hold shares of Stock, which represent, in the aggregate, 51% of the Stock and WSP shall hold shares of Stock, which represent, in the aggregate, 49% of the Stock.

(iii) Option Agreement. At the Closing, WSP and SPG shall enter into an Option Agreement, substantially in the form of Exhibit C attached hereto, pursuant to which WSP grants SPG an option to acquire shares of Stock from WSP, which represents in the aggregate, a fourteen percent (14%) equity interest in Stock.

(iv) Transition Services Agreement. At the Closing, the Company and Hercules shall enter into a Transition Services Agreement, substantially in the form of Exhibit D attached hereto, pursuant to which Hercules agrees to provide certain services and support to the Company on a post-closing basis for a period not to exceed one (1) year from the Closing Date as provided in the Transition Services Agreement in exchange for the amounts to be paid to Hercules in connection with such services and/or support.

(c) Closing. The Closing shall take place on the last business day of the monthly accounting period of the Company following the date on which the conditions set forth in Article VI are satisfied or such other date as mutually agreed in writing by the parties hereto. The consummation of the transactions contemplated hereby shall be referred to herein as the “Closing” and at 11:59 p.m. on the date on which the Closing occurs shall be herein referred to as the “Closing Date.” Time shall be of the essence with respect to the Closing Date. For the avoidance of doubt, the parties to this Agreement agree for tax purposes to treat the transactions described in Section 2.1(a) as occurring prior to the transactions described in Section 2.1(b)(i) and (ii). Any Taxes arising out of the Restructuring will be allocable to the Pre-Closing Tax Period and the income generated by the Restructuring will be included in the Tax Return for the consolidated group for which Hercules is the common parent. The Closing shall take place at the offices of Hercules Incorporated at Hercules Plaza, 1313 North Market Street, Wilmington, DE 19894, or at such other location as the parties hereto may mutually agree.

(d) Closing Procedures. At the Closing, the parties shall deliver to each other the instruments, documents and consideration and shall take the actions specified in Sections 6 and 7 hereof.

(e) Payments. All payments to be made under this Agreement shall be paid by wire transfer of immediately available funds.

2.2 Total Transaction Costs

(a) Each party shall pay its transaction costs at Closing and the parties shall be reimbursed in accordance with this Section 2.2. The Company shall pay all of the Debt Financing Costs. Any transfer taxes, including, but not limited to, registration or license fees, to be paid in connection with the Transactions shall be paid by the Company. At Closing, the Company shall submit to SPG and WSP a statement detailing the amount of the Debt Financing Costs.

(b) At Closing, each of SPG and WSP shall submit to the Company invoices detailing transaction costs directly associated with this transaction, and the Company shall reimburse the Stockholders and SPG for such transaction costs, but only up to the caps described in 2.2(c) and 2.2(d).

(c) SPG shall be reimbursed by the Company for costs paid by SPG and invoiced to the Company in accordance with subsection (b) up to a maximum of 65% of the amount determined after deducting Debt Financing Costs paid by the Company from \$8,000,000 (the “SPG Transaction Costs Cap”)

(d) WSP shall be reimbursed by the Company for costs paid by WSP and invoiced to the Company in accordance with subsection (b) up to a maximum of 35% of the amount determined after deducting Debt Financing Costs paid by the Company from \$8,000,000 (the “WSP Transaction Costs Cap”)

(e) In the event that the SPG transaction costs exceed the SPG Transaction Costs Cap, SPG shall bear all of its transaction expenses that exceed the SPG Transaction Costs Cap. In the event that the WSP transaction costs exceed the WSP Transaction Costs Cap, WSP shall bear all of its transaction expenses that exceed the WSP Transaction Costs Cap.

(f) Except for the expenses to be reimbursed by the Company in accordance with this Section 2.2, or as otherwise indicated herein, each party shall bear its respective expenses incurred in connection with the preparation and execution of the Definitive Agreements and the consummation of the Transactions.

(g) In the event that SPG does not exercise the Option during the option exercise period as provided in the Option Agreement, then SPG shall refund to WSP an amount equal to 14% of the sum of the SPG Transaction Costs Cap and the WSP Transaction Costs Cap.

2.3 Redemption Price Adjustments

(a) As promptly as reasonably practicable, but in any event not later than 60 days after the Closing Date, SPG shall deliver to Hercules (A) an unaudited balance sheet of the FiberVisions Group as of the Closing, which balance sheet shall be prepared from

the books and records of the FiberVisions Group using the same accounting principles, procedures, policies, and methods that were used to prepare the Financial Statements, including that such statements shall be prepared in accordance with GAAP as consistently applied (the “Closing Date Financial Statements”), (B) a written statement of the Net Working Capital (the “Closing Date Net Working Capital Statement”) and (C) a written statement of the 2005 Adjusted EBITDA (the “2005 Adjusted EBITDA Statement”).

(b) The Closing Date Balance Sheet, the Closing Date Net Working Capital Statement (and the Closing Date Net Working Capital set forth therein) and the 2005 Adjusted EBITDA Statement (and the 2005 Adjusted EBITDA set forth therein) shall be final and binding on the parties unless, within 15 days after delivery thereof to Hercules, written notice is given by Hercules to SPG of its objection, setting forth in reasonable detail Hercules’ basis for objection (the “Objection Notice”). Hercules may dispute items reflected on the Closing Date Financial Statements and the Closing Date Net Working Capital Statement only on the basis that such items were not arrived at in conformity with the accounting principles, procedures, policies, and methods that were used to prepare the Financial Statements and in conformity with Schedule 2.3(b)(i). Hercules may dispute items reflected on the 2005 Adjusted EBITDA Statement only on the basis that such items were not arrived at in conformity with the accounting principles, procedures, policies and methods that were used to prepare the Financial Statements and in conformity with Schedule 2.3(b)(ii). If the Objection Notice is given, Hercules and SPG shall consult with each other with respect to the objection. If Hercules and SPG are unable to reach agreement within 30 days after the Objection Notice has been given, the dispute shall be submitted, as promptly as reasonably practicable, for resolution to the New York office of Ernst & Young, LLP or a mutually agreeable third-party firm of independent registered public accountants (the “Neutral Accountant”). Hercules and SPG agree to execute, if requested by the Neutral Accountant, a reasonable engagement letter with the Neutral Accountant. The Neutral Accountant shall make a determination, based solely on presentations by Hercules and SPG and not by independent review, as to (and only as to) each of the items in dispute, and shall be instructed that, in resolving such items in dispute, it must select a position with respect to the Closing Date Financial Statements, the Closing Date Net Working Capital Statement and/or 2005 Adjusted EBITDA Statement, as applicable that is either exactly SPG’s position with respect to the Closing Date Financial Statements, the Closing Date Net Working Capital Statement and/or 2005 Adjusted EBITDA Statement, as applicable or exactly Hercules’ position with respect to the Closing Date Financial Statements, the Closing Date Net Working Capital Statement and/or 2005 Adjusted EBITDA Statement, as applicable, or that is between such position of SPG and such position of Hercules. The Neutral Accountant shall furnish its determination as to the items in dispute (which determination shall have been made in accordance with this Agreement) to Hercules and SPG in writing together with a revised version of the Closing Date Net Working Capital Statement and/or 2005 Adjusted EBITDA Statement, as applicable, which shall have been revised by the Neutral Accountant to reflect its determination. The determination of the Neutral Accountant and the revised version of the Closing Date Net Working Capital Statement and/or 2005 Adjusted EBITDA Statement, as applicable reflecting the Neutral Accountant’s determination shall be final, conclusive and binding upon, and non-appealable by, Hercules and SPG. In connection with its determination of the disputed items, the Neutral Accountant shall be entitled to rely upon the accounting records and similar materials prepared in connection with the Closing Date Financial Statements, the Closing Date Net Working Capital Statement and/or 2005 Adjusted EBITDA Statement, as applicable.

The Company shall pay the fees and expenses of the Neutral Accountant. Hercules and SPG shall each use reasonable efforts to cause the Neutral Accountant to render its decision as soon as reasonably practicable (but in no event later than 30 days following the expiration of the 30-day period provided above for Hercules and SPG to resolve disputes before submission to the Neutral Accountant), including by promptly complying with all reasonable requests by the Neutral Accountant for information, books, records, and similar items. The Closing Date Net Working Capital Statement as finally determined pursuant to this Section 2.3(b) shall be referred to as the "Final Closing Date Net Working Capital Statement" and the Closing Date Net Working Capital as set forth in the Final Closing Date Net Working Capital Statement shall be the "Final Closing Date Net Working Capital." The 2005 Adjusted EBITDA Statement as finally determined pursuant to this Section 2.3(b) shall be referred to as the "Final 2005 Adjusted EBITDA Statement" and the 2005 Adjusted EBITDA as set forth in the Final 2005 Adjusted EBITDA Statement shall be the "Final 2005 Adjusted EBITDA".

(c) During the period following the delivery of the Closing Financial Statements until the Final Closing Date Net Working Capital Statement and/or Final 2005 Adjusted EBITDA Statement is finally determined, to the extent reasonably necessary, SPG shall and shall cause the FiberVisions Group to (A) provide Hercules and their authorized representatives with reasonable access to the books, records, facilities, and employees of the FiberVisions Group, (B) provide Hercules as promptly as practicable after the delivery of the Closing Date Financial Statements with financial information for the FiberVisions Group for the period ending on the Closing Date, and (C) cooperate fully with Hercules and their authorized representatives.

(d) If the Final Closing Date Net Working Capital is:

(i) less than Thirty-Five Million Dollars (\$35,000,000) (the "Working Capital Floor"), Hercules shall pay to the Company a dollar amount equal to the difference of the Working Capital Floor minus the Final Closing Date Net Working Capital, plus interest on such amount at the Federal Funds Rate from the Closing Date through the date of payment.

(ii) equal to or greater than the Working Capital Floor, no payment shall be required to be made pursuant to this Section 2.3(d).

(e) If the Final 2005 Adjusted EBITDA is:

(i) less than Nineteen Million Two Hundred Ninety-Eight Thousand Dollars (\$19,298,000.00) (the "Adjusted EBITDA Floor"), Hercules shall pay to the Company, a dollar amount equal to 5.8 times the difference of (1) the Adjusted EBITDA Floor minus (2) the Final 2005 Adjusted EBITDA.

(ii) equal to or greater than the Adjusted EBITDA Floor, no payment shall be required to be made pursuant to this Section 2.3 (e).

(f) Any amounts required to be paid pursuant to Section 2.3 shall be paid by wire transfer of immediately available funds to the Company's account within five business days after the Final Closing Date Net Working Capital and/or Final 2005 Adjusted EBITDA is determined in accordance with Section 2.3.

(g) Withholding Rights. SPG and the Company shall be entitled to deduct and withhold from the consideration otherwise payable to any Person pursuant to this Section 2 such amounts as it is required to deduct or withhold with respect to the making of such payment under any provision of federal, state, local or foreign tax law. If SPG or the Company so withholds amounts, such amounts shall be treated for all purposes of this Agreement as having been paid to such Person in respect of which SPG or the Company made such deduction or withholding.

SECTION 3. Representations and Warranties of Hercules and WSP

. Subject to Section 5.1 and Schedule 5.1, Hercules and WSP hereby make the representations and warranties set forth in this Section 3 as of the date hereof and as of the Closing Date. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SPECIFICALLY PROVIDED IN THIS SECTION 3, NO REPRESENTATION OR WARRANTY OF ANY KIND OR NATURE, WHETHER EXPRESS OR IMPLIED IS MADE TO SPG.

3.1 Organization; Good Standing; Corporate Power

(a) Each of the Company and each Subsidiary (collectively, the "FiberVisions Group") is a corporation, limited liability company, partnership or other legal entity duly formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization. The FiberVisions Group is duly qualified to do business and is in good standing under the laws of each jurisdiction in which the ownership of property or nature of the business conducted by it makes such qualification necessary. The Company, Hercules and WSP have made available to SPG true and complete copies of the organizational documents of each member of the FiberVisions Group as currently in effect and its organizational record books with respect to actions taken by its shareholders, members, directors and managers, as applicable.

(b) Each member of the FiberVisions Group has the requisite power and authority, and possesses all licenses and permits necessary, to own or lease and operate the properties and assets owned by it and to conduct the FiberVisions Business conducted by it. Each member of the FiberVisions Group, Hercules and WSP has the requisite power and authority to execute and deliver the Definitive Agreements to which it is a party and to consummate the Transactions. The Definitive Agreements have been or, as applicable, will be as of Closing, duly executed and delivered by the FiberVisions Group, Hercules and WSP, as applicable. The performance by the members of the FiberVisions Group, Hercules and WSP of each of their respective obligations under the Definitive Agreements (as applicable) have been duly and validly authorized by all necessary action or proceeding required to be taken therefor.

(c) This Agreement and each of the other Definitive Agreements, when executed and delivered by SPG, will constitute valid and legally binding obligations of each of the Company, Hercules and WSP, as applicable, enforceable in accordance with their respective terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or

affecting the enforcement of creditors' rights generally, (ii) applicable federal or state securities law limiting rights of indemnification, and (iii) the effect of rules of law governing the availability of equitable remedies.

3.2 Noncontravention

. Except as set forth on Schedule 3.2, neither the execution, delivery and performance of the Definitive Agreements by Hercules, WSP or the applicable members of the FiberVisions Group, nor the consummation of the Transactions by any such Person will: (a) conflict with or result in a violation by any member of the FiberVisions Group, Hercules, or WSP of their respective organizational documents; (b) conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in a violation of, or give rise to the termination, modification, cancellation or acceleration of the time for performance or payment under, in any case, whether with or without the passage of time or the giving of notice or both, any material agreement, contract, lease, license, instrument, evidence of indebtedness or other arrangement to which any member of the FiberVisions Group is a party or by which any member of the FiberVisions Group is bound, or to which any of the FiberVisions Group's assets are subject, except in the case of clause (b) for possible defaults, actions or omissions as would not reasonably be expected to have a Material Adverse Effect; (c) except for the applicable requirements of such consents, approvals, Orders, authorizations or notices as set forth on Schedule 3.2, violate any provision of any existing law, statute, judgment, decree, rule or regulation of any jurisdiction or any Order to which the Company or any of its assets or properties is subject; or (d) result in the creation or imposition of any Encumbrance on any of the material assets of the Company, except for Permitted Encumbrances, and except as would not be reasonably expected to have a Material Adverse Effect.

3.3 Brokers

. Except as set forth on Schedule 3.3, neither the Company, WSP nor Hercules has employed or retained any broker, finder or intermediary in connection with the Transactions. The fees and expenses of any broker, finder or intermediary set forth on Schedule 3.3 shall be paid in accordance with Section 5.8 hereof.

3.4 Equity Investments

. Except as otherwise disclosed on Schedule 3.4, the Company does not presently own or beneficially, directly or indirectly, or hold the right to acquire any capital securities or other ownership interest (or securities convertible into capital securities or other ownership interests) in any corporation, association, trust, partnership, limited liability company, joint venture, other business entity or other Person, except for investments in publicly traded or registered investment companies (e.g., mutual funds), equity securities, debt instruments, annuities, life insurance or money market type instruments (e.g., CDs, bank accounts), which relate to benefit and/or pension plans issued by entities in which the Company does not own more than five percent (5%) of the outstanding equity and does not actively participate in the business in which such investment is made.

3.5 Financial Statements

. Attached to Schedule 3.5 hereto are true and correct copies of the following financial statements of the FiberVisions Group (collectively, the "Financial Statements"): (a) audited consolidated financial statements for the fiscal years ended December 31, 2003 and December 31, 2004 and (b) unaudited consolidated financial statements as of and for the nine-month period ended September 30, 2005 (collectively, the "Most Recent Financial Statements"). The Financial Statements: (i) have been prepared from the

books and records of the FiberVisions Group; (ii) present fairly in all material respects the financial position of the FiberVisions Group as of the respective dates indicated and the results of operations and cash flows for the respective periods indicated; and (iii) have been prepared in accordance with GAAP as consistently applied.

3.6 Operations in the Ordinary Course; No Material Adverse Effect

. Except as set forth in Schedule 3.6(a), there has been no Material Adverse Effect since January 1, 2005. Except as reflected in the Most Recent Financial Statements or in Schedule 3.6(a), or, for changes, events or transactions in the Ordinary Course of Business or that have not resulted in a Material Adverse Effect, since September 30, 2005, none of the following events has occurred:

- (a) any change in the assets, liabilities, financial condition or operating results of the FiberVisions Group, except as contemplated by this Agreement including, but not limited to, the transactions set forth in Section 2.3(a);
- (b) any material damage, destruction, casualty or loss (whether or not covered by insurance) to the assets, properties, financial condition, operating results, or business of the FiberVisions Group;
- (c) any increase in the benefits under, or the establishment or amendment of, any bonus, insurance, collective bargaining agreement, severance (including the granting of any severance or termination pay), deferred compensation, pension, retirement, profit sharing, option (including the granting of options, appreciation rights, performance awards or restricted securities awards), securities purchase or other employee benefit plan, or any other increase in the compensation payable or to become payable or otherwise accruing after the date hereof by Hercules, WSP or the FiberVisions Group to any present or former employee of the FiberVisions Group, except for amendments required to be made by Law or ministerial or administrative amendments;
- (d) except as contemplated hereby or as shown on Schedule 3.6(d), the entry by the FiberVisions Group, other than in the Ordinary Course of Business, into, material modification, termination, or cancellation of any transaction or contract material to the FiberVisions Group, or the entry into any commitment for the same, by the FiberVisions Group;
- (e) except as shown on Schedule 3.6(e), any transfer, mortgage, pledge, Encumbrance, assignment, sale or disposition by the FiberVisions Group of any portion of its non-current assets;
- (f) any receipt by the FiberVisions Group of written notice that any Contract to which the FiberVisions Group is a party has been or will be canceled or materially altered prior to its expiration date;
- (g) except as shown on Schedule 3.6(g), any capital expenditure(s) or commitment to make any capital expenditures in the aggregate by the FiberVisions Group in excess of \$2,400,000 which items will remain with the FiberVisions Business after the Closing Date;
- (h) any satisfaction or discharge of any Encumbrance or payment of any obligation by the FiberVisions Group, except as shown on Schedule 3.6(h), or as contemplated by this Agreement;
- (i) except as set forth on Schedule 3.6(i), any sale, assignment, disposition (in whole or in material part), Encumbrance (other than Permitted Encumbrances), license, sale or transfer of any material Intellectual Property Rights of the FiberVisions Group;
- (j) any resignation or termination of employment of any principal officer of the FiberVisions Group listed on Schedule 3.6(j)(i) (each, a "Principal Officer"), or, to Hercules' Knowledge, any impending resignation or termination of employment of any such Principal Officer, any such resignation or termination to be set forth on Schedule 3.6(j)(ii);
- (k) except as shown on Schedule 3.6(k), any outstanding loans, advancement of money or property, or guarantees made by the FiberVisions Group, to or for the benefit of any current or former employee, officer, manager or director, or any members of their immediate families in excess of \$25,000;
- (l) any dividend, setting aside or payment or other distribution in respect of any of the Stock, or any direct or indirect redemption, purchase or other acquisition of any of the Stock by the FiberVisions Group, except as contemplated by this Agreement;
- (m) any material extraordinary losses or waiver of any rights of material value by the FiberVisions Group;
- (n) except as provided in this Agreement or the Option Agreement, any issuance, sale or transfer by any member of the FiberVisions Group of any of its capital stock or other equity securities, securities convertible into its capital stock or other equity securities or warrants, options or other rights to acquire its capital stock or other equity securities, any bonds or debt securities;
- (o) any change in any of the accounting policies, practices or procedures of the FiberVisions Group;
- (p) any amendments or modifications of the organizational documents of any member of the FiberVisions Group;

(q) any settlement or compromise by the FiberVisions Group of any suit, claim, proceeding or dispute or threatened suit, claim, proceeding or dispute; and

(r) any authorization, approval, agreement or commitment by any member of the FiberVisions Group to take any of the foregoing actions.

(s) any adoption of or change to any material Tax election, any change to any annual accounting period, any adoption or change to any accounting method with respect to Taxes, any filing of any amended Tax Return, any entering into any closing agreement, any settlement or compromise of any proceeding with respect to any Tax claim or assessment relating to the FiberVisions Group, any surrender of any right to claim a

refund of Taxes, any consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to the FiberVisions Group, or the taking of any other similar action relating to the filing of any Tax Return or the payment of any Tax.

(t) except as set forth on Schedule 3.6(t), there have been no material changes in customer terms offered by the Company that either extend payment dates or provide for discounts.

3.7 Undisclosed Liabilities

. Except as set forth on Schedule 3.7, no member of the FiberVisions Group has any obligations or liabilities (whether accrued, absolute, contingent, or otherwise, whether due or to become due and regardless of when or by whom asserted), except (i) liabilities incurred in the ordinary course of business since September 30, 2005, (ii) liabilities reflected on the Most Recent Financial Statements or the notes thereto, and (iii) liabilities otherwise disclosed in this Agreement.

3.8 Legal Compliance

. Except for such matters which do not have a Material Adverse Effect, each member of the FiberVisions Group is in compliance with all applicable Laws.

3.9 Tax Matters

(a) Each of the Company and the Subsidiaries has filed all material Tax Returns as required by Law and has paid all Taxes (whether or not shown to be due on such Tax Returns) owed by the Company and the Subsidiaries by their respective due dates (including extensions thereof). Such Tax Returns are correct and complete in all material respects. The provision for Taxes of the Company and the Subsidiaries as shown in the Most Recent Financial Statements is adequate for taxes due or accrued as of such date in accordance with GAAP, subject to normal recurring year-end adjustments.

(b) There is no audit exam, notice of deficiency, refund litigation, tax claim, or notice of assessment or proposed assessment pending, or to the Knowledge of the Company, threatened, involving the Company or any of the Subsidiaries, except with respect to tax years 2002 and 2003, which are currently open and subject to audit. Neither the Company nor any Subsidiary has granted or been requested to grant waivers of any statute of limitations applicable to any claim for taxes that are still in effect.

(c) There are no liens for Taxes with respect to the assets of the Company and the Subsidiaries (except for statutory liens for current Taxes not yet due).

(d) Each of the Company and the Subsidiaries has complied with all applicable Laws relating to the withholding of Taxes (including withholding of Taxes pursuant to Sections 1441 and 1442 of the Code) and has, within the time and within the manner prescribed by Law, withheld and paid over to the proper taxing authorities all amounts required to be withheld and paid over under all applicable Laws in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(e) No closing agreement pursuant to section 7121 of the Code (or any similar provision of state, local or foreign law) has been entered into by or with respect to the FiberVisions Group.

(f) No member of the FiberVisions Group has granted any waiver of any federal, state, local or foreign statute of limitations with respect to, or any extension of a period for the assessment of, any Tax.

(g) Neither the Company nor any of its U.S. Subsidiaries will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (A) change in method of accounting for a taxable period ending on or prior to the Closing Date, (B) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state or local income Tax law) executed on or prior to the Closing Date, (C) intercompany transactions or any excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state or local income Tax law), (D) installment sale or open transaction disposition made on or prior to the Closing Date, or (E) prepaid amount received on or prior to the Closing Date.

(h) Neither the Company nor any U.S. Subsidiary has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

(i) The FiberVisions Group has not engaged in any transaction that could give rise to (i) a registration obligation with respect to any Person under Section 6111 of the Code or the regulations thereunder, (ii) a list maintenance obligation with respect to any Person under Section 6112 of the Code or the regulations thereunder, or (iii) a disclosure obligation as a "reportable transaction" under Section 6011 of the Code and the regulations thereunder.

(j) None of the Company's non-U.S. Subsidiaries is a passive foreign investment company as defined under Sections 1291 and 1298 of the Code. None of the Company's non-U.S. Subsidiaries has recognized a material amount of Subpart F income as defined in Section 952 of the Code during a taxable year of such Subsidiary that includes but does not end on the Closing Date.

3.10 Real Property

(a) Schedule 3.10(a) describes all Real Property owned by the Company or any of the Subsidiaries that is used in the FiberVisions Business (the “Owned Real Property”). The Company and each Subsidiary listed on Schedule 3.10(a), as applicable, owns fee simple title to all of the Owned Real Property set forth opposite each parties’ name on Schedule 3.10(a) free and clear of any Encumbrances other than the Debt Financing and Permitted Encumbrances. None of the Owned Real Property is currently leased by any member of the FiberVisions Group to any Affiliate of the Company or to any third party.

(b) Schedule 3.10(b) lists all of the Real Property leased to the FiberVisions Group (the “Leased Real Property” and, together with the Owned Real Property, the “FiberVisions Real Property”),

together with a list of all such leases, including respective expiration dates and monthly rentals. To Hercules' Knowledge, the FiberVisions Group has good and valid title to the leasehold estates in all Leased Property. Each of the leases listed on Schedule 3.10(b) is in full force and effect and constitutes a legal, valid and binding obligation of the Company or a Subsidiary, as the case may be, and, to Hercules' Knowledge, the other respective parties thereto and is enforceable in accordance with its terms. Under any such lease there is not any existing material breach or violation or default by any member of the FiberVisions Group, as the case may be, or to Hercules' Knowledge, the other party thereto (or event or condition that, with notice or lapse of time would constitute a default).

(c) Except as set forth on Schedule 3.10(c), there is no Real Property used in the FiberVisions Business that is not listed on Schedule 3.10(a) or Schedule 3.10(b).

(d) No Taxes, assessments, water charges or sewer charges relating to any of the Real Property are delinquent and there are no special Taxes, assessments or charges pending or, to the Knowledge of the Company, threatened against any of the Real Property, except for any Taxes that are currently the subject of an ongoing good faith dispute or appeal to the relevant governmental authority.

(e) All water, sewer, gas, electric, telephone and drainage facilities and other utilities required in the use and operation, in the ordinary course, of the Real Property, currently service the Real Property in such capacities are in compliance with applicable law.

(f) The Real Property being operated by the FiberVisions Group is maintained in compliance with all building code, zoning and other applicable local, state and federal ordinances, regulations and requirements that affect the use and operation thereof, except where a failure to comply with any such building code, zoning or other applicable local, state or federal ordinance would not have a Material Adverse Effect. Except as set forth on Schedule 3.10(f), no member of the FiberVisions Group has received any written notice of violation of any law, municipal ordinance, Order or requirement having jurisdiction over or affecting the Real Property and which could reasonably be expected to have a material adverse effect on the Real Property as presently used primarily in or held for use by the FiberVisions Business.

(g) The zoning classification of the various tracts comprising the Real Property permits the use of all and any part of the Real Property for the purposes and in the manner it is currently used. No member of the FiberVisions Group has received any written notice of any pending or contemplated change in the status of the zoning for any of Real Property. No member of the FiberVisions Group has any agreements currently in effect with any county or township in which any of the Real Property is located, or any other entity, public or private, that would prevent the use of any of the Real Property for the conduct of the FiberVisions Business in the ordinary course.

(h) There are no pending or, to Hercules' Knowledge, threatened eminent domain proceedings, appropriation or other proceedings involving the taking of any of the Real Property.

3.11 Intellectual Property

(a) Schedule 3.11(a)(i) hereto sets forth all Registered Intellectual Property Rights owned by (x) the FiberVisions Group or (y) Hercules or WSP or their Affiliates used primarily in or held for use by the FiberVisions Business (the "Registered Company IP"). Except as set forth in Schedule 3.11(a)(ii) hereto, (A) the FiberVisions Group owns or possesses a valid license to use or otherwise has the right to use all of the Registered Company IP used in its business as currently conducted or proposed to be conducted, free of all Encumbrances, except for Encumbrances incurred in connection with the Debt Financing and Permitted Encumbrances; (B) all of such Registered Company IP are valid and enforceable, to Hercules' Knowledge, and have not expired or been abandoned; (C) to Hercules' Knowledge, such Registered Company IP, and the operation of the FiberVisions Business, do not infringe, misappropriate or otherwise violate ("Infringe") the rights of others and are not being Infringed by others; (D) there is no pending, or to Hercules' Knowledge, threatened action or Order before any Governmental Entity against the FiberVisions Group with respect to Registered Intellectual Property Rights, excluding any patent, trademark, copyright or domain name applications, and, to Hercules' Knowledge, there is no valid basis for same; (E) the FiberVisions Group does not share any right, title or interests in or use any material Intellectual Property Rights with Hercules or any Affiliate; and (F) as of the Closing Date, Hercules and its Affiliates will have transferred to the FiberVisions Group Intellectual Property Rights owned or held by any of them primarily for the use or benefit of the FiberVisions Group.

(b) Except as reflected in the Most Recent Financial Statements or as set forth on Schedule 3.11(b), no royalties, license fees or other compensation are payable by the FiberVisions Group to any other Person by reason of the ownership or use of any Intellectual Property Rights, and to Hercules' Knowledge, no member of the FiberVisions Group has received written notice from any Person claiming any obligation or liability of any member of the FiberVisions Group (including any cease and desist letter or request to take a license) with respect to Intellectual Property Rights.

(c) Except as set forth on Schedule 3.11(c), to Hercules' Knowledge, none of the FiberVisions Group's or any Stockholders' officers, contractors, agents or employees has any claims whatsoever (whether direct, indirect or contingent) of right, title or interest in or to any of the Registered Company IP; nor, to Hercules' Knowledge, are any of such individuals precluded by an agreement from engaging in any business which any member of the FiberVisions Group proposes to conduct as of the Closing Date. The FiberVisions Group takes all reasonable actions to protect and maintain their Registered Company IP and their ownership hereof.

(d) Except as set forth in Schedule 3.11(d), there is, to Hercules Knowledge, no unregistered Intellectual Property Rights material to the Company and the Subsidiaries, taken as a whole, and (i) used in the operation of the FiberVisions Business, which Infringes the rights of others, and (ii) essential to the operation of the FiberVisions Business, which are being Infringed by others.

(e) Schedule 3.11(e)(i) sets forth (i) all registrations being pursued but not yet obtained or issued and (ii) all applications for registration of patents, trademarks, copyrights and domain names

made by or on behalf of either the FiberVisions Group or Hercules, WSP or any of their Affiliates in connection with Intellectual Property Rights of the FiberVisions Group or Intellectual Property Rights used primarily in or held for use by the FiberVisions Group (the "Registrations"). Except as set forth in Schedule 3.11(e)(ii), to Hercules' Knowledge, the Registrations were made and prosecuted in good faith and, if granted, any such resultant patent, trademark, copyright or domain name shall be considered valid and enforceable.

3.12 Capitalization of the Company and its Subsidiaries

(a) Capitalization. As of the date hereof: (i) the authorized capital stock of the Company, and number of shares of each class of capital stock that is issued and outstanding, are set forth on Schedule 3.12(a); and (ii) except as set forth on Schedule 3.12(a), or as contemplated by this Agreement or the Stockholders Agreement, there are no outstanding equity or convertible securities of the Company or options, warrants, subscriptions, convertible debentures or other rights, commitments or any other similar agreements for the purchase of any capital stock of the Company. As of the Closing Date: (i) the only outstanding equity interests in the Subsidiaries are set forth on Schedule 3.12(a); and (ii) except as set forth on Schedule 3.12(a), or as contemplated by this Agreement or the organizational documents of the Subsidiaries, there are no outstanding equity or convertible securities of the Subsidiaries or options, warrants, subscriptions, convertible debentures or other rights, commitments or any other similar agreements for the purchase of any equity interests from the Subsidiaries. All Subsidiaries of the Company are set forth on Schedule 1.3.

(b) Anti-Dilution. Except as contemplated by this Agreement, the Stockholders Agreement, the Certificate of Incorporation of the Company or as disclosed on Schedule 3.12(b) attached hereto, there are no anti-dilution or price adjustment provisions contained in any of the Stock issued by any member of the FiberVisions Group (or in any agreement providing rights to Stockholders) that will be triggered by the transfer of the Hercules Shares.

(c) Voting Agreements, etc. Other than as set forth in the Stockholders Agreement, there are no voting trusts or agreements, stockholders agreements, pledge agreements, buy-sell agreements, transfer restrictions, rights of first refusal, rights of first offer, calls, preemptive rights, proxies relating to the equity interests of any member of the FiberVisions Group (whether or not such Person is a party thereto) or other rights or other agreements or commitments of any character obligating any such Person to issue, purchase, transfer or sell any of the equity interests.

(d) Registration Rights. Except as set forth on Schedule 3.12(d), no Person has any right to cause the Company to effect the registration under the Securities Act of 1933, as amended (the "Securities Act") of any of the Stock.

(e) Valid Issuances. All outstanding shares of Stock are, or upon issuance against consideration therefor will be, duly and validly authorized, validly issued, fully paid and non-assessable.

3.13 Issuance of Securities

. All of the Stock has been duly authorized and validly issued, fully paid and non-assessable and, assuming the accuracy of the representations and warranties of SPG in this Agreement, will be issued in compliance with all applicable federal and state securities laws.

3.14 Required Consents; Approvals

. Except as specifically contemplated by this Agreement or the Stockholders Agreement, no member of the FiberVisions Group is required to obtain any consent, approval, permit, authorization or order of, or make any filing or registration with, any Governmental Entity or stock market or any third party, including, without limitation, any filing under the HSR Act, in order for it to execute, deliver or perform any of its obligations under this Agreement or any other Definitive Agreement in accordance with the terms hereof or thereof or to transfer the Stock. Except as disclosed in Schedule 3.14 hereto, all consents, approvals, permits, authorizations, orders, filings and registrations which the FiberVisions Group is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof.

3.15 Contracts

(a) True and correct copies of all Material Contracts to which any member of the FiberVisions Group is a party or by which any of the properties, rights or assets used in the FiberVisions Business is bound or affected have been made available to SPG, or its advisers or representatives. "Material Contract" shall mean any (i) Contract to which any member of the FiberVisions Group is a party which involve payments to or from any such member in excess of \$75,000 under its remaining term; (ii) material license agreements (other than licenses arising from the purchase of "off the shelf" or other standard software products); (iii) material distributor, dealer, manufacturer's representatives, sales agency, advertising, property, management or brokerage contracts; (iv) contracts outside of the Ordinary Course of Business for the future purchase of materials, supplies, services, merchandise or equipment involving payments of more than \$75,000 under its remaining term; (v) contracts outside the Ordinary Course of Business for the purchase or sale of any real or personal property having a value of more than \$150,000 or agreements or arrangements for the grant of any preferential rights to purchase any of the assets used in the FiberVisions Business, properties or rights having a value of more than \$150,000; (vi) collective bargaining agreement or contract with any labor union, other than the national agreements described on Schedule 3.19(a)(ii); (viii) guaranty of any obligation for borrowed money or other guaranty; (xi) lease or agreement under which it is lessee of, or holds or operates any real or personal property owned by any other party, for which the annual rental exceeds \$75,000, other than as described on Schedule 3.10(b); (ix) lease or agreement under which it is the lessor of or permits any third party to hold or operate any property, real or personal (including equipment), for which the annual rental exceeds \$150,000; (x) joint venture agreements or arrangements or other agreements involving the sharing of profits, other than as described on Schedule 3.10(b); (xi) Contracts with any Person that has the effect of limiting or restricting in any material respect, the FiberVisions Group's ability to market, promote, sell or provide factoring in any geographic area as to or for the benefit of any Person; (xii) Contracts (or group of related contracts) under which the consequences to the

FiberVisions Group of a default (by either the member of the FiberVisions Group, as the case may be, or the other party or parties to the contract(s) in question) or termination would have a Material Adverse Effect; and (xiii) Contracts with (A) Hercules or WSP or any Affiliate of either (other than the members of the FiberVisions Group) for matters other than those covered by the Transition Services Agreement, or (B) any officer, director or employee of another member of the FiberVisions Group, Hercules, WSP or any Affiliate of Hercules or WSP (other than employment agreements covered by clause (ii) above and other than as listed on Schedule 3.19 (a)(ii)).

(b) Each of the Contracts: (i) has been duly and validly executed by the Company or a Subsidiary, as applicable, (ii) is in full force and effect in accordance with its terms, and (iii) constitutes the legal, valid and binding obligation of the applicable member of the FiberVisions Group and to Hercules' Knowledge the other parties thereto and is enforceable by the Company or such Subsidiary, except as such enforcement may be limited by (1) applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (2) applicable federal or state securities laws limiting rights of indemnification and (3) the effect of rules of law governing the availability of equitable remedies.

3.16 Insurance

. Schedule 3.16 hereto sets forth information regarding all material insurance policies maintained by or for the benefit of the FiberVisions Group, including the insurer, the amount of the coverage (including applicable deductibles), the type of insurance, the policy number, any pending material claims thereunder as to which the FiberVisions Group has received notice and which relate to the FiberVisions Group and a summary of all material claims made thereunder as to which the FiberVisions Group has received notice and which relate to the FiberVisions Group in the twelve (12) months immediately preceding the date hereof. All of the insurance policies described on Schedule 3.16 are in full force and effect in all material respects and will be maintained in full force and effect as they apply to any matter, action or event occurring through the Closing Date, and no member of the FiberVisions Group has reached or exceeded its policy limits for any insurance policies in effect at any time during the past three (3) years. No member of the FiberVisions Group is in default with respect to its material obligations under any of such insurance policies. The FiberVisions Group has not failed to give any notice of any claim under any such policy in due and timely fashion except to the extent such failure has been remedied or otherwise would not have a Material Adverse Effect. The FiberVisions Group has not received written, and to Hercules' Knowledge, oral, notice of cancellation or nonrenewal of any such policy. The Company has not failed to pay premiums when due under the insurance policies described on Schedule 3.16, except to the extent such failure has been remedied or otherwise would not have a Material Adverse Effect.

3.17 Environmental Matters

. Except as set forth in Schedule 3.17, (i) the Company and each of the Subsidiaries operates, and during the term of all applicable statutes of limitation operated, in compliance in all material respects with all applicable Environmental Laws and, to Hercules' Knowledge, no condition or circumstance currently exists that would reasonably be expected to prevent or materially interfere with such compliance; (ii) there has been no release, threatened release, discharge, treatment, storage, installation, arranging for disposal or disposal by the Company, any of the Subsidiaries, or, to Hercules' Knowledge, any other Person, of Hazardous Materials on, at, under or from any Real Property (including any improvement thereon) or any other facility currently or previously owned, leased or operated by the Company or any of its Subsidiaries which would reasonably be expected to result in the imposition of any material liability on the Company or any Subsidiary under any Environmental Law; (iii) the Company and the Subsidiaries have all material Environmental Permits necessary to conduct the FiberVisions Business; (iv) no action, suit, claim, proceeding, inquiry or investigation is pending, or,

to Hercules' Knowledge, threatened, by any Governmental Entity or other Person against the Company or any of the Subsidiaries relating to any Environmental Law; (v) the Company has made available to SPG, or its advisers or representatives, copies of all non-privileged material reports, studies, analyses, tests or monitoring possessed, controlled or initiated by the Company pertaining to either any Hazardous Materials released on, at or under any Real Property or any other facility currently or previously owned, or leased or operated by the Company or any of the Subsidiaries or the Company's or the Subsidiaries' compliance with, or liability under, Environmental Laws; and (vi) neither the execution of this Agreement by Hercules or WSP nor their respective consummation of the Transactions requires a consent, filing, notice or submission under or relating to any applicable Environmental Law.

3.18 Litigation

. Except as set forth on Schedule 3.18, (a) there is no action, suit, claim, proceeding, inquiry or investigation at law or in equity before any Governmental Entity, pending or, to Hercules' Knowledge, threatened against or relating to any member of the FiberVisions Group or any of their respective officers, managers or directors in their capacity as such, including, but not limited to, discrimination claims, retaliatory discharge claims, sexual harassment claims and claims of unfair labor practices, that would have a Material Adverse Effect and, to Hercules' Knowledge, there are no facts or circumstances that would reasonably be expected to result in such action, and (b) no member of the FiberVisions Group is subject to any arbitration proceedings under collective bargaining agreements or otherwise, or to any outstanding judgment, order or decree of any court or Governmental Entity.

3.19 Employment Relations

(a) Except as set forth on Schedule 3.19(a)(i), (i) each member of the FiberVisions Group is in material compliance with all federal, state or other applicable laws, respecting employment and employment practices, safety, terms and conditions of employment and wages and hours, and, to Hercules' Knowledge, has not and is not engaged in any unfair labor practice and has not been advised of any effort to organize any of the Company's work force for collective bargaining purposes, (ii) none of the members of the FiberVisions Group have or maintain written employment or consultation agreements with any employee of, or consultant to, any member of the FiberVisions Group (other than those employment and consultant agreements, including national agreements, listed on Schedule 3.19(a)(ii)), and (iii) none of the members of the FiberVisions Group extend any perquisite or benefits to any employee or consultant other than the perquisites and benefits described in Sections 3.15, 3.19 or 3.20 hereto.

(b) No member of the FiberVisions Group maintains or sponsors any defined benefit pension plan covered by Title IV of ERISA nor has any member of the FiberVisions Group ever participated in any multi-employer pension trust (Taft Harley pension plan). Except as set forth on Schedule 3.20(a), no member of the FiberVisions Group on its own, or together with any other member of the FiberVisions Group, maintains or is it a contractual party to any welfare benefit plan as defined in Title I of ERISA other than its participation in Hercules sponsored welfare benefit plans.

3.20 Employee Benefit Plans

(a) Schedule 3.20(a) contains a true and complete list of each "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), except for employee benefit plans as to which the expenses and liabilities thereunder could not exceed \$25,000 in any one year, including, without limitation, all severance, bonus, equity compensation, pension, retirement, insurance, collective bargaining, profit sharing, medical, vision, hearing, dental, prescription drug, health, life insurance, disability, flexible benefit, employee assistance, employee loan, tuition reimbursement, dependent care assistance, pre-paid legal, employment, consulting, retention, change of control, deferred compensation, incentive compensation, stock purchase, stock option or fringe benefit plans, agreements, programs, policies or other arrangements or understandings, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise) whether written or unwritten, formal or informal, legally binding or not, under which (i) any current or former employee, officer, director or independent contractor of the Company or of any other member of the FiberVisions Group (the "Group Employees") has any present or future right to benefits and which are contributed to, sponsored by or maintained by any member of the FiberVisions Group or of the Company Group (as defined below), or (ii) any member of the FiberVisions Group or of the Company Group has had or has any present or future liability providing benefits for any Group Employee. Each such plan, agreement, program, policy and arrangement (including any such arrangement contained within the provisions of an individual employment or consulting agreement and employee benefit plans as to which the expenses and liabilities thereunder could not exceed \$25,000 in any one year) shall each be referred to as a "Plan".

(b) With respect to each Plan, except for employee benefit plans as to which the expenses and liabilities thereunder could not exceed \$25,000 in any one year, Hercules has delivered or otherwise made available to SPG, or its advisers or representatives, true and complete (i) copies of all plan documents (including all amendments), trust documents, employee benefit insurance contracts and summary plan descriptions.

(c) Each Plan hereto has at all times been maintained and administered in all material respects in accordance with its terms and the applicable requirements of the Code, ERISA and any other applicable Law. Except as set forth on Schedule 3.20(c), (i) no event has occurred and no condition exists that would subject the Company or any other member of the FiberVisions Group by reason of their affiliation with any member of their controlled group of organizations (within the meaning of Section 414(b), (c), (m) or (o) of the Code) (collectively, the "Company Group") to any tax, fine, lien, penalty or other liability imposed by ERISA, the Code or other applicable Law, (ii) no "reportable event" (as such term is defined in Section 4043 of ERISA) that could reasonably be expected to result in liability has occurred with any Plan, and (iii) no nonexempt "prohibited transaction" (as such term is defined in Section 406 of ERISA and Section 4975 of the Code) has occurred with respect to any Plan.

(d) Except as set forth on Schedule 3.20(d), no member of the FiberVisions Group or of the Company Group (i) now maintains or has ever maintained a plan (whether or not identified on Schedule 3.20(a)) that is subject to Title IV of ERISA (each, a "Title IV Plan"), (ii) participates in, contributes to, or at any

time during the last 15 years participated in or has been obligated to contribute to, a "multiemployer plan" (within the meaning of Section 3(37) of ERISA), or has ever incurred any withdrawal liability with respect to a multiemployer pension plan which remains unsatisfied; or (iii) now maintains or has ever maintained a plan (whether or not identified on Schedule 3.20(a)) which provides for benefits or coverage of any former Group Employee or his or her dependents, except to the extent required by Section 4980B of the Code or Section 601, et seq., of ERISA.

(e) All material contributions required to have been made to any Plan or Title IV Plan by any member of the FiberVisions Group or any member of the Company Group have been made within the time required by the Plan or Title IV Plan and applicable Law.

(f) Except as set forth on Schedule 3.20(f), there are (i) no material actions, suits, negotiations, demands, proposals, investigations, proceedings or claims pending, or to Hercules' Knowledge, threatened (other than routine claims for benefits) with respect to any Plan or Title IV Plan, (ii) no written or oral communication has been received from the Pension Benefit Guaranty Corporation (the "PBGC") in respect of any Title IV Plan concerning the funded status of any such plan or any transfer of assets and liabilities from any such plan in connection with the transactions contemplated herein, and (iii) no administrative investigation, audit or other administrative proceeding by the Department of Labor, the PBGC, the Internal Revenue Service or other governmental agencies are pending, threatened or in progress (including, without limitation, any routine requests for information from the PBGC).

(g) Except as set forth on Schedule 3.20(g), no plan exists that, as a result of the execution of this Agreement, shareholder approval of this Agreement, or the transactions contemplated by this Agreement (whether alone or in connection with any subsequent event(s)), could result in: (i) severance pay or any increase in severance pay upon any termination of employment after the date of this Agreement, (ii) accelerate the time of payment or vesting or result in any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or result in any other material obligation pursuant to, any of the Plans, (iii) limit or restrict the right of any member of the FiberVisions Group to merge, amend or terminate any of the FiberVisions Group sponsored Plans, (iv) cause any member of the FiberVisions Group to record additional compensation expense on its income statement with respect to any outstanding stock option or other equity-based award, or (v) result in payments under any of the Plans which would not be deductible under Section 280G of the Code.

(h) No member of the FiberVisions Group, or any member of the Company Group has any unpaid civil liability under Section 502(l) of ERISA.

(i) Each Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter that is currently effective as to such qualification from the Internal Revenue Service, or is entitled to rely on a favorable opinion letter that is currently effective issued by the Internal Revenue Service to a prototype plan sponsor. Neither the Company, nor any member of the Company Group knows of an event that has occurred, either by reason of any action or failure to act, which would cause any such Plan not to be so qualified under Section 401(a) of the Code.

(j) Schedule 3.20(j) lists open relocation cases for which the Company has accrued expenses.

3.21 Transactions with Interested Persons

. Except as disclosed on Schedule 3.21 hereto, (a) no officer, director, or 5% stockholder or Affiliate of any member of the FiberVisions Group, Hercules or WSP, or any individual in the immediate household of any individual listed on Schedule 1.1 is a party to any agreement, contract, commitment or transaction with any member of the FiberVisions Group nor has any material interest in any material property used by any member of the FiberVisions Group, other than in the Ordinary Course of Business, and (b) to Hercules' Knowledge, none of the foregoing owns, directly or indirectly, a material interest in any business that is a competitor, customer or supplier of any member of the FiberVisions Group. To Hercules' Knowledge, no Principal Officer is considering termination of employment. To Hercules' Knowledge, there is no contractual restriction precluding or restricting the Company from employing as a key management employee any Person presently employed by the Company or any Person to whom an offer of such employment by the Company is currently pending.

3.22 Customers and Suppliers

. To Hercules' Knowledge, since the Most Recent Financial Statements, no member of the FiberVisions Group has received any notice, to the effect that any of the ten largest customers or the ten largest suppliers (for the nine months ended September 30, 2005) may terminate or materially alter its business relations with any member of the FiberVisions Group, either as a result of the transactions contemplated by the Definitive Agreements or otherwise.

3.23 Inventory

. The inventory of each member of the FiberVisions Group (a) is sufficient for the operation of such entity in the ordinary course consistent with past practice, (b) consists of items which are good and merchantable within normal trade tolerances, (c) is of a quality and quantity presently usable or saleable in the ordinary course of business (subject to applicable reserves), (d) is valued on the books and records of such entity at the lower of cost or market with the cost determined under the first-in-first-out or weighted average inventory valuation method consistent with past practice and (e) is subject to reserves determined in accordance with GAAP consistently applied. No previously sold inventory is subject to returns in excess of those historically experienced by each member of the FiberVisions Group. Stores and Spares Inventory are valued consistent with the Hercules practices used in the Financial Statements.

3.24 Accounts Receivable; Accounts Payable

(a) The Company, Hercules and WSP have delivered to Buyer schedules of the FiberVisions Group's accounts receivable as of the date of the balance sheet included in the Most Recent Financial Statements (the "Receivables") showing the amount of each such Receivable and an aging of amounts due thereunder (the "Receivables Schedules"), which schedules are true and complete as of that date. Except as provided for in the allowance for doubtful accounts (such allowance having been determined in accordance with Company policies consistently applied), all Receivables which are reflected on the balance sheet included in the Most Recent Financial Statements (i) are valid, (ii) represent monies due for goods sold and delivered or services rendered in the ordinary course of business, (iii) are not subject to any material refunds or material adjustments or any material

defenses, rights of set-off, assignment, restrictions, security interests or other Encumbrances and (iv) to Hercules' knowledge, no debtor who, as of the date of the balance sheet included in the Most Recent Financial Statements, owed the FiberVisions Group more than \$100,000, is involved in or subject to a bankruptcy or insolvency proceeding, except as provided in the reserve. Except as set forth on the attached Receivables Schedule, all such Receivables are current, and there are no disputes regarding the collectibility of any such Receivables.

(b) The accounts payable of FiberVisions Group reflected on the balance sheet included in the Most Recent Financial Statements arose from bona fide transactions in the ordinary course of business.

3.25 Bank Accounts

. Schedule 3.25 hereto sets forth a list of the bank names, locations and account numbers of all bank and safe deposit box accounts maintained by or for the benefit of the FiberVisions Group, including any custodial accounts for securities owned by the FiberVisions Group, and the names of all persons authorized to draw thereon or have access thereto.

3.26 Title

. Hercules is the beneficial and record owner of all of the Hercules Shares. Hercules has good and marketable title to the Hercules Shares, free and clear of any Liens, except with respect to liens granted in connection with the Debt Financing and the Credit Agreement. WSP is the beneficial and record owner of all of the WSP Shares. WSP has good and marketable title to the WSP Shares, free and clear of any Liens, except with respect to liens granted in connection with the Debt Financing and the Credit Agreement. Upon consummation of the transactions contemplated by this Agreement in accordance with the terms hereof, SPG will acquire good and marketable title to all of the Hercules Shares, free and clear of any Liens, other than transfer restrictions under federal and state securities laws, any Liens granted by SPG and the liens granted in connection with the Debt Financing.

3.27 Asbestos

. To Hercules' Knowledge, (i) asbestos has never been incorporated into any products manufactured or sold by any member of the FiberVisions Group and (ii) no claim by any Person (including employees) has ever been asserted against any member of the FiberVisions Group, which claim alleges bodily injury or death from exposure to asbestos.

3.28 Former Business Transactions

. Schedule 3.28 sets forth a list of all business transactions not in the ordinary course of business consummated since January 1, 1997 by any member of the FiberVisions Group involving sales of businesses or dispositions of capital assets (having a net book value of more than \$250,000 at the time of the transaction).

3.29 Survival of Representations

. All representations and warranties set forth in Sections 3.9 and 3.20 shall survive until 30 days after the expiration of the applicable statute of limitations. All representations and warranties set forth in Sections 3.1, 3.2, 3.3, 3.4, 3.12 and 3.26 shall survive indefinitely. All representations and warranties set forth in Section 3.17 shall survive the Closing Date for a period of two (2) years. All other representations and warranties contained in this Section 3 shall survive the Closing Date for a period of eighteen (18) months.

SECTION 4. Representations, and Warranties of SPG

. SPG represents and warrants to the Company and the Stockholders as follows:

4.1 Organization; Good Standing; Corporate Power

(a) SPG is a limited liability company duly formed, validly existing and in good standing under the laws of the jurisdiction of its formation, as set forth in Schedule 4.1, and is duly qualified to do business and is in good standing under the laws of each jurisdiction in which the ownership of property or nature of the business conducted by it makes such qualification necessary.

(b) SPG has the requisite power and authority to execute and deliver the Definitive Agreements and to consummate the Transactions. The Definitive Agreements have been or, as applicable, will be as of Closing, duly executed and delivered by SPG. The performance by SPG of its obligations under the Definitive Agreements have been duly and validly authorized by all necessary action or proceeding required to be taken therefor.

(c) This Agreement and each of the other Definitive Agreements, when executed and delivered by the Company, Hercules and WSP (as applicable), will constitute valid and legally binding obligations of SPG, enforceable in accordance with their respective terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (ii) applicable federal or state securities law limiting rights of indemnification, and (iii) the effect of rules of law governing the availability of equitable

remedies.

4.2 Noncontravention

. The execution, delivery and performance of the Definitive Agreements by SPG and the consummation by SPG of the Transactions will not (a) conflict with or result in a violation of SPG's organizational documents or (b) conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in a violation of, or give rise to the termination, modification, cancellation or acceleration of the time for performance or payment under, in any case, whether with or without the passage of time or the giving of notice or both, any FiberVisions Group agreement, contract, lease, license, instrument, evidence of indebtedness or other arrangement to which SPG is a party or by which SPG is bound, or to which any of SPG's assets is subject; or (c) violate any provision of any existing law, statute, judgment, decree, rule or regulation of any jurisdiction or any to which SPG or any of its properties or assets is subject. SPG is not in violation of its organizational documents.

4.3 Investment

. SPG is acquiring the Hercules Shares for its own account for the purpose of investment and not with a view to or for sale in connection with any public distribution thereof, nor with any present intention of distributing or selling the same, and it has no obligation, indebtedness or commitment providing for the disposition thereof. SPG represents that it will not distribute or transfer any of the Hercules Shares, in the United States except in compliance with applicable federal and state securities laws, and only in compliance with the applicable provisions and restrictions set forth in the Stockholders Agreement. SPG further represents that it understands that: (a) the Hercules Shares have not been registered under the Securities Act or the securities laws of

any state by reason of their issuance in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof predicated upon SPG's warranties contained in this Section 4; and (b) the Hercules Shares cannot be sold unless a subsequent disposition thereof is registered under the Securities Act and under any applicable state securities law or is exempt from such registration.

4.4 Knowledge

. SPG represents and warrants to the Company that under all applicable securities laws and otherwise, it has (i) such knowledge and experience in financial and business matters as is necessary to enable it to evaluate the merits and risks of an investment in the Company; and (ii) it has such liquidity and capacity to sustain a complete loss of its investment in the Company. SPG acknowledges that it, or its advisers or representatives, has been afforded: (a) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the merits and risks of investing in the Company; (b) access to information about the Company and the Subsidiaries, their respective results of operations, financial condition and cash flow, and business, in each case sufficient to enable SPG to evaluate whether to proceed with the execution and delivery of this Agreement and the acquisition of the Hercules Shares; and (c) the opportunity to obtain such additional information that the Company or the Subsidiaries possess, or can acquire without unreasonable effort or expense, that is necessary to make an informed investment decision with respect to the acquisition of the Hercules Shares. SPG understands and acknowledges that no foreign, federal or state authority has made any finding or determination as to the fairness for investment of the Hercules Shares or has recommended or endorsed the Hercules Shares.

4.5 Accredited Investor

. SPG is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act.

4.6 Accuracy of Certain Information

. The state or country of SPG's principal office and its exact legal name are accurately set forth on Schedule 4.6 hereto.

4.7 Brokers

. Except as set forth on Schedule 4.7 hereto, SPG has not employed or retained any broker, finder, or intermediary in connection with the Transactions. The fees and expenses of any broker, finder or intermediary set forth on Schedule 4.7 shall be paid in accordance with Section 5.8 hereof.

4.8 Required Consents; Approvals

. SPG is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency or stock market or any third party, including, without limitation, filings under the HSR Act, in order for it to execute, deliver or perform any of its obligations under this Agreement and the Stockholders Agreement in accordance with the terms hereof or thereof or to purchase the Stock from Hercules.

4.9 Survival of Representations

. All representations and warranties set forth in Section 4.1, 4.2 and 4.7 shall survive indefinitely. All representations and warranties set forth in Sections 4.3, 4.4 and 4.5 shall survive until the expiration of the applicable statute of limitations. All other representations and warranties set forth in this Section 4 shall survive the Closing Date for a period of eighteen (18) months.

SECTION 5. Covenants

5.1 Conduct of the Business

(a) The Company, Hercules and WSP covenant and agree that, before the Closing Date, unless SPG shall otherwise consent in writing or as otherwise contemplated by this Agreement or as set forth in Schedule 5.1 hereto, no member of the FiberVisions Group shall take any action, which, if taken prior to the date hereof and not set forth on the schedules referenced in Section 3, would cause a representation in Section 3 to be untrue, including, that the Company shall continue to make capital expenditures in the ordinary course consistent with Schedule 3.6(g). Notwithstanding anything herein to the contrary, no matter set forth in Schedule 5.1 hereto shall be a breach of the representations and warranties set forth in Section 3 hereof.

(b) SPG covenants and agrees that after the Closing Date: (i) it will cause the Company to comply with all of its obligations and agreements under the Definitive Agreements so long as SPG controls the Company, subject to applicable Law; and (ii) in the event that SPG no longer controls the Company, it shall use commercially reasonable efforts to cause the Company to comply with all of its obligations and agreements under the Definitive Agreements.

5.2 Payment of Earnout to Hercules

. The Company shall, and SPG shall cause the Company to use commercially reasonable efforts to pay to Hercules the sums set forth in Sections 5.2 (a) and (b) hereof upon the terms and conditions set forth herein; provided, that such payments do not violate the terms of the Debt Financing.

(a) Fiscal 2006 Earnout Payment. For fiscal 2006, the Company shall pay to Hercules the amount (each of (i) and (ii) herein, the "Earnout Payment") of (i) \$5,000,000 if the Earnout EBITDA (as defined below) exceeds \$22,000,000 and (ii) to the extent that the Earnout EBITDA exceeds \$25,000,000, for any excess, an amount equal to the Earnout EBITDA in excess of \$25,000,000 multiplied by five (5), up to a maximum Earnout Payment of \$20,000,000. The Earnout Payment for fiscal 2006 shall be paid to Hercules within thirty (30) days after the amount of the Earnout EBITDA has been determined in accordance with this Section 5.

(b) Fiscal 2007 Earnout Payment.

(i) For fiscal 2007, the Company shall pay to Hercules an Earnout Payment equal to the product of the amount of any excess of the Earnout EBITDA in excess of \$27,000,000 multiplied by four (4) up to a maximum Earnout Payment of \$20,000,000. The amount of the Earnout Payment for fiscal 2007, which shall be paid to Hercules on December 15, 2007, shall be based on an estimated Earnout EBITDA ("Estimated Earnout EBITDA") calculated from the Projections of the Company, subject to adjustment as set forth in Section 5.2(b)(iii) below. Copies of the Projections prepared by the Company setting forth its computation of the Estimated Earnout EBITDA for fiscal 2007 shall be submitted in writing to Hercules by November 20, 2007, and unless Hercules notifies the Company within ten (10) days after receipt of the Projections that it objects to the computation of the Estimated Earnout EBITDA set forth therein, the Projections and the

Estimated Earnout EBITDA shall be binding and conclusive for purposes of the Earnout Payment for fiscal 2007, subject to adjustment as set forth in Section 5.2(b)(iii) below. Hercules shall have reasonable access to the books and records of the Company and to its workpapers during regular business hours to verify the computation of the Estimated Earnout EBITDA made by the Company.

(ii) If Hercules notifies the Company as set forth in Section 5.2(b)(i) above, that it objects to the computation of the Estimated Earnout EBITDA set forth in the Projections, the amount of the Estimated Earnout EBITDA shall be determined by negotiation between Hercules and SPG. If Hercules and SPG are unable to reach agreement within ten (10) days after such notification, the amount of the Estimated Earnout EBITDA to be paid to Hercules, subject to adjustment as set forth in Section 5.2(b)(iii) below, shall be the amount of the Earnout EBITDA for the ten-month period ended October 31, 2007 calculated from the unaudited financial statements for such period multiplied by 1.2.

(iii) Within five (5) business days after the Final Earnout EBITDA (as defined below) for fiscal 2007 has been determined as set forth in Section 5.2(c)(iii) below and if the Final Earnout EBITDA differs from the Estimated Earnout EBITDA, then the Earnout Payment made to Hercules for fiscal 2007 shall be adjusted in accordance with the calculation set forth in Section 5.2(b)(i). If the Final Earnout EBITDA is greater than the Estimated Earnout EBITDA, the Company shall pay Hercules an amount of cash equal to the difference calculated in accordance with Section 5.2(b)(i). If the Final Earnout EBITDA is less than the Estimated Earnout EBITDA, Hercules shall refund the Company an amount of cash equal to the difference calculated in accordance with Section 5.2(b)(i).

(c) General Provisions for Earnout Payments

(i) For purposes of this Agreement, "Earnout EBITDA" for any fiscal year shall have the meaning and be computed in the manner set forth in Schedule 5.2 attached hereto.

(ii) The Earnout EBITDA of the Company for fiscal 2006 and 2007 shall be determined promptly after the close of each fiscal year by an audit conducted by the Company's independent registered public accountants unless the parties agree to a mutually agreeable third-party firm of independent registered public accountants (either, the "Earnout Accountant"); provided, however, that the parties need not select the Earnout Accountant that calculates the 2006 Earnout Payment for purposes of calculating the 2007 Earnout Payment. If the Company and Hercules are unable to agree on the Earnout Accountant within five (5) business days, then the independent registered public accountants for each of the Company and Hercules, shall determine the Earnout Accountant. Copies of the Earnout Accountant's report setting forth its computation of the Earnout EBITDA for each fiscal year shall be submitted in writing to Hercules and the Company as soon as practicable, and, unless either Hercules or the Company notifies the other within forty-five (45) days after receipt of such reports that it objects to the computation of the Earnout EBITDA set forth therein, the report shall be binding and conclusive for the purposes of this Agreement. The Company and Hercules shall have access to the books and records of the Company and to the Earnout Accountant's workpapers during regular business hours to verify the computation of Earnout EBITDA made by the Earnout Accountant.

(iii) If either Hercules or the Company notifies the other in writing within forty-five (45) days after receipt of the Earnout Accountant's report that it objects to the computation of the Earnout EBITDA set forth therein, the amount of the Earnout EBITDA for the fiscal year to which such report relates shall be determined by negotiation between Hercules and the Company. If Hercules and the Company are unable to reach agreement within thirty (30) business days after such notification, the determination of the amount of the Earnout EBITDA for the period in question shall be submitted to the Earnout Accountant for determination, whose determination shall be binding and conclusive on the parties (the "Final Earnout EBITDA"). The disputing party shall pay the Earnout Accountant's fees, costs and expenses, unless the Earnout Accountant determines that the Earnout EBITDA has been understated or overstated by less than ten percent (10%). In the event that the Earnout Accountant determines that the Earnout EBITDA has been understated or overstated by less than ten percent (10%), then the Company shall pay the Earnout Accountant's fees, costs and expenses.

(iv) Intentionally Omitted.

(v) Notwithstanding any of the foregoing, in the event that the Company is not able to pay all or any portion of the Earnout Payments for fiscal 2006 or 2007 in accordance with this Section 5.2 because of the terms of the Debt Financing or otherwise, the Company shall issue a negotiable Term Note or Term Notes with the terms set forth on Schedule 5.2(c)(v). The Company shall use its commercially reasonable efforts to repay any such Term Note(s).

(vi) The obligations of the Company set forth in this Section 5.2 shall inure to the benefit of Hercules and be binding on any of the Company's successors or assigns.

(vii) SPG shall not be permitted to set off any amount to which it may be entitled under this Agreement.

(viii) Any amount payable by Hercules and WSP under Section 8 may be set off against amounts otherwise payable under this Section 5.2 and shall correspondingly reduce the amounts payable under this Section 5.2.

(ix) All payments made under this Section 5.2 shall be made by wire transfer of immediately available funds as directed by the receiving party.

(d) Any Earnout Payments shall be treated as an adjustment to the Redemption Price for tax purposes, unless otherwise required by applicable law.

5.3 Debt Financing

. Each of the Company and FV Denmark shall use its reasonable best efforts to assist SPG to seek and obtain funds sufficient to consummate a bank financing on the Closing Date (the "Debt Financing"), which shall: (a) be substantially in the form of (i) a first lien term loan of approximately Seventy Million Dollars (\$70,000,000), a portion of which, not to exceed Forty Million Dollars (\$40,000,000) will be made

available to FV Denmark and (ii) a second lien term loan of approximately Twenty Million Dollars (\$20,000,000) to the Company; (b) be of no recourse to the Stockholders; (c) permit the Company to make a dividend to Hercules of the Hercules Dividend Amount and a dividend to WSP of the WSP Dividend Amount, as well as, the other Transactions contemplated hereunder; and (d) have such other terms set forth on the Commitment Letters set forth as Exhibit E or on terms and conditions reasonably acceptable to SPG, Hercules and WSP, which consent shall not be unreasonably withheld.

5.4 Regulatory Filings and Approvals

. SPG, Hercules and WSP shall cooperate and use commercially reasonable efforts to (a) make all registrations, filings and applications with any Governmental Entity, (b) give all notices required by any Governmental Entity or as required by Law and (c) obtain any governmental transfers, approvals, Orders, qualifications and waivers necessary for consummation of the Transactions.

5.5 Stockholders Agreement

. As of the Closing Date, WSP, SPG and the Company shall have entered into the Stockholders Agreement.

5.6 Transition Services Agreement

. As of the Closing Date, Hercules, the Company and SPG shall have entered into the Transition Services Agreement.

5.7 Option Agreement

. As of the Closing Date, WSP and SPG shall have entered into the Option Agreement.

5.8 Transaction Costs

. The Total Transaction Costs shall be borne by the Company and the parties shall be reimbursed for such Total Transaction Costs as set forth in Section 2.2.

5.9 Resignations

. Hercules and WSP shall deliver to SPG the resignations, effective as of the Closing Date, of the directors and officers of the Company, set forth on Schedule 5.9, at least one day before the Closing Date.

5.10 Non-Competition

(a) Hercules and WSP Non-Competition.

(i) As of the Closing Date, neither Hercules nor WSP shall, directly or indirectly (including through Affiliates), engage in the Competing Business, except with the approval of the Company, or as otherwise provided in Schedule 5.10 hereto, until the fifth anniversary of the Closing Date.

(ii) Neither Hercules nor WSP shall be in violation of this Section 5.10, if Hercules, WSP or any of their Affiliates, own, directly or indirectly, solely as an investment, securities of any Person engaged in the Competing Business that are traded on a national securities exchange or the Nasdaq Stock Market (or a recognized securities exchange outside of the United States of America) if Hercules, WSP or any of their Affiliates, as the case may be, (x) is not a controlling Person or a member of a group that controls such Person and (y) does not, directly or indirectly, own more than 5% or more of the voting securities of such Person.

(iii) Notwithstanding anything in this Section 5.10(a) to the contrary, neither Hercules nor WSP shall be in violation of the provisions herein if Hercules, WSP, or any of their Affiliates (in any such case, a "Purchasing Person") after the Closing Date purchases the equity or assets of, or otherwise becomes affiliated with or participates in any enterprise engaged in the Competing Business, if less than ten percent (10%) of the gross revenues of such enterprise for the most recently completed fiscal year (the "Gross Revenues") were derived from the Competing Business. In the event that ten percent (10%) or more of the Gross Revenues were derived from the Competing Business, then neither Hercules nor WSP shall be in violation of the provisions herein (notwithstanding anything in this Section 5.10(a) to the contrary), so long as the Purchasing Person shall use commercially reasonable efforts to divest, as soon as reasonably practicable (and in any event within less than one year of the date of purchase), all its interest in such enterprise relating to the Competing Business so that the Purchasing Person shall no longer have any Gross Revenues derived from the Competing Business. With respect to any divestiture pursuant to the immediately preceding sentence, the Purchasing Person shall provide written notice (the "Divestiture Notice") to the Company, which notice shall set forth the proposed amount and form of consideration to be paid for the Competing Business to be divested and all other material terms and conditions of the proposed divestiture. The Company shall have the option, exercisable within 90 days of receipt of the Divestiture Notice, to elect to buy the Purchasing Person's interest in the Competing Business proposed to be divested at the price and on the terms and conditions set forth in the Divestiture Notice by delivery of a written notice to the Purchasing Person (the "Election Notice"), which notice shall constitute the binding agreement of such other party to purchase all of such divestiture at the price and on the terms and conditions set forth in the Election Notice. If an Election Notice to the Purchasing Person is not delivered within 90 days after the receipt of the Divestiture Notice, the

Purchasing Person may sell the business described in the Divestiture Notice at a price that is not less than the price (and on other terms and conditions that are not more favorable to the purchaser than as) set forth in the Divestiture Notice.

(iv) Notwithstanding anything in this Section 5.10(a) to the contrary, if after the Closing Date a Person acquires (whether by merger, purchase or otherwise) more than fifty percent (50%) of the outstanding equity interests of Hercules or of the then total assets of Hercules and such Person, directly or indirectly, is engaged in, or later becomes engaged in, a Competing Business, then: (A) if less than ten percent (10%) of the Gross Revenues of such Person are derived from the Competing Business, such Person may, at its option, retain its interest in the Competing Business or (B) if more than ten percent (10%) of the Gross Revenues of such Person are derived from the Competing Business, such Person shall either use commercially reasonable efforts to divest, as soon as reasonably practicable (and in any event within less than one year of the date of acquisition), all of its interest in the Competing Business; provided that such Person shall first provide the Company with a right of refusal with respect to such Competing Business as if such right was exercised pursuant to the terms and conditions set forth in clause (iii) above or all of its interest in the FiberVisions Group, subject to Section 7.2 of the Stockholders Agreement; provided, however, that SPG may elect (at its sole discretion) to grant a waiver to such Person from this Section 5.10 whereby such Person shall be permitted (to the extent of applicable law) to retain its interest in the Competing Business or otherwise require such Person to retain its interests in the Company. In the case event that a

Person complies with subsections (A) or (B) above, neither Hercules, WSP nor such Person shall be in violation of this Section 5.10. In the event that pursuant to applicable law such Person is not permitted to retain the Competing Business, such Person may divest such business as soon as reasonably practicable.

i. SPG Non-Competition. As of the Closing Date, SPG shall not, directly or indirectly (including through Affiliates), engage or invest in the Competing Business until the earliest to occur of (i) the third anniversary of the Closing, (ii) the date on which SPG ceases to own a majority of the Stock and (iii) the date on which any Stockholder is no longer bound under Section 5.10(a). Notwithstanding the foregoing, this Section 5.10(b) shall not prohibit (i) SPG or any of its Affiliates from investing in or holding not more than 20% of the outstanding capital stock or other ownership interests of any Person engaged in a Competing Business or (ii) SPG or any of its Affiliates from hereafter acquiring and continuing to own and operate any entity which has operations that compete with the Company Business if such operations account for no more than 30% of such entity's Gross Revenues.

(b) If a final judgment of a court or tribunal of competent jurisdiction determines that any term or provision contained in this Section 5.10 is invalid or unenforceable, then the parties agree that the court or tribunal will have the power to reduce the scope, duration or geographic area of the term or provision, to delete specific words or phrases or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision. This Section 5.10 will be enforceable as so modified after the expiration of the time within which the judgment may be appealed. This Section 5.10 is reasonable and necessary to protect and preserve the parties' legitimate business interests and the value of the Stock and to prevent any unfair advantage conferred on another party.

5.11 Intentionally Omitted

5.12 Amendment to Credit Agreement

. Prior to the Closing Date, Hercules shall have entered into an amendment to the Credit Agreement pursuant to which Agent shall have (a) waived any of the requirements under the Credit Agreement with respect to the Company, (b) consented to the Transactions and the Definitive Agreements, (c) provided Hercules with a letter indicating that all applicable liens related to the FiberVisions Group have been satisfied and released, and (d) released the Company from any guarantees with respect thereto.

5.13 Efforts to Consummate

. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use commercially reasonable efforts to take or cause to be taken all action and to do or cause to be done all things necessary, proper or advisable under applicable Laws to consummate and make effective, as soon as reasonably practicable, the Transactions, including without limitation the obtaining of all consents, authorizations, Orders and approvals of any third party, whether private or governmental, required in connection with such party's performance of such Transactions, and each of the parties hereto shall cooperate with the others with respect to the foregoing; provided, however, that no party shall be required to compensate any third party, commence or participate in litigation or offer or grant any accommodation (financial or otherwise) to any third party to obtain any such consent or approval of such third party.

5.14 Further Assurances

. The parties shall execute and deliver, or shall cause to be executed and delivered, such documents and other papers and shall take, or shall cause to be taken, such further actions as may be reasonably required to carry out the provisions of this Agreement and give effect to the Transactions, provided, however, that any such additional documents must be reasonably satisfactory to each of the parties and not impose upon any party any material liability, risk, obligation, loss, cost or expense not contemplated by this Agreement.

5.15 Non-Solicitation; Non-Hire

(a) For a period of two years after the Closing Date, Hercules, WSP and SPG, and any of their Affiliates shall not, directly or indirectly, on their own behalf or on behalf of any other Person, solicit the employment of, or hire, any employee of the FiberVisions Group whose names appear on Schedule 5.16, except that nothing in this Section 5.15 shall prohibit Hercules, WSP or SPG, or any of their Affiliates, from hiring or soliciting the employment of any Person (other than the employees of the FiberVisions Group listed on Schedule 5.15 hereto (the "Executive Officers")) who responds to a general solicitation not directed solely at such employees so long as such solicitation occurs at least three months after the Closing.

(b) Hercules, WSP and SPG acknowledge that the remedy at law for breach of the provisions of this Section 5.15 shall be inadequate and that, in addition to any other remedy a party may have, it shall be entitled to an injunction restraining any breach or threatened breach, without any bond or other security being required and without the necessity of showing actual damages. If any court construes the covenant in this Section 5.15, or any part of this Section 5.15, to be unenforceable in any respect, the court may reduce the duration or area to the extent necessary so that the provision is enforceable, and the provision, as reduced, shall then be enforced.

5.16 Employee Matters

(a) Commencing as of the Closing Date and continuing through June 30, 2006, the Company agrees to continue to provide, or cause one of its Affiliates to continue to provide, the active employees of the FiberVisions Group who are employed as of the Closing Date (other than any such employees who are on long-term disability and are not expected to return to employment within six months of the Closing Date) and listed in Schedule 5.16 (the "Transferred Employees") with base salaries or wage levels and employee welfare benefits that are comparable, in the aggregate, to the base salaries, wage levels and employee welfare benefits (other than with respect to equity awards or incentives, bonuses, severance, retiree medical benefits or benefits under a defined benefit pension plan) that were provided to the Transferred Employees as of the date hereof; provided, that, each Transferred Employee who is on short-term disability or on any other leave will continue to be an active employee of the FiberVisions Group and will continue to receive and be provided with welfare benefits under the Plans maintained by Hercules or any of its Affiliates (other than any member of the FiberVisions Group) until such time as the Transferred Employee recommences active employment with the Company or any other member of the FiberVisions Group and that if, and only if, any such Transferred Employee recommences active employment with the Company or any other member of the FiberVisions Group within six months following the Closing Date then the

Company or any of its designated Affiliates shall be responsible for reimbursing Hercules or its designated Affiliates for the cost of coverage under such Plans (so long as such costs are not otherwise already paid by or are the liability of the Company or of any one of its Affiliates pursuant to the Transition Services Agreement, or otherwise); provided, further, that neither the Company nor any of its Affiliates shall be obligated or required to continue to employ any Transferred Employee for any specific time following the Closing Date. Prior to the Closing Date, Hercules shall, or shall cause one of its Affiliates (other than any member of the FiberVisions Group) to, assume the terms and conditions of the employment of the employees of the FiberVisions Group (i) who are Transferred Employees and do not recommence active employment with the Company or any other member of the FiberVisions Group within six months following the Closing Date, and (ii) who are on long-term disability leave and are not expected to return to employment within six months of the Closing Date (the “Retained Employees”). Notwithstanding anything to the contrary herein, Hercules and WSP shall retain or assume all liabilities, obligations and responsibilities to or in respect of (i) any individual who is not a Transferred Employee (including, without limitation, any and all liabilities, obligations and responsibilities relating to the continuation of any benefits or other rights of any Retained Employee), regardless of when incurred, and (ii) each Transferred Employee to the extent such liability, obligation and responsibility was incurred or arose on or prior to the Closing Date, whether or not arising under any employee benefit plan or compensation agreement, and (iii) each Plan and Title IV Plan, regardless of when occurred.

(b) The Company, as of the Closing Date, agrees to enter into an employee lease agreement between the Company and Hercules GmbH and Hercules Italia SpA for the services of Ralf Gantner and Gianluca Prinzi in the form of Employee Lease Agreement as attached hereto as Exhibit F.

(c) Except as otherwise provided in the Transitions Services Agreement or this Section 5.16, as of the Closing Date, each Transferred Employee shall (except as otherwise provided by Law) cease participating in the Plans and each shall be eligible to participate in those employee benefit plans established by the Company or one of its Affiliates, from time to time, for the benefit of similarly situated employees. Hercules (in its capacity as Plan Sponsor) shall cause the Plan Administrator of the Pension Plan of Hercules (the “Pension Plan”) to implement the following provisions as it applies to the Pension Plan effective on the Closing Date and expiring five (5) years after the Closing Date:

(i) For participants in the Pension Plan on the date immediately prior to the Closing Date who become Transferred Employees, Hercules shall continue to credit service equal to Company continuous service thereafter for purposes of vesting of benefits accrued as of the Closing Date and for purposes of eligibility to receive such benefits.

(ii) Such crediting of service shall cease for any Transferred Employee the earlier of (1) 5 years from the Closing Date, (2) full vesting is achieved, (3) service for eligibility no longer has an impact on the benefit entitlement or (4) the date such Transferred Employee experiences a break in continuous service with the Company or one of its Affiliates prior to 5 years following Closing.

(iii) The Transferred Employees who at Closing are eligible to retire under Normal Retirement, Early Retirement, Reduced Early Retirement or Delayed Pension provisions of the Pension Plan, and the Transferred Employees who become eligible under any of these types of pensions as a result of Section 5.16(c) shall retain the same rights for post retirement healthcare and group life benefits as any similarly situated active employee of Hercules as of the date hereof with such eligibility determination based on Plan provisions in effect at the date pension benefits become effective.

This provision shall have no impact on benefit accrual other than eligibility requirements to receive a benefit. Hercules agrees that with respect to any obligations or responsibilities under the Pension Plan or this Section 5.16(c), Hercules and its Affiliates (other than the Company or any member of the FiberVisions Group) shall retain or assume all liabilities and obligations.

(d) Without limiting the generality of Section 5.16(c), each Transferred Employee who is a participant in the Hercules Incorporated Savings and Investment Plan (the “Hercules Savings Plan”) shall cease to be an active participant under such plan effective as of the Closing Date and Hercules, or one of its Affiliates (other than any member of the FiberVisions Group), shall cause each such participant to become fully vested in his or her account balances in the Hercules Savings Plan effective as of the Closing. As soon as practicable after the Closing Date, the Company shall establish, or shall cause one of its Affiliates to establish, a defined contribution plan that is intended to be qualified under Section 401(a) of the Code (the “Company Savings Plan”) in which the Transferred Employees shall be eligible to participate. As soon as practicable, and in no event later than 60 days following the Closing Date or, if later, the date on which the Company Savings Plan is established, Hercules, or one of its Affiliates (other than any member of the FiberVisions Group), shall cause the Hercules Savings Plan to transfer to the Company Savings Plan, and the Company agrees to cause the Company Savings Plan to accept, the account balance (including promissory notes evidencing all outstanding loans, any materials relating to any qualified domestic relations orders pursuant to Section 414(p) of the Code, and all Hercules common stock accounts) of each Transferred Employee under the Hercules Savings Plans as of the date next preceding the date of transfer.

(e) No provision of this Section 5 shall create any third party beneficiary rights in any Transferred Employee or Group Employee (including any beneficiary or dependent of any Transferred Employee or Group Employee) or any other current or former director, officer, employee or independent contractor (or beneficiary thereof) of Hercules, WSP or any of their Affiliates in respect of continued employment (or resumed employment) or any other matter.

(f) To the extent these provisions may be inconsistent with Danish and Chinese employment rules, laws, practices and policies, such local rules, laws, practices and policies will apply without giving rise to additional obligations, liabilities or indemnifications applicable to any parties to this Agreement.

5.17 Tax Matters

(a) For any Pre-Closing Tax Period of any member of the FiberVisions Group, Hercules and WSP shall prepare or cause to be prepared, and file or cause to be filed (in a manner consistent with past practices) with the appropriate taxing authorities all Tax Returns required to be filed, and shall pay all

Taxes due with respect to such Tax Returns; provided, however, that SPG shall be entitled to review and comment on any such Tax Returns and no such Tax Returns shall be filed without the prior written consent of SPG, which shall not be unreasonably withheld.

(b) SPG shall prepare (or cause to be prepared) and file or cause to be filed when due all Tax Returns relating to Straddle Periods and all Tax Returns that are required to be filed by or with respect to the FiberVisions Group for taxable years or periods beginning after the Closing Date. Hercules shall pay the Taxes attributable to the portion of a Straddle Period ending on the Closing Date (as determined under Section 5.17(c)) to the Company on or prior to the due date for the applicable Tax Return; provided, however, that Hercules and WSP shall be entitled to review and comment on any such Tax Returns and no such Tax Returns shall be filed without the prior written consent of Hercules and WSP, which shall not be unreasonably withheld.

(c) In the case of any Straddle Period, the amount of Taxes allocable to the portion of the Straddle Period ending on the Closing Date shall be deemed to be the total amount of Taxes (other than transfer Taxes) imposed for the Straddle Period multiplied by a fraction the numerator of which is the number of months or portion thereof in the Straddle Period ending on and including the Closing Date and the denominator of which is twelve (12). Notwithstanding the foregoing, any item that is unusual or nonrecurring shall be allocated to the day on which it occurs.

(d) The parties shall provide each other with such cooperation and information as may be reasonably requested of the other in filing any Tax Return, amended Tax Return or claim for refund, determining a liability for Taxes or a right to a refund of Taxes or participating in or conducting any audit or other proceeding in respect of Taxes. Each of the parties shall make themselves (and their respective employees) reasonably available on a mutually convenient basis to provide explanations of any documents or information provided hereunder. The Company Indemnifying Parties shall control (at their own expense) the defense of any claims for a Loss relating to Tax for which they have an obligation to indemnify the SPG Indemnified Parties under Section 8.1(a) using counsel of their own choosing; provided, however, the SPG Indemnifying Parties shall have the right to participate fully in all aspects of the prosecution or defense of any such claim; provided, further, that the Company Indemnifying Parties shall not settle or compromise any claims for a Loss relating to Tax, which settlement or compromise could subject the SPG Indemnified Parties to liability for Tax not covered by the indemnification under Section 8.1(a), without the consent of the SPG Indemnified Parties, which consent shall not be unreasonably withheld. The Company agrees that it shall not settle or compromise any claim referred to in the first sentence of this paragraph, which settlement or compromise may affect the Company Indemnifying Parties liability for a Loss relating to Tax, without the consent of the Company Indemnifying Parties, which consent shall not be unreasonably withheld.

(e) Hercules shall be entitled to receive any refund (other than the SPG Refund) attributable to a Pre-Closing Tax Period; provided, however, the benefit of any refunds arising as a result of a carryback of tax attributes generated after the Closing to a Pre-Closing Tax Period shall be for the account of the Company; provided, further, that to the extent permitted by law, the Company shall not carry back tax attributes to the consolidated group for which Hercules is the common parent without Hercules' prior written consent, which shall not be unreasonably withheld. Refunds for a Straddle Period shall be allocated in the same manner as the relevant Taxes as provided under Section 5.17(c).

5.18 Debt/Cash of Company.

(a) Before the Closing, the Company, Hercules and WSP shall cause all of the third party debt of the Company and its Subsidiaries and all Intercompany Balances among Hercules and its Affiliates (other than the Company and its Subsidiaries), on the one hand, and the Company and its Subsidiaries, on the other hand, to be paid in full or otherwise fully satisfied. The Intercompany Balances among members of the FiberVisions Group shall continue through Closing in accordance with their respective terms.

(b) As of the Closing, the Company shall have cash (i) in the amount of Three Hundred Thousand Dollars (\$300,000) plus an amount equal to any tax refund received by the Company or Hercules or any Affiliate thereof in respect of 2005 losses at FiberVisions Products, Inc. and (ii) in a restricted deposit account for letters of credit outstanding as of the Closing Date with respect to polymer purchases from Daelim in Korea. As of the Closing, if the cash in the Company exceeds \$300,000, SPG shall remit the amount over \$300,000 to Hercules.

5.19 Exclusive Dealing

. During the period from the date of this Agreement through the Closing or the earlier termination of this Agreement pursuant to Section 9.1 hereof, Hercules and WSP shall not take or permit any other Person on its behalf to take, and it shall cause the FiberVisions Group not to take, any action to encourage, initiate or engage in discussions or negotiations with, or provide any information to, any Person (other than SPG or its representatives) concerning any purchase of the Stock, any merger involving the FiberVisions Group, any sale of all or substantially all of the assets of the FiberVisions Business or similar transaction involving the FiberVisions Group or the FiberVisions Business (other than assets sold in the Ordinary Course of Business).

5.20 Intellectual Property Rights

(a) Hercules and WSP, and their Affiliates, shall execute and deliver, or shall cause to be executed and delivered, such documents and other papers and shall take, or shall cause to be taken, such further actions as may be reasonably required to assign to the FiberVisions Group all Intellectual Property Rights that Hercules and WSP, and their Affiliates, own (or license, to the fullest extent contractually permissible) for use in, or the benefit of, the FiberVisions Group.

(b) For a period of one (1) year from the Closing Date, if the FiberVisions Group in its Ordinary Course of Business determines that it requires a license from Hercules or WSP or their Affiliates to practice the Intellectual Property Rights of Hercules or WSP or their Affiliates used on a frequent and regular basis

in the FiberVisions Business as of the date of this Agreement, to the extent that Hercules or WSP or their Affiliates are able to grant such a license, Hercules or WSP or their Affiliates shall grant to the FiberVisions Group a royalty free, non-exclusive license with no right to sublicense for the benefit of third parties to practice such Intellectual Property Rights solely to the extent and in the substantially the same manner and degree such Intellectual Property Rights were used by the FiberVisions Group in the FiberVisions Business as of the date of this Agreement.

(c) From and after the Closing Date, Hercules and WSP and their Affiliates grant to the FiberVisions Group, on a non-exclusive basis and with no right to extend the protections afforded by this grant to third parties, a covenant not to assert against the FiberVisions Group any Intellectual Property Rights used by the FiberVisions Group in its Ordinary Course of Business to the extent and in substantially the same manner and degree such Intellectual Property Rights were used by the FiberVisions Group in the FiberVisions Business as of the date of this Agreement. The suppliers, distributors and customers of the FiberVisions Group shall enjoy the benefit of this covenant solely to the extent it flows to the FiberVisions Group and their transactions with the FiberVisions Group in the Ordinary Course of Business to the extent and in substantially the same manner and degree such transactions were conducted in the FiberVisions Business as of the date of this Agreement and for no other purposes.

5.21 Transition Services Planning

(a) For purposes of transition services planning, Hercules and WSP shall cause the FiberVisions Group, its officers, directors, representatives, and agents, and employees to afford, from the date of this Agreement to the Closing Date, the officers, employees, accountants, attorneys, and other representatives and agents of SPG (collectively, the “SPG Representatives”) reasonable access, upon reasonable prior written notice, during regular business hours, to the premises and designated officers, employees and agents, of the FiberVisions Group.

(b) Unless otherwise agreed by the parties to this Agreement, no investigation or communication pursuant to this Section 5.21 shall affect or add to any representations or warranties of the parties or the conditions to the obligations of the parties to consummate the Transactions.

5.22 Consents and Approvals

Hercules and WSP shall use commercially reasonable efforts to obtain, or to cause the Company to obtain, any third-party consents or approvals required in connection with the consummation of the transactions described in this Agreement, and Hercules and WSP shall cooperate with the Company in connection with obtaining such consents and approvals. The Company, Hercules and WSP shall use commercially reasonable efforts to obtain promptly any approvals of Governmental Entities to the consummation of the transactions described in this Agreement.

5.23 Insurance

Any outstanding claims asserted by any member of the FiberVisions Group prior to Closing against insurance policies maintained by Hercules shall continue to be covered by such policies. In addition and upon terms reasonably acceptable to Hercules, Hercules shall continue to provide the members of the FiberVisions Group with access to any “occurrence” policies under which any member of the FiberVisions Group is covered and will reasonably assist the members of the FiberVisions Group in tendering and filing any such claims with the appropriate insurance carriers.

5.24 Additional Payment

Notwithstanding anything to the contrary in this Agreement, at the Closing, SPG shall pay to WSP the sum of Seven Hundred Thousand Dollars (\$700,000).

5.25 General Cooperation

Each of the parties shall provide the other with reasonable access to such books and records and personnel as may be reasonably requested by the other party in furtherance of, arising from or related to any of the matters contemplated by this Agreement, including, without limitation, with respect to any litigation of the Company. In addition, each of the parties shall make its personnel available to provide assistance in legal proceedings, including, but not limited to, for depositions and for testifying in such proceedings. The requesting party shall pay all such reasonable costs in connection with the foregoing.

SECTION 6. Conditions Precedent to Closing

6.1 Conditions to Each Party's Obligation to Close

The respective obligations of each party hereto to proceed with the Closing is expressly conditioned upon the satisfaction of each of the following conditions on or before the Closing Date: provided, that a party whose failure to fulfill or cause to be fulfilled any such condition shall be required to proceed with the Closing if the other party waives such condition:

(a) No preliminary or permanent injunction or other order, decree, or ruling issued by any court of competent jurisdiction nor any

statute, rule, regulation, or order entered, promulgated or enacted by any Governmental Entity shall be in effect that would prevent the consummation of the Closing;

(b) There shall not be pending nor shall there have been threatened, any complaint, claim, prosecution, indictment, action, suit, arbitration, or proceeding by or before any Governmental Entity or arbitrator challenging the lawfulness of or seeking to prevent or delay the Closing or seeking monetary or other relief by reason of the consummation of the Closing.

(c) All actions by or in respect of or filings with any governmental body, agency, official or authority required to permit the consummation of the Closing shall have been taken, made or obtained.

(d) Hercules and Agent shall have entered into an amendment in form and substance as described in Section 5.12 which shall be reasonably acceptable to Hercules.

6.2 Conditions to the Obligations of Hercules and WSP

. The obligation of Hercules and WSP to proceed with the Closing is expressly conditioned upon the satisfaction of each of the following additional conditions on or before the Closing Date:

(a) The Debt Financing shall have been consummated, provided, however, that in the event that the parties fail to consummate the Debt Financing as a direct result of a breach by Hercules, WSP or the Company of Section 5.3, then neither Hercules, WSP or the Company shall be entitled to exercise its rights under Section 9 hereof solely as a result of this subsection.

(b) (i) On and as of the Closing Date: (A) those representations and warranties of SPG set forth in this Agreement which contain any qualification or limitation as to materiality or Material Adverse Effect shall be true and accurate and (B) those representations and warranties of SPG set forth in this Agreement which do not contain any such qualification or limitation as to materiality or Material Adverse Effect shall be true and accurate in all material respects, except that with respect to (A) and (B), those representations and warranties of SPG that address matters only as of a particular date or only with respect to a specific period of time, need only be true and accurate or true and accurate in all material respects, as the case may be, as of such date or with respect to such period; (ii) the covenants contained in this Agreement to be complied with by SPG at or before the Closing shall have been complied with in all material respects; and (iii) SPG shall have delivered to the Company a certificate of SPG to such effect signed by a duly authorized representative thereof.

(c) Hercules and WSP shall receive a Certificate of the Secretary of SPG to the effect that (i) the necessary resolutions approving the purchase by SPG of the Hercules Shares and authorizing execution of this Agreement and the Stockholders Agreement, attached to such certificate were duly adopted and continue in force and effect; and (ii) the officers of SPG executing this Agreement and such other documents executed and delivered pursuant to or in connection with this Agreement are incumbent officers of SPG and that the specimen signatures on such certificate or certificates are their genuine signatures.

6.3 Conditions to the Obligations of SPG

. The obligation of SPG to proceed with the Closing is expressly conditioned upon the satisfaction of each of the following additional conditions on or before the Closing Date:

(a) (i) On and as of the Closing Date: (A) those representations and warranties of Hercules and WSP set forth in this Agreement which contain any qualification or limitation as to materiality or Material Adverse Effect shall be true and accurate and (B) those representations and warranties of Hercules and WSP set forth in this Agreement which do not contain any such qualification or limitation as to materiality or Material Adverse Effect shall be true and accurate in all material respects, except that with respect to (A) and (B), those representations and warranties of Hercules and WSP that address matters only as of a particular date or only with respect to a specific period of time, need only be true and accurate or true and accurate in all material respects, as the case may be, as of such date or with respect to such period; (ii) the covenants contained in this Agreement to be complied with by each of Hercules and WSP at or before the Closing shall have been complied with in all material respects; and (iii) each of Hercules and WSP shall have delivered to SPG a certificate to such effect signed by duly authorized representatives thereof.

(b) SPG shall receive a Certificate of the Secretary of each of Hercules and WSP to the effect that (1) the necessary resolutions approving the sale of the Hercules Shares to SPG and the execution of the Stockholders Agreement by WSP, attached to such certificate were duly adopted and continue in force and effect, and (2) the officers of each of Hercules and WSP executing this Agreement and such other documents executed and delivered pursuant to or in connection with this Agreement are incumbent officers of Hercules and WSP, respectively, and that the specimen signatures on such certificate or certificates are their genuine signatures.

(c) A Certificate of the Secretary of the Company to the effect that (1) the resolutions of the Board of Directors authorizing the execution of the Stockholders Agreement by the Company, authorizing the Debt Financing and the dividends to Hercules and WSP, attached to such certificate were duly adopted and continue in force and effect, and (2) the officers of the Company executing this Agreement and such other documents executed and delivered pursuant to or in connection with this Agreement are incumbent officers of the Company and that the specimen signatures on such certificate or certificates are their genuine signatures.

(d) The Debt Financing shall have been consummated, provided, however, that in the event that the parties fail to consummate the Debt Financing as a direct result of a breach by SPG of Section 5.13, then SPG shall not be entitled to exercise its rights under Section 9 hereof solely as a result of this subsection.

(e) The Company shall provide a notice in writing that it acknowledges that due to this transaction being consummated on the Closing

Date, the Company will no longer participate in the Pension Plan of Hercules Incorporated, the Hercules Incorporated Savings and Investment Plan, the Hercules Long Term Incentive Compensation Plan and the Hercules Incorporated Management Incentive Compensation Plan. The Company shall notify Hercules prior to Closing Date of its intent to continue to participate in the Hercules Flexible Employee Benefits Plan for a period not to extend beyond July 1, 2006.

(f) There shall not have occurred a Material Adverse Effect and there shall not have been any change or effect that is reasonably likely to have a Material Adverse Effect.

(g) All contractual and other third party consents and notices required to be obtained or made by parties other than SPG prior to the Closing Date shall have been obtained.

SECTION 7. Closing Deliveries

7.1 Company Closing Deliveries

. At the Closing, in addition to the deliveries required under Section 6.3, the Company shall deliver to SPG, Hercules and WSP the documents set forth below:

- (i) The Stockholders Agreement executed by the Company;
- (ii) A certificate of good standing for the Company certified by the Secretary of State of the State of Delaware as of a date not more than fifteen (15) days prior to the date hereof;
- (iii) A date-stamped copy of the Company's Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on or prior to the Closing Date;
- (iv) The certificate described in Section 6.3(c) hereof; and
- (v) The Transition Services Agreement executed by the Company.

7.2 Hercules and WSP Closing Deliveries

. At the Closing, in addition to the deliveries required under Section 6.3, Hercules and WSP shall deliver to SPG the documents set forth below:

- (i) The Transition Services Agreement executed by Hercules;
- (ii) The Option Agreement executed by WSP;
- (iii) Each of the certificates described in Section 6.3(b) and (c) hereof;
- (iv) All assignments or licenses of Intellectual Property Rights required under this Agreement;
- (v) The Stockholders Agreement executed by WSP;
- 1. A duly executed and acknowledged certificate, in form and substance acceptable to SPG and in compliance with the Code and Treasury Regulations, certifying such facts as to establish that the sale of the Hercules Shares and any other transactions contemplated hereby are exempt from withholding pursuant to Section 1445 of the Code; and
- (vi) A letter from the Agent to the effect that the security interests related to the FiberVisions Group assets under the Credit Agreement have been fully satisfied and released.

7.3 SPG Closing Deliveries

(a) At the Closing, in addition to the deliveries required under Section 6.2, SPG shall deliver to the Company, Hercules and WSP the following:

- (i) A certificate of good standing for SPG certified by the Secretary of State of the jurisdiction of its organization as of a date not more than fifteen (15) days prior to the date hereof;

(ii) Each of the certificates described in Sections 6.2(b) and (c) hereof;

(iii) A date-stamped copy of SPG's certificate of formation, as filed with the Secretary of State of the jurisdiction of organization on or prior to the Closing Date and as in effect on the Closing Date;

(iv) This Agreement signed by SPG; and

(v) The Option Agreement executed by SPG.

(b) On the Closing Date, the Company shall pay to Hercules the Redemption Price by wire transfer of immediately available funds as directed by Hercules.

(c) On the Closing Date, SPG shall pay to WSP the payment described in Section 5.24 hereof by wire transfer of immediately available funds as directed by WSP.

SECTION 8. Indemnification

8.1 Indemnification by Parties

(a) The Stockholders (the "Company Indemnifying Parties") agree to jointly and severally indemnify and hold the Company and its Affiliates (including SPG), officers, directors, members, heirs, successors, permitted assigns, executors, employees and agents (the "SPG Indemnified Parties") harmless from and against any and all claims, actions, damages, losses, taxes, liabilities, costs and expenses (including reasonable attorneys' fees) (collectively, "Losses") resulting from (i) any one or more breaches of the representations and warranties contained in Section 3 hereof, (ii) any breach of a covenant or other agreement by Hercules, WSP or the Company (for Company breaches resulting from actions taken or not taken by Hercules or WSP) made in this Agreement, (iii) any and all liability for Taxes of the FiberVisions Group with respect to any taxable period of the FiberVisions Group (or any predecessors) for all taxable periods ending on or before the Closing Date ("Pre-Closing Tax Period") and with respect to any taxable period that begins on or before and ends after the Closing Date ("Straddle Period"), for the portion thereof ending on the Closing Date, (iv) any and all liability (as a result of Treasury Regulation Section 1.1502-6 or otherwise) for Taxes of Hercules or WSP, or any other person (other than the FiberVisions Group) which is or has ever been affiliated with any member of the FiberVisions Group or with whom any member of the FiberVisions Group otherwise joins or has ever joined (or is or has ever been required to join) in filing any consolidated, combined, unitary or aggregate Tax Return, prior to the Closing Date, (v) any payments required to be made after the Closing Date under any Tax sharing, Tax indemnity, Tax allocation or similar binding contracts (whether or not written) to which any member of the FiberVisions Group was obligated, or was a party, on or prior to the Closing Date, (vi) any and all liabilities for Taxes of the SPG or the FiberVisions Group resulting from income of SPG or the FiberVisions Group included under Section 951(a) of the Code that is realized in a transaction that occurs on or before the Closing, (vii) any and all liability for Taxes resulting from the cancellation or settlement of any debt as set forth in Section 5.18, (viii) any and all liability for all Taxes arising in connection with the Restructuring, and (ix) the portion of any liability to the extent related to exposure to asbestos occurring, or alleged to have occurred, prior to the Closing from a product manufactured or sold by any member of the FiberVisions Group or any Affiliate, including Hercules, or related to an asset owned or operated by any member of the FiberVisions Group or any Affiliate, including Hercules, prior to the Closing.

(b) The Company Indemnifying Parties agree to jointly and severally indemnify and hold the SPG Indemnified Parties harmless from and against any and all Losses arising under or in connection with any defined benefit, defined contribution or welfare plan maintained by Hercules, WSP or any of their Affiliates, including any such plan listed on Schedule 3.20(a) or Schedule 3.20(d) (other than for Losses arising after and attributable to any events occurring after the Closing Date with respect to any plan contributed to or maintained by any member of the FiberVisions Group after the Closing Date; provided that for the purposes hereof, the participation in or contribution to any plan pursuant to the Transition Services Agreement, or Section 5.16(a) or Section 5.16(c) of this Agreement, shall not be considered a plan that is contributed to or maintained by any member of the FiberVisions Group).

(c) The Company Indemnifying Parties agree to jointly and severally indemnify and hold the SPG Indemnified Parties harmless from and against any and all Losses resulting from (i) the lawsuit of Freudenberg Spunweb Company v. FiberVisions, L.P., Civil Action No. 04C-03-073 FSS, in the Superior Court of the State of Delaware in and for New Castle County, pursuant to which Freudenberg Spunweb alleges breach of contract and breach of warranty in connection with the sale of fiber under the Supply Agreement on Polypropylene Polymer Fibers between Freudenberg Spunweb Co. Ltd. and FiberVisions, L.P. dated March 15, 2000; and (ii) the former business transactions not in the ordinary course of business consummated since January 1, 1997 by any member of the FiberVisions Group involving sales of businesses or dispositions of capital assets (having a net book value of more than \$250,000 at the time of the transaction).

(d) SPG (the "SPG Indemnifying Party"), agrees to indemnify and hold the Company, Hercules and WSP and their respective Affiliates, officers, directors, partners, members, successors, permitted assigns, employees and agents (in such capacity, the "Company Indemnified Parties"; together with the SPG Indemnified Parties, the "Indemnified Parties") harmless from and against all Losses, resulting from (i) any one or more breaches of the representations contained in Section 4 hereof and (ii) any breach of a covenant or other agreement by SPG made in this Agreement, including Section 5.1(b).

8.2 Limitations on Indemnity

. Notwithstanding the foregoing provisions of Section 8.1 and any other provision of this Agreement:

(a) Any claim that has been timely asserted by an Indemnified Party (as hereinafter defined) in accordance with Section 8.5 hereof within the applicable time period specified in Section 8 shall survive past the applicable time limits set forth in Section 3.29 and Section 4.9 until the final resolution of the claim.

(b) Notwithstanding anything in this Section 8 to the contrary, the Company Indemnifying Parties shall not have liability to the SPG Indemnified Parties under Section 8.1(a)(i) for any individual Loss or series of related Losses arising from a breach of the representations and warranties in Section 3 (other than the representations and warranties in Sections 3.1, 3.2, 3.3, 3.4, 3.9, 3.12, 3.26, 3.27 and 3.28) in an amount less than \$25,000 and until the sum of the aggregate amount of the Losses exceeds \$1,000,000 (the "Basket

Amount”) in which case the SPG Indemnified Parties shall be entitled to losses in an amount up to \$10,000,000 (the “Cap Amount”), provided, however, that the Company Indemnifying Parties shall be liable only for the amount by which all Losses (up to the Cap Amount) exceed the Basket Amount up to the Cap Amount. Notwithstanding anything in this Section 8 to the contrary, the SPG Indemnifying Parties shall not have liability to the Company Indemnified Parties under Section 8.1 for any individual Loss arising from a breach of the representations and warranties in Section 4 (other than the representations and warranties in Sections 4.1, 4.2, 4.3 and 4.7) in an amount less than \$25,000 and until the sum of the aggregate amount of the Losses exceeds the Basket Amount in which case the Company Indemnified Parties shall be entitled to losses in an amount up to the Cap Amount, provided, however, that the SPG Indemnifying Parties shall be liable only for the amount by which all Losses (up to the Cap Amount) exceed the Basket Amount. For purposes of this Section 8.2, all Losses arising from the same facts, circumstances or event shall be deemed to constitute a single individual Loss. The Basket Amount and the Cap Amount shall not be applicable to (i) any Losses resulting from any representation and warranty specifically related to ownership or title of the Company’s assets and properties, (ii) to any Losses arising under or in connection with any defined benefit, defined contribution or welfare plan maintained by Hercules, WSP or any of their Affiliates, including any such plan listed on Schedule 3.20(a) or Schedule 3.20(d), regardless of when occurred, (iii) to any Losses arising under Section 8.1(a)(ii) through (ix), Section 8.1(b) or Section 8.1(c), (iv) to any extent that the particular Company Indemnifying Party has engaged in fraud or willful misrepresentation or (v) to any extent that the SPG Indemnifying Party has engaged in fraud or willful misrepresentation. The Basket Amount and Cap Amount shall not be applicable to any Losses resulting from any breach of a covenant or other agreement by SPG made in this Agreement (whether for actions taken or not taken).

(c) For purposes of determining whether any representation or warranty subject to indemnification has been breached and in calculating the amount of Losses relating thereto, such representations and warranties alleged to have been breached shall be construed as if any qualification or limitation with respect to Material Adverse Effect were omitted from the text of such representations (other than the reference to Material Adverse Effect in the first sentence of Section 3.6).

ii. If, after the Closing Date, any member of the FiberVisions Group voluntarily amends or otherwise restates any Tax Return for a period prior to the Closing Date (except to the extent required by law) in such a manner as to increase the Tax liability thereon, no Loss shall arise and the Company Indemnifying Parties shall have no obligation to indemnify the SPG Indemnified Parties for such amount.

8.3 Effect of Insurance

. With respect to any indemnifiable claim hereunder, the amount recoverable by the party seeking indemnification shall take into account any reimbursements, net of taxes, realized by such party from insurance policies or other indemnification sources arising from the same incident or set of facts or circumstances giving rise to the claim for indemnification. Upon the payment of the indemnified claim from the Indemnifying Party to the Indemnified Party, the Indemnifying Party shall have a right of subrogation with respect to any insurance proceeds or other rights to third party reimbursement for such claims held by the Indemnifying Party. Nothing in this Section 8.3 shall create an obligation on the part of any party to carry any specific types or amounts of insurance.

8.4 Exclusive Remedy

. With the exception of any claims for fraud or willful misrepresentation, the indemnification obligations of the Stockholders under this Section 8 shall constitute the sole and exclusive remedy of SPG with respect to any breach of any representation, warranty or covenant by the Company or any Stockholder hereunder. In furtherance of the foregoing, SPG hereby waives and releases, to the fullest extent permitted by applicable law and, except for claims of fraud, any and all other rights, claims and causes of action (including rights of contributions, if any) known or unknown, foreseen or unforeseen, which exist or may arise in the future, that it may have against any of the Stockholders, arising under or based upon any federal, state or local statute, law, ordinance, rule, regulation or judicial decision (including any such statute, law, ordinance, rule, regulation or judicial decision relating to environmental matters or arising under or based upon any securities law, common law or otherwise) in respect of the representations, warranties and covenants of the Stockholders and the Company set forth herein. SPG shall be entitled to such remedies as shall be available at law or in equity with respect to any willful breach of the representations, warranties and covenants of the Stockholders and the Company set forth herein. This Section 8.4 shall survive Closing.

8.5 Notice of Claim

. In the event that a SPG Indemnified Party or a Company Indemnified Party (an “Indemnified Party”) seeks indemnification, the Indemnified Party shall give reasonably prompt written notice to the Company Indemnifying Party or SPG Indemnifying Party, as the case may be (the “Indemnifying Party”), specifying the facts in reasonable detail constituting the basis for such claim and the amount, to the extent known, of the claim asserted; provided, however, that any failure to provide such prompt notice shall not affect the right to assert a claim to the extent the Indemnifying Party is not materially prejudiced by such delay. The parties shall attempt for not less than thirty (30) days to negotiate a mutually satisfactory resolution of such matter. In the event the parties are not able to agree on a mutually satisfactory resolution, either party may seek to resolve the dispute by litigation.

8.6 Third Person Claims

. If an Indemnified Party is entitled to indemnification hereunder because of a claim asserted by any claimant other than an Indemnified Party (a “Third Person”), the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof. The Indemnifying Party shall have the right, upon written notice to the Indemnified Party, and using counsel reasonably satisfactory to the Indemnified Party, to investigate, contest, control the defense of or settle the claim alleged by such Third Person (a “Third-Person Claim”); the Indemnified Party may thereafter participate in (but not control) the defense of any such Third-Person Claim with its own counsel at its own expense. Any settlement must be consented to by the Indemnified Party unless such settlement provides for a full release and satisfaction of all outstanding claims against the Indemnified Party and only involves the payment of money in satisfaction of such claim. Upon the reasonable request of the Indemnifying Party, the Indemnified Party shall promptly provide such information as may be reasonably needed by the Indemnifying Party to make a determination of whether or not to assume defense of such claim. If after the receipt of such information the Indemnifying Party shall fail to assume the defense of any such Third-Person Claim within twenty (20) days of receiving written notification of such claim and such requested information:

(a) the Indemnified Party, in good faith, may defend against such claim, in such manner as it may deem appropriate, including, but not limited to, settling such claim, after giving at least twenty (20) days' advance notice of any proposed settlement to the Indemnifying Party and receiving the Indemnifying Party's prior written consent, which may not be unreasonably withheld, on such terms as the Indemnified Party, in good faith, may deem appropriate; and

(b) the Indemnifying Party may participate in (but not control) the defense of such action, with its own counsel at its own expense. The Parties shall make available to each other all relevant information in their possession relating to any such Third-Person Claim and shall cooperate in the defense thereof.

8.7 Set Off

. SPG shall not be permitted to set off any amount to which it may be entitled under this Agreement.

8.8 Purchase Price Adjustment

. Any indemnification payment made by Hercules pursuant to this Agreement shall be treated as an adjustment to the Redemption Price for Tax purposes, unless otherwise required by applicable law.

SECTION 9. Termination and Waiver

9.1 Termination

. This Agreement may be terminated prior to the Closing:

(a) by the mutual written consent of Hercules, WSP and SPG;

(b) by Hercules and WSP, if SPG shall (i) fail to comply in any material respect with any covenant or agreement contained herein with which it is required to comply, or (ii) materially breach any of its representations or warranties contained herein so as to cause a condition to closing to be incapable of satisfaction, which failure or breach is not cured within ten (10) days after Hercules has notified SPG in writing of its intent to terminate this Agreement pursuant to this subsection (b) of Section 9.1;

(c) by SPG if Hercules or WSP shall (i) fail to comply in any material respect with any covenant or agreement contained herein with which they are required to comply, or (ii) breach any of their representations or warranties contained herein so as to cause a condition to closing to be incapable of satisfaction, which failure or breach is not cured within ten (10) days after SPG has notified Hercules and WSP of its intent to terminate this Agreement pursuant to this subsection (c) of Section 9.1; or

(d) by either Hercules and WSP, or SPG in the event of the issuance of a final, nonappealable governmental order restraining or prohibiting any of the transactions contemplated herein.

(e) by either Hercules and WSP, or SPG if the Closing shall not have been consummated on or before 5:00 p.m. (EST) on April 30, 2006; provided that the right to terminate this Agreement pursuant to this clause (e) shall not be available to the party (if any) whose failure to fulfill or cause to be fulfilled any obligation under this Agreement has been the primary cause of the failure of the Closing to occur on or before such date.

9.2 Notice of Termination

. Any party desiring to terminate this Agreement pursuant to Section 9.1 shall give written notice of such termination to the other parties to this Agreement.

9.3 Effect of Termination

. In the event of the termination of this Agreement as provided in Section 9.1, this Agreement shall forthwith become void and there shall be no liability on the part of any party to this Agreement, except as set forth in Section 9.4 and Section 10, provided, however, that nothing in this Agreement shall relieve any party from liability for any (i) any intentional, knowing and material misrepresentation or breach of warranty by such party or (ii) a willful and material breach by the such party of any covenant or agreement contained herein.

9.4 Return of Documents

. Upon termination of this Agreement prior to the Closing, SPG shall deliver to Hercules the originals and all copies made available to SPG, its advisers and representatives of information concerning Hercules, WSP and the Company, and neither SPG nor its advisers and representatives shall retain or furnish to any third party any copies, extracts, or other reproductions in whole or in part of such information.

SECTION 10. Miscellaneous

10.1 Binding Agreement

. This Agreement and each provision herein shall be binding upon and applicable to, and shall inure to the benefit of, the parties hereto, their heirs, executors, successors and permitted assigns.

10.2 Notices

. All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly made and received when personally delivered, five (5) days after deposit with the United States Post Office, by registered or certified mail, postage prepaid, return receipt requested or one (1) business day after being sent via facsimile (with answer back receipt and hard copy sent by mail as provided above) or nationally-recognized overnight courier service, addressed as set forth below or at such other address as such party may designate in the manner set forth in this Section 10.2:

If to Hercules and WSP, then to:

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6491
Facsimile No.: (302) 594-6909
Attention: Allen Spizzo

With a copy to:

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-5128
Facsimile No.: (302) 594-7252
Attention: Israel Floyd

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6460
Facsimile No.: (302) 594-7730
Attention: Gregory McCoy

Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
Telephone No: (215) 864-8606
Facsimile No: (215) 864-9166
Attention: Justin P. Klein

If to the Company, then to:

FiberVisions Delaware Corporation
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6491
Facsimile No.: (302) 594-6909
Attention: President of FiberVisions Delaware Corporation

With a copy to:

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6491
Facsimile No.: (302) 594-6909
Attention: Allen Spizzo

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6460
Facsimile No.: (302) 594-7730
Attention: Gregory McCoy

If to SPG, then to the address indicated on Schedule 4.6 hereto.

With a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY
Telephone No.: (215) 455-3629

Facsimile No.: (215) 455-2502

Attention: Alan G. Schwartz

10.3 Consents and Waivers

. No consent or waiver, express or implied, by any party hereto of the breach, default or violation by any other party hereto of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach, default or violation of the same or any other obligations of such party hereunder. Failure on the part of any party hereto to complain of any act of any of the other parties or to declare any of the other parties hereto in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of his rights hereunder.

10.4 Assignments, Successors, and No Third-Party Rights

. No party may assign any of its rights or obligations under this Agreement without the prior written consent of the other parties hereto, and any attempted prohibited assignment shall be void; provided that any party shall be entitled to assign its rights under the Agreement to a controlled Affiliate of such party (or in the case of SPG, a controlled Affiliate of Snow, Phipps & Guggenheim, L.P.) that agrees to be bound by all of the terms and conditions of this Agreement.

Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and permitted assigns.

10.5 Amendments and Termination

. No change, modification or termination of this Agreement shall be valid unless the same is in writing and signed by the Company, Hercules, WSP and SPG.

10.6 Governing Law; Consent to Jurisdiction

. This Agreement and all questions relating to its validity, interpretation and performance shall be governed by and construed in accordance with the laws of the State of Delaware without regard to its conflict of law principles or rules. Each party hereto consents and agrees that the state or federal courts located in the State of Delaware shall have exclusive jurisdiction to hear and determine any claims or disputes pertaining to this Agreement or any of the other Definitive Agreements, and each party hereto expressly submits and consents in advance to such jurisdiction in any action or suit commenced in such court, waives any objection that it may have based upon lack of personal jurisdiction, improper venue or *forum non conveniens*, and hereby waives its right to jury trial.

10.7 Prior Agreements

. This Agreement, including the Exhibits and Schedules hereto, supersede any prior or contemporaneous understanding or agreement among the parties respecting the subject matter hereof or thereof. There are no arrangements, understandings or agreements, oral or written, among the parties hereto relating to the subject matter of this Agreement, except those fully expressed herein or in documents executed contemporaneously herewith. No change or modification of this Agreement shall be valid or binding upon the parties hereto unless such change or modification or waiver shall be in writing and signed by the parties hereto.

10.8 Confidential and Embedded Information

(a) "Confidential Information" means and includes valuable and proprietary information of a party whether through electronic media or through any media whatsoever, including, information relating to: (a) the operations and financial condition of such party, (b) trademarks, patents and patent applications, copyrights, business processes, trade secrets, algorithms, software programs, contracts or any other agreements pertaining to such party, (c) all Intellectual Property Rights, and (d) any other information of a confidential and/or proprietary nature. Confidential Information does not include information which (i) was in the public domain at the time it was disclosed or has entered the public domain through no fault of the receiving party, (ii) was known to the receiving party, without restriction, at the time of disclosure, (iii) is disclosed with the prior written approval of the disclosing party or one of its Affiliates, (iv) was independently developed by the disclosing party without any use of the Confidential Information, (v) becomes known to the receiving party, without restriction, from a source other than the disclosing party or its Affiliates, (vi) is disclosed generally to third parties by the disclosing party and its Affiliates without restrictions similar to those contained in this Section, (vii) is required to be disclosed in order for the receiving party to fulfill its obligations under this Agreement or to enforce its rights under this Agreement, or (viii) is disclosed pursuant to law, the order or requirement of a court, administrative agency, or other governmental body; provided that the receiving party shall provide prompt notice thereof to the disclosing party.

(b) The parties acknowledge that Hercules, WSP and certain Affiliates of Hercules and WSP have provided SPG, its advisers and representatives, with access to certain Confidential Information of Hercules and WSP. The parties acknowledge that SPG and certain Affiliates of SPG have provided Hercules and WSP, their advisers and representatives with access to certain Confidential Information of SPG.

(c) Accordingly, SPG, its advisers and representatives, shall be obligated to maintain the confidentiality of all Confidential Information of Hercules, WSP and/or any Affiliate of Hercules or WSP that has been provided by Hercules or WSP to SPG, its advisers and representatives, and that does not relate primarily to the FiberVisions Business for a term of four (4) years from the date of this Agreement, in the case of commercial business information, and seven (7) years from the date of this Agreement, in the case of Intellectual Property Rights.

(d) Accordingly, Hercules and WSP, their advisers and representatives, shall be obligated to maintain the confidentiality of all Confidential Information of SPG and/or any Affiliate of SPG that has been provided by SPG to Hercules and WSP, their advisers and representatives, and that does not relate primarily to the FiberVisions Business for a term of four (4) years from the date of this Agreement, in the case of commercial business information, and seven (7) years from the date of this Agreement, in the case of Intellectual Property Rights.

(e) Notwithstanding anything to the contrary herein, the parties acknowledge that there is certain information with respect to the Company, Hercules, WSP and SPG, which is embedded in the Confidential Information and no party shall be obligated to extract or deliver such embedded information.

10.9 Public Announcements

. Except as may be required by Law or stock exchange rules, no party to this Agreement or any Affiliate or representative of such party shall make any public announcements or otherwise communicate with any news media in respect of this Agreement or the transactions contemplated by this Agreement without the prior written consent of Hercules or SPG, as the case may be (which consent shall not be unreasonably withheld), and prior to any announcement or communication the parties shall cooperate as to the timing and contents of any such announcement or communication.

10.10 Severability

. In case any of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

10.11 Counterparts

. This Agreement may be signed in any number of counterparts and/or by facsimile, each of which shall be an original for all purposes, but all of which taken together shall constitute only one agreement.

10.12 Captions

. The captions and headings in this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement.

10.13 Exhibits, Schedules and Other References

. References in this Agreement to any "Exhibit" or "Schedule", unless otherwise specified, refer to one of the Exhibits or Schedules attached to this Agreement, and references made to an "Article" or a "Section" unless otherwise specified, refer to one of the Articles or Sections of this Agreement.

10.14 Rules of Construction

. The plural form of any noun shall include the singular and the singular shall include the plural, unless the context requires otherwise. Each of the masculine, neuter and feminine forms of any pronoun shall include all such forms unless context requires otherwise. The terms "include", "includes", "including" and all other forms and derivations of such term shall mean including without limitation. The terms "herein", "hereof", "hereunder", "hereby", "hereto", "herewith" and words of similar import shall refer to this Agreement as a whole and not to any particular article, section or paragraph of this Agreement. The "(s)" shall mean any one or more.

[SIGNATURES ARE ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

HERCULES INCORPORATED

By:

Name:

Title:

WSP, INC.

By:

Name:

Title:

SPG/FV INVESTOR LLC

By:

Name:

Title:

FIBERVISIONS DELAWARE CORPORATION

By:

Name:

Title:



EXHIBIT A

COMPANY'S CERTIFICATE OF INCORPORATION

[SEE ATTACHED]

EXHIBIT B

STOCKHOLDERS AGREEMENT

[SEE ATTACHED]

EXHIBIT C

OPTION AGREEMENT

[SEE ATTACHED]

EXHIBIT D

TRANSITION SERVICES AGREEMENT

[SEE ATTACHED]

EXHIBIT E

COMMITMENT LETTERS

[SEE ATTACHED]

EXHIBIT F

FORM OF EMPLOYEE LEASE AGREEMENT

[SEE ATTACHED]

STOCKHOLDERS AGREEMENT

BY AND AMONG

FIBERVISIONS DELAWARE CORPORATION

WSP, INC.

AND

SPG/FV INVESTOR LLC

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SCHEDULED

Schedule A	Stockholders, Number of Shares, Ownership Percentage	A
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EXHIBITS

Exhibit A	Form of Agreement to be Bound
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THIS STOCKHOLDERS AGREEMENT dated as of _____, 2006 (this "Agreement") by and among FiberVisions Delaware Corporation, a Delaware corporation (the "Company"), WSP, INC., a Delaware corporation ("WSP"), and SPG/FV Investor LLC, a Delaware limited liability company ("SPG," and, together with WSP, the "Stockholders" and each, a "Stockholder").

RECITALS

WHEREAS, the Stockholders are the owners of all of the issued and outstanding shares of the Stock (as such term is defined below) of the Company.

WHEREAS, the Stockholders, the Company and Hercules Incorporated, a Delaware corporation, and the sole stockholder of WSP ("Hercules") are parties to that certain Contribution Agreement, dated as of January 31, 2006 ("Contribution Agreement").

WHEREAS, the Stockholders have entered into that certain Option Agreement, dated as of even date herewith (the "Option Agreement"), pursuant to which WSP grants SPG the option to acquire 14% of the Stock of the Company from WSP (the "Option") on the terms set forth in the Option Agreement.

WHEREAS, the Stockholders believe that it is in their best interest to set forth certain agreements regarding fundamental decisions to be made involving the Company.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and agreements made herein, the parties, intending to be legally bound, hereto hereby covenant and agree for themselves and their successors and assigns as follows and agree to execute an Agreement to be Bound in the form attached as Exhibit A:

ARTICLE I

Definitions

SECTION 1.1 *Definitions.*

The following defined terms used in this Agreement shall, unless the context otherwise requires, have the meanings specified in this Section 1.1.

"Affiliate" shall mean a Person Controlling, Controlled by or under common Control with such Person.

"Affiliate Transferee" shall have the meaning set forth in Section 7.1 of this Agreement.

"Board" shall have the meaning set forth in Section 4.1(a) of this Agreement.

"Bylaws" shall mean the Bylaws of the Company dated as of January 30, 2006.

“Certificate of Incorporation” shall mean the Certificate of Incorporation of the Company filed on January 30, 2006 with the Secretary of State of the State of Delaware.

“CEO Nominee” shall have the meaning set forth in Section 4.1(a) of this Agreement.

“Closing Date” shall mean March 31, 2006, or such other date as mutually agreed upon by the parties.

“Company Notice” shall have the meaning set forth in Section 7.2(b) of this Agreement.

“Company Option Period” shall have the meaning set forth in Section 7.2(b) of this Agreement.

“Company Purchase Option” shall have the meaning set forth in Section 7.2(a) of this Agreement.

“Company Transfer Notice” shall have the meaning set forth in Section 7.2(a) of this Agreement.

“Competing Business” shall mean the development, manufacture, marketing, sale and distribution of viscose, polypropylene, polyethylene, polyester, bi-component (defined as but not limited to staple fibers and continuous filaments made of two or more thermoplastic polymers having different melting points) staple fibers and filament yarns with and without additives to impart properties to the staple fibers and/or the filament yarns such as, but not limited to, color (solution dyed), dyeability, wettability and antimicrobial, and used in applications such as, but not limited to the production of nonwoven fabrics using a carded thermal bonded process, spunlace process, needlepunch process, airlaid process and combination thereof, the production of woven and knitted fabrics and the use in industrial applications such as, but not limited to, concrete reinforcement, concrete cracking prevention, automotive nonwoven, tea bags, wet laid applications, and binder fibers.

“Contribution Agreement” shall have the meaning set forth in the Recitals to this Agreement.

“Control” and each derivative thereof shall mean the possession, directly or indirectly, of the power to direct or cause to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or otherwise.

“Debt Financing” shall mean the \$90,000,000 in debt that the Company and Fibervisions A/S shall incur on the terms provided in the Contribution Agreement.

“Dividends” shall mean the Hercules Dividend and the WSP Dividend.

“Drag Along Rights” shall have the meaning set forth in Section 7.4(a) of this Agreement.

“Drag Along Sale” shall have the meaning set forth in Section 7.4(a) of this Agreement.

“Drag Along Sale Notice” shall have the meaning set forth in Section 7.4(b) of this Agreement.

“Drag Along Sale Notice Period” shall have the meaning set forth in Section 7.4(b) of this Agreement.

“Drag Along Sellers” shall have the meaning set forth in Section 7.4(a) of this Agreement.

“Drag Along Transferee” shall have the meaning set forth in Section 7.4(a) of this Agreement.

“Earnout Payment” shall have the meaning set forth in Section 5.2 of the Contribution Agreement.

“Fiscal Period” means the fiscal year of the Company. Each Fiscal Period shall end on December 31 or such other date as may be required by law.

“Free Transfer Period” shall have the meaning set forth in Section 7.2(e).

“Hercules Dividend” means an amount equal to \$41,800,000 which shall be payable by the Company to Hercules upon the consummation of the Debt Financing.

“Nominees” shall have the meaning set forth in Section 4.1(a) of this Agreement.

“Non-Selling Stockholders” shall have the meaning set forth in Section 7.3(a) of this Agreement.

“Offer” shall have the meaning set forth in Section 7.2(a) of this Agreement.

“Offered Shares” shall have the meaning set forth in Section 7.2(a) of this Agreement.

“Option” shall have the meaning set forth in the Recitals to this Agreement.

“Option Agreement” shall have the meaning set forth in the Recitals to this Agreement.

“Other Stockholders” shall have the meaning set forth in Section 7.4(a) of this Agreement.

“Participation Notice” shall have the meaning set forth in Section 7.3(b) of this Agreement.

“Person” shall mean an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, any other form of business organization, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“Proposed Purchaser” shall have the meaning set forth in Section 7.3(a) of this Agreement.

“Proposed Transfer” shall have the meaning set forth in Section 7.3(a) of this Agreement.

“Selling Stockholders” shall have the meaning set forth in Section 7.3(a) of this Agreement.

“SPG Nominees” shall have the meaning set forth in Section 4.1(a) of this Agreement.

“SPG Shares” the number of shares of Stock of the Company held by SPG and/or its Affiliates from time to time.

“Stock” shall include all currently or hereafter issued capital stock of the Company, as well as any securities which may be distributed with respect thereto or issued in which may be distributed with respect thereto or issued in exchange therefor or in lieu thereof in connection with any stock dividend or stock split, combination of shares, recapitalization, merger, consolidation or other reorganization of the Company.

“Stockholder” or “Stockholders” shall have the meaning set forth in the Recitals to this Agreement.

“Stockholder Option Period” shall have the meaning set forth in Section 7.2(d) of this Agreement.

“Stockholder Purchase Option” shall have the meaning set forth in Section 7.2(c) of this Agreement.

“Stockholder Transfer Notice” shall have the meaning set forth in Section 7.2(c) of this Agreement.

“Subsidiary” shall have the meaning set forth in Section 5.1(a) of this Agreement.

“Tag-Along Exercise Notice” shall have the meaning set forth in Section 7.3(c) of this Agreement.

“Tag-Along Scheduled Closing” shall have the meaning set forth in Section 7.3(b) of this Agreement.

“Term Note” shall mean any term note issued pursuant to Section 5.2(c)(v) of the Contribution Agreement.

“Transactions” shall mean the Debt Financing, the Dividends and all transactions contemplated in this Agreement, the Contribution Agreement and the Option Agreement.

“Transferred Stock” shall have the meaning set forth in Section 7.3(a) of this Agreement.

“WSP Dividend” means an amount equal to \$40,200,000 which shall be payable by the Company to WSP upon consummation of the Debt Financing.

“WSP Nominees” shall have the meaning set forth in Section 4.1(a) of this Agreement.

“WSP Shares” shall mean the number of shares of Stock held by WSP and/or its Affiliates from time to time.

ARTICLE II
General Provisions

SECTION 2.1. Contract

This Agreement is a contract between the Stockholders and the Company, and is enforceable by the Company or by any Stockholder against the Company or any Stockholder who violates its terms. All Stockholders must agree to be bound by the terms of this Agreement prior to holding shares of Stock of the Company.

ARTICLE III

Stockholders

SECTION 3.1. Voting

Each Stockholder shall be entitled to vote upon all matters upon which Stockholders have the right to vote pursuant to the Certificate of Incorporation, Bylaws and applicable law, in proportion to the number of shares of Stock held by such Stockholder as set forth on Schedule A.

SECTION 3.2. Non-Compete

WSP and SPG are subject to the non-compete provision set forth in Section 5.10 of the Contribution Agreement. The Parties hereby agree that any Person who becomes a Stockholder of the Company following the date hereof shall be bound by a non-competition agreement that is at least as restrictive as the non-compete provision set forth in Section 5.10 of the Contribution Agreement.

SECTION 3.3. Loans and Guarantees by Stockholders

No Stockholder shall be required to lend any funds to, guarantee payment of any debt or obligation of, or purchase additional stock or other securities, debt or equity of the Company, except as otherwise required by applicable law or by this Agreement. Any Stockholder or any Affiliate of a Stockholder may, with the consent of the Board, subject to Section 5.1(a)(iii), make loans to the Company or a Subsidiary or guarantee payment of any debt or obligation of the Company or a Subsidiary (including any interest thereon).

ARTICLE IV

Election of Directors

SECTION 4.1.Election of Directors

(a) As of the Closing, the total issued and outstanding capital Stock of the Company consists of 1000 shares of Stock of which SPG holds 510 shares and WSP holds 490 shares. The Stockholders shall vote their Stock in such a manner as to cause the nominees to be elected to the Board of Directors of the Company (the "Board") as follows, and except as indicated otherwise, each nominee after such election shall be a voting member of the Board:

(i) SPG Nominees: (x) three (3) nominees so long as SPG holds 255 or more shares of Stock; (y) two (2) nominees so long as SPG holds 170 or more but less than 255 shares of Stock; and (z) one (1) nominee so long as SPG holds 85 or more but less than 170 shares of Stock. In the event that SPG holds less than 85 shares of Stock, SPG shall have the right to designate one (1) non-voting observer to the Board.

(ii) WSP Nominees. (x) two (2) nominees so long as WSP holds 245 or more shares of Stock; and (y) one (1) nominee so long as WSP holds 200 or more shares of Stock but less than 245 shares of Stock. In the event that WSP holds less than 200 shares of Stock, WSP shall have the right to designate one (1) non-voting observer to the Board.

(iii) CEO Nominee. The chief executive officer shall be a non-voting member of the Board unless also nominated as a voting director by either party.

(iv) The SPG Nominees, the WSP Nominees and the CEO Nominee are collectively referred to herein as, the "Nominees". The Nominees as of the date of this Agreement shall be the individuals listed on Schedule B hereto. Notwithstanding anything in this Agreement to the contrary, at any time that (i) any Earnout Payment is due and payable to Hercules pursuant to Section 5.2 of the Contribution Agreement and/or (ii) any amount is due and payable to Hercules pursuant to any Term Note issued pursuant to Section 5.2(c)(v) of the Contribution Agreement, WSP shall retain the right to nominate at least two (2) Nominees and the Stockholders shall vote their Stock in such a manner as to cause such Nominees to be elected to the Board.

(b) Subject to Section 4.1(a) above, the Stockholders hereby agree to vote their Stock in such a manner that no SPG Nominee may be removed except upon (i) the affirmative vote of a majority of the SPG Shares and (ii) no WSP Nominee may be removed except upon the affirmative vote of a majority of the WSP Shares.

(c) The rights of WSP under subsection (a) hereof, shall not be assignable, except as otherwise agreed to by SPG.

ARTICLE V

Special Actions

SECTION 5.1.Special Actions

(d) The following actions or types of transactions taken by the Company or any corporations, partnerships, limited liability companies or other entities owned 51% or more by the Company ("Subsidiaries") shall require the affirmative vote of at least $66\frac{2}{3}\%$ of the Board and the holders of $66\frac{2}{3}\%$ of the Stock:

(i) The amendment or modification of this Agreement which is disproportionately disadvantageous or advantageous to one Stockholder;

(ii) The declaration or payment, directly or indirectly, of any dividend or distribution, whether in cash, property or securities or a combination thereof, with respect to any shares of Stock which is being paid or distributed to holder(s) of such shares on a non pro-rata basis; provided, however, that the payment by the Company (i) to WSP of the WSP Dividend and (ii) to Hercules of the Hercules Dividend and any Earnout Payment(s) is hereby approved, authorized and ratified in all respects and no further action shall be required by the Stockholders with respect thereto; and

(iii) Any single transaction, or any one or more related transactions, with a Stockholder or any of its Affiliates that involves payment in excess of \$100,000 per year, other than the fees set forth on Schedule C.

(iv) The adoption of any compensation or benefit plan, which exceeds 10% of the then outstanding equity of the Company, that may result in awarding or transferring any equity or equity equivalents of the Company.

(v) Any agreement or commitment to take any of the actions set forth in this Section 5.1(a).

(vi) Any amendment, modification or restatement of the Certificate of Incorporation or the Bylaws.

(e) In addition to the approvals required in Section 5.1(a) above, in the event that SPG shall at any time hold more than 20% but less than 40% of the Stock, the following actions shall require the affirmative vote of at least 66- $\frac{2}{3}$ % of the Board and the holders of 66- $\frac{2}{3}$ % of the Stock:

(i) The annual approval of a 3-year strategic/business plan of the Company and its Subsidiaries on a consolidated basis (the first year of which will be the basis of the annual operating budgets of the Company and its Subsidiaries) or any material amendment to such business plans and/or operating budget;

(ii) Any single or related capital expenditure of the Company or any of its Subsidiaries in excess of \$1,000,000;

(iii) The acquisition or leasing of any asset or equity securities by the Company or any of its Subsidiaries for consideration in excess of \$1,000,000;

(iv) The incurrence of indebtedness or obligation or otherwise raising capital on behalf of the Company or any of its Subsidiaries in excess of \$1,000,000, provided, however, that nothing herein shall prevent the Company from pursuing and executing the Debt Financing;

(v) The disposition of any assets of the Company or any of its Subsidiaries with a fair market value in excess of \$1,000,000;

(vi) The issuance of any Stock or any securities exercisable for or exchangeable or convertible into, any Stock or the declaration of dividends or redemption of any Stock;

(vii) The making of any investment by the Company or any of its Subsidiaries in excess of \$1,000,000;

(viii) Entering into a new business or line of business by the Company or any of its Subsidiaries or the acquisition or disposition of any business or line of business by the Company or any of its Subsidiaries;

(ix) The early redemption or retirement of indebtedness for borrowed money by the Company or any of its Subsidiaries, in excess of \$1,000,000;

(x) The adoption of any employee benefit plan or agreement that provides for the awarding of compensation or benefits payable following termination of employment;

(xi) Entering into any fixed term employment agreement with an employee of the Company or a consultant of the Company for a period which exceeds one year or includes a change in control provision; or

(xii) any agreement or commitment to take any of the actions set forth in this Section 5.1(b).

SECTION 5.2.Expenses

Except as otherwise provided in this Agreement or in Section 8 of the Contribution Agreement (with respect to any Losses (as defined in the Contribution Agreement) for which Hercules and WSP shall be responsible), the Company shall be responsible for all expenses, including, without limitation:

- (a) all expenses related to the business of the Company and all routine administrative expenses of the Company, including the maintenance of books and records of the Company, the preparation and dispatch to the Stockholders of checks, financial reports, tax returns and notices required pursuant to this Agreement or in connection with the holding of any meetings of the Stockholders;
- (b) all expenses incurred in connection with any indebtedness or guarantees of the Company or any proposed or definitive credit facility or other credit arrangement;
- (c) all expenses incurred in connection with any litigation or arbitration involving the Company (including the cost of any investigation and preparation) and the amount of any judgment or settlement paid in connection therewith; provided, however, that the Company shall not pay any expenses incurred in connection with any litigation or arbitration between the Stockholders;
- (d) all expenses for indemnity or contribution payable by the Company to any Person with respect to certain indemnification obligations of the Company set forth in the Bylaws;
- (e) all expenses incurred in connection with the collection of amounts due to the Company from any Person; and
- (f) all expenses incurred in connection with the preparation of amendments to this Agreement.

ARTICLE VI

Additional Issuances; Preemptive Rights

SECTION 6.1.Additional Issuances

Subject to the terms of this Agreement and upon approval of the Board, the Company is authorized to issue Stock in the Company. Other than as specifically set forth in this Agreement, each share of Stock shall be identical in all respects with each other share of Stock.

SECTION 6.2.Preemptive Rights

If the Company shall (other than in connection with (i) the issuance of Stock to employees, officers and directors of the Company or any of its direct or indirect Subsidiaries with respect to any Board-approved employee benefit plan, incentive award program or other compensation arrangement, (ii) any business combination or acquisition by the Company or any of its Subsidiaries or (iii) a public offering of equity securities (each an "Excluded Issuance")), issue any Stock or enter into any contracts, commitments, agreements, understandings or

arrangements of any kind relating to any issuance of any Stock, each Stockholder shall have the right (exercisable for 30 days) to purchase that number of shares of Stock at the same purchase price as the price for the additional shares of Stock to be issued so that, after the issuance of the additional Stock to such other party, the Stockholder would, after exercising its rights hereunder in the aggregate, hold the same proportion of the outstanding Stock as was held by such Stockholder prior to the issuance of such additional shares of Stock.

ARTICLE VII
Transfers of Stock

SECTION 7.1. General Restriction

Except for the Transactions, which are hereby authorized, approved and ratified in all respects, or as otherwise provided in this Article VII or as otherwise agreed to by SPG or as otherwise provided in Section 5.10 of the Contribution Agreement, no Stockholder (other than SPG and its Affiliates and successors), Affiliate or successor transferee shall have the right to sell, convey, assign, transfer, pledge, grant a security interest in or otherwise dispose of all or any part of its Stock, other than, (i) upon thirty (30) days prior written notice to the Company and the other Stockholders, to an Affiliate of such Stockholder, Affiliate or successor transferee that agrees to be bound by all of the provisions hereof, (such Person, an "Affiliate Transferee") or (ii) after the fifth anniversary of the Closing Date; provided that SPG consents in writing to any such transfer in the case of transfers to any strategic investor, including but not limited to, any investor otherwise involved in a Competing Business and provided further that nothing in this Section 7.1 shall restrict SPG's (or its Affiliates or successors') ability to sell, convey, assign, transfer, pledge, grant a security interest in or otherwise dispose of its Stock, subject to its compliance with Section 7.3).

SECTION 7.2. Right of First Refusal

(a) After the fifth anniversary of the Closing Date, in the event that WSP shall receive a bona fide offer to purchase (which it is willing to accept) from, any party capable of consummating a sale (an "Offer"), all, or any portion of, the WSP Shares (the "Offered Shares"), subject to compliance with Section 7.1, prior to accepting an Offer, WSP shall first offer in writing to sell the WSP Shares to the Company at the price and on the terms on which WSP proposes to transfer the Offered Shares pursuant to the Offer to the proposed transferee (the "Company Transfer Notice"). The Company Transfer Notice shall include a copy of the Offer from the proposed transferee and shall set forth the (i) number of WSP Shares represented by the Offered Shares, (ii) the name and address of the proposed transferee, (iii) the amount of consideration to be received by WSP, and (iv) the method of the proposed payment. A copy of the Company Transfer Notice shall be sent to all Stockholders. The Company shall have the option (the "Company Purchase Option") to purchase all of the Offered Shares, at the price and on the terms provided in the Company Transfer Notice.

(b) The Company Purchase Option shall be and remain irrevocable for a period of twenty (20) days (the "Company Option Period") following the date the Company Transfer Notice is given to the Company. At any

time during the Company Option Period, the Company may exercise the Company Purchase Option by giving written notice to WSP of its acceptance (the “Company Notice”). If the Company exercises the Company Purchase Option, the parties shall fix a closing date for the purchase, which shall not be less than ten (10) nor more than ninety (90) days after the expiration of the Company Option Period.

(c) If the Company does not elect to exercise the Company Purchase Option within the Company Option Period, then WSP shall immediately offer in writing to sell the Offered Shares to the other Stockholders at the price and on the terms on which WSP proposes to transfer the Offered Stock pursuant to the Offer to the proposed transferee (the “Stockholder Transfer Notice”). The Stockholder Transfer Notice shall include a copy of the Offer from the proposed transferee and shall set forth the (i) number of shares represented by the Offered Shares, (ii) the name and address of the proposed transferee, (iii) the amount of consideration to be received by WSP, and (iv) the method of the proposed payment. The other Stockholders shall have the option (the “Stockholder Purchase Option”) to purchase all of the Offered Shares, at the price and on the terms provided in the Stockholder Transfer Notice.

(d) The Stockholder Purchase Option shall be and remain irrevocable for a period of twenty (20) days (the “Stockholder Option Period”) following the date the Stockholder Transfer Notice is given to the other Stockholders. At any time during the Stockholder Option Period, any other Stockholder may exercise the Stockholder Purchase Option by giving written notice to WSP of its acceptance (the “Stockholder Notice”). In the event that two (2) or more other Stockholders exercise the Stockholder Purchase Option, each such other Stockholder shall purchase the Offered Shares in the proportion that the number of shares of Stock it holds bears to the total shares of Stock of all the other Stockholders who desire to exercise the Stockholder Purchase Option. If one or more other Stockholders exercises the Stockholder Purchase Option, the parties shall fix a closing date for the purchase, which shall not be less than ten (10) nor more than ninety (90) days after the expiration of the Stockholder Option Period.

(e) If no other Stockholders exercise the Stockholder Purchase Option within the Stockholder Option Period, then WSP shall be permitted to offer and sell the Offered Shares to the proposed transferee named in the Offer for a period of ninety (90) days (the “Free Transfer Period”) after the expiration of the Stockholder Option Period at a price not less than the price set forth in the Offer, subject to the terms and conditions set forth in the Offer. If WSP does not Transfer the Offered Shares within the Free Transfer Period, WSP’s right to Transfer the Offered Shares pursuant to this Section 7.2 shall cease and terminate and WSP Stockholder will be required to comply with this Section 7.2 again before making or accepting an Offer for the Offered Shares.

SECTION 7.3.Tag-Along Rights

(a) In the event that after complying the terms of Section 7.1 and Section 7.2, one or more Stockholders desire to sell, in one transaction or a series of related transactions (collectively, the “Selling Stockholders”), shares of Stock representing 10% or more of the outstanding Stock of the Company to a third party (other than an Affiliate of such Person) (such third party, the “Proposed Purchaser”), such transfer, the “Proposed Transfer”, and such shares of Stock to be purchased, the “Transferred Stock”), then such Selling Stockholders’ right

to accept any offer shall be conditioned upon the other Stockholders (collectively, the “Non-Selling Stockholders”) being offered the right to sell the Proposed Purchaser their “proportionate number” of the Transferred Stock. Each Non-Selling Stockholder’s “proportionate number” of the Transferred Stock shall be determined by multiplying the number of shares of Stock represented by the Transferred Stock by a fraction, (x) the numerator of which is the number of shares of Stock held by such Non-Selling Stockholders and (y) the denominator of which is the total number of shares of Stock outstanding. The Transferred Stock to be sold by the Non-Selling Stockholders pursuant to this Section 7.3 shall be paid and contracted for at the same price per share of Stock, with the same form of consideration and otherwise upon the same terms and conditions as the sale by the Selling Stockholder(s) of shares of its Stock to the Proposed Purchaser.

(b) The Selling Stockholders shall, not less than twenty (20) days prior to each Proposed Transfer that such Selling Stockholders intend to effect, notify all Non-Selling Stockholders in writing of such Proposed Transfer (the “Participation Notice”). Such Participation Notice shall set forth: (i) the number and type of Transferred Stock; (ii) the name(s) and address(es) of the Proposed Purchaser(s); (iii) the proposed amount and all forms of consideration and terms and conditions of payment offered by such Proposed Purchaser, including the proposed date for the closing of the Proposed Transfer (the “Tag-Along Scheduled Closing”); and (iv) that the Proposed Purchaser has been informed of the tag-along rights of the Non-Selling Stockholders provided for in this Section 7.3 and has agreed to purchase the Transferred Stock in accordance with the terms hereof.

(c) The tag-along rights described in this Section 7.3 may be exercised by a Non-Selling Stockholders’ delivery of a written notice to the Selling Stockholders (the “Tag-Along Exercise Notice”) at least fifteen (15) days prior to the Scheduled Closing. Such Tag-Along Exercise Notice shall state the number of shares of Stock such Non-Selling Stockholder elects to include in such sale to the Proposed Purchaser. If any Non-Selling Stockholder fails to timely provide a Tag-Along Exercise Notice, such failure shall be regarded as an election by such Non-Selling Stockholder not to participate in the Proposed Transfer. In addition, if a Non-Selling Stockholder fails to elect to sell its full “proportionate amount”, the amount any such Non-Selling Stockholder fails to sell may be sold by the Selling Stockholders to the Proposed Purchaser.

(d) In the event that any Non-Selling Stockholder exercises its tag-along rights pursuant to this Section 7.3 and the Proposed Purchaser is not willing to purchase shares of Stock from the Non-Selling Stockholders on the same terms and conditions as specified in the Participation Notice, then the Selling Stockholders shall not be permitted to sell any shares of Stock to the Proposed Purchaser pursuant to the Proposed Transfer.

SECTION 7.4. Drag-Along Rights

(a) If SPG and/or any of its Affiliate Transferee(s) (the “Drag-Along Sellers”) propose to transfer to a Person that is not an Affiliate of the Drag-Along Sellers (the “Drag-Along Transferee”) either the lesser of (i) all of the Drag-Along Sellers Stock or (ii) a majority of the Stock then outstanding (a “Drag-Along Sale”) the Drag-Along Sellers may, at their option, require each other Stockholder (the “Other Stockholders”) to transfer all of the Stock (“Drag-Along Rights”) then held by such Other Stockholders.

(b) The Drag-Along Sellers shall provide written notice of such Drag-Along Sale to the Other Stockholders (a “Drag-Along Sale Notice”) not later than twenty (20) days prior to the proposed Drag-Along Sale. The Drag-Along Sale Notice shall identify the transferee, the consideration for which a transfer is proposed to be made (the “Drag-Along Sale Price”) and all other material terms and conditions of the Drag-Along Sale. Each Other Stockholder shall be required to participate in the Drag-Along Sale on the terms and conditions set forth in the Drag-Along Notice and to tender all of its shares of Stock as set forth below. The price payable in such transfer shall be the Drag-Along Sale Price. Not later than twenty (20) days after the date of the Drag-Along Sale Notice (the “Drag-Along Sale Notice Period”), each of the Other Stockholders shall deliver to a representative of the Drag-Along Stockholders designated in the Drag-Along Sale Notice a limited power-of-attorney or such other documents as may be reasonably required to authorize the Drag-Along Sellers or such representative to transfer such Stock on the terms set forth in the Drag-Along Notice together with wire transfer instructions for payment of the cash portion of the consideration to be received in such Drag-Along Sale.

(c) The Drag Along Sellers shall have a period of one hundred twenty (120) days from the date of receipt of the Drag Along Sale Notice to consummate the Drag Along Sale on the terms and conditions set forth in such Drag Along Sale Notice. If the Drag Along Sale shall not have been consummated during such period, the Drag Along Sellers shall return to each of the Other Stockholders the limited powers of attorney and all other applicable instruments representing the Stock that such Other Stockholders delivered for transfer pursuant hereto, together with any other documents in the possession of the Drag Along Sellers executed by the Other Stockholders in connection with such proposed transfer, and all the restrictions on transfer contained in this Agreement or otherwise applicable at such time with respect to such Stock owned by the Other Stockholders shall again be in effect.

(d) Concurrently with the consummation of the transfer of shares of Stock pursuant to this Section 7.4, the Drag-Along Sellers shall give written notice thereof to the Other Stockholders, shall remit to each of the Other Stockholders that have surrendered the applicable instruments the total consideration (the cash portion of which is to be paid by wire transfer in accordance with such Other Stockholder’s wire transfer instructions) for the shares of Stock transferred pursuant hereto and shall furnish such other evidence of the completion and time of completion of such transfer and the terms thereof as may be reasonably requested by such Other Stockholders; provided, however, that, notwithstanding the foregoing and anything in this Agreement to the contrary, it is agreed and understood that the aggregate proceeds from a Drag-Along Sale shall be distributed to the Stockholders participating in such sale on a pro rata basis.

(e) Notwithstanding anything contained in this Section 7.4 to the contrary, there shall be no liability on the part of the Drag-Along Sellers to the Other Stockholders (other than the obligation to return the limited powers-of-attorney and other applicable instruments representing the shares of Stock received by the Drag-Along Sellers) if the transfer of the shares of Stock is not consummated for whatever reason, regardless of whether the Drag-Along Sellers have delivered a Drag-Along Sale Notice. Whether to effect a transfer of the shares of Stock by the Drag-Along Sellers is in the sole and absolute discretion of the Drag-Along Sellers.

(f) Notwithstanding anything contained in this Section 7.4 to the contrary, the rights and obligations of Stockholders to participate in a Drag-Along Sale are subject to the following conditions:

(i) each Stockholder shall be obligated to pay only its pro rata share of expenses incurred in connection with a consummated Drag-Along Sale

to the extent such expenses are incurred for the benefit of all Stockholders and are not otherwise paid by the Company or another Person;

- (ii) each Stockholder shall (1) make such representations, warranties and covenants and enter into such definitive agreements as are reasonably required in the proposed transfer and as are customary for transactions of the nature of the proposed transfer, provided that if the Stockholders are required to provide any representations or indemnities in connection with such transfer (other than representations or indemnities concerning each Stockholder's title to the shares of Stock and authority, power and right to enter into and consummate the transfer without contravention of any law or agreement), liability for misrepresentation or indemnity shall (as to such Stockholders) be several but not joint and each Stockholder shall not be liable for more than its pro rata share of any liability for misrepresentation or indemnity, and (2) be required to bear their proportionate share of any escrows, holdbacks or adjustments in purchase price.

ARTICLE VIII

Termination

SECTION 8.1. Termination

This Agreement shall terminate upon the occurrence of any of the following events:

- (a) The liquidation of, filing for bankruptcy protection by or dissolution of the Company; provided, however, that any administrative dissolution of the Company shall not, by itself, terminate this Agreement;
 - (b) The voluntary agreement, in writing of all parties bound by the terms hereof; or
 - (c) The effective date of a public offering of any shares of Stock pursuant to a registration statement under the Securities Act of 1933, as amended.
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ARTICLE IX
Miscellaneous

SECTION 9.1. Amendment to the Agreement

Except as otherwise provided in this Agreement, this Agreement may be amended by, and only by, a written instrument executed by the holders of 66- $\frac{2}{3}$ % of the outstanding shares of Stock. Notwithstanding the foregoing, this Agreement may not be amended in any way which impacts on the prohibition on assignability or transferability of any Stock unless such amendment is unanimously approved by all Stockholders.

SECTION 9.2. Copy of Agreement to Be Kept on File.

The Company shall keep on file at its principal executive offices, and will exhibit to any Stockholder or his duly authorized representative at any and all reasonable times, an executed copy of this Agreement and all amendments thereto.

SECTION 9.3. Stock Certificates to Be Marked with Legend.

All certificates representing Stock now outstanding or hereafter issued by the Company shall be marked with the following legend:

“THIS CERTIFICATE AND THE SHARES REPRESENTED HEREBY ARE HELD SUBJECT TO THE TERMS, COVENANTS AND CONDITIONS OF AN AGREEMENT DATED _____, 2006 BY AND AMONG THIS COMPANY AND ITS THEN STOCKHOLDERS, AS IT MAY BE AMENDED FROM TIME TO TIME, AND MAY NOT BE TRANSFERRED OR DISPOSED OF EXCEPT IN ACCORDANCE WITH THE TERMS AND PROVISIONS THEREOF. A COPY OF SAID AGREEMENT AND ALL AMENDMENTS THERETO IS ON FILE AND MAY BE INSPECTED AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY.”

SECTION 9.4. Successors; Counterparts

Subject to Article VII, this Agreement (a) shall be binding as to the executors, administrators, estates, heirs, legal successors and assigns, or nominees or representatives, of the Stockholders and (b) may be executed in several counterparts with the same effect as if the parties executing the several counterparts had all executed one counterpart.

SECTION 9.5. Governing Law; Severability

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law. In particular, this Agreement shall be construed in a manner that is consistent with all the terms and conditions of the Act. If it shall be determined by a court of competent jurisdiction that any term or provision of this Agreement shall be invalid or unenforceable under the Act or other applicable law, such invalidity or unenforceability shall not invalidate the entire Agreement. In that case, this Agreement shall be construed so as to limit any such term or provision so as to make it enforceable or valid

within the requirements of applicable law, and, in the event such term or provision cannot be so limited, this Agreement shall be construed to omit such invalid or unenforceable term or provision. If it shall be determined by a court of competent jurisdiction that any provision relating to the dividends and allocations of the Company pursuant hereto or to any expenses payable by the Company is invalid or unenforceable, this Agreement shall be construed or interpreted so as (a) to make it enforceable or valid and (b) to make the dividends and allocations as closely equivalent to those set forth in this Agreement as is permissible under applicable law.

SECTION 9.6.Headings

Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope or intent of this Agreement or any provisions thereof.

SECTION 9.7.Additional Documents

Each Stockholder agrees to perform all further acts and execute, acknowledge and deliver any documents that may be reasonable necessary to carry out the provisions of this Agreement.

SECTION 9.8.Notices

All notices, requests and other communications to any Stockholder shall be in writing and shall be deemed to have been given if personally delivered or sent by telex, telegram, air courier or registered or certified mail, return receipt requested, to the Company, at the address of the Company set forth below, or such other addresses of the Company as to which the Stockholders have been given notice, and to any Stockholder at the address set forth in Schedule A hereto. Notice shall be deemed to have been given upon delivery, in the case of personal delivery, telex and telegram; as of the day after being sent by air courier within the United States or as of the third day after being sent by international mail courier; and as of the fifth day after being mailed, in the case of delivery by mail. If to the Company, to:

FiberVisions Delaware Corporation
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Attn: Allen Spizzo

SECTION 9.9.Interpretation

Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in either the masculine, the feminine, or the neuter gender shall include the masculine, feminine and neuter.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first above written.

FIBERVISIONS DELAWARE CORPORATION

By:
Name:

Title:

STOCKHOLDERS:

SPG/FV INVESTOR LLC

By:
Name:

Title:

WSP, INC.

By:
Name:

Title: __

SCHEDULE A

FiberVisions Delaware Corporation

Stockholders	Number of Shares	Ownership Percentage
SPG/FV Investor LLC c/o SPG Partners, LLC 667 Madison Avenue New York, NY 10021		51%
WSP, INC. Hercules Plaza 1313 North Market Street Wilmington, DE 19894		49%

If SPG exercises its Option to acquire 14% of the Stock of the Company from WSP, this Schedule A shall be amended and restated as follows:

Stockholders	Number of Shares	Ownership Percentage
SPG/FV Investor LLC c/o SPG Partners, LLC 667 Madison Avenue New York, NY 10021		65%
WSP, INC. Hercules Plaza 1313 North Market Street Wilmington, DE 19894		35%

SCHEDULE B

Nominees

[TBD]

SCHEDULE C

Pre-Approved Affiliate Fees

[TBD]

EXHIBIT A

FORM OF AGREEMENT TO BE BOUND

[DATE]

To the Parties to the

Stockholders Agreement

dated as of _____, 2006

Dear Sirs:

Reference is made to the Stockholders Agreement dated as of _____, 2006, (the "Stockholders Agreement"), among FiberVisions Delaware Corporation, WSP, Inc. and SPG/FV Investor LLC and each other Stockholder who or which shall become parties to the Stockholders Agreement as provided therein. Capitalized terms used herein and not defined have the meanings ascribed to them in the Stockholders Agreement.

In consideration of the representations, covenants and agreements contained in the Stockholders Agreement, the undersigned hereby confirms and agrees that it shall be bound by all of the provisions thereof.

This letter shall be construed and enforced in accordance with the laws of the State of Delaware.

Very truly yours,

[Permitted Transferee]

OPTION AGREEMENT

DATED AS OF FEBRUARY __, 2006

between

WSP, INC.

and

SPG/FV INVESTOR LLC

DMEAST #9317156 v10

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DMEAST #9317156 v10

OPTION AGREEMENT

THIS OPTION AGREEMENT dated as of February ____, 2006 (this "Agreement") is made by and between WSP, Inc., a Delaware corporation ("WSP") and SPG/FV INVESTOR LLC, a Delaware limited liability company ("SPG").

Background

WHEREAS, Hercules Incorporated ("Hercules") and WSP currently hold all of the issued and outstanding shares of capital stock ("Stock") of FiberVisions Corporation (the "Company").

WHEREAS, WSP, Hercules, SPG and the Company are parties to that certain Contribution Agreement, dated as of January 31, 2006 ("Contribution Agreement") pursuant to which, among other things, SPG shall contribute the Contribution Amount (as defined below) to the Company in exchange for 37.78% of the Stock and the Company shall redeem all 510 shares of Stock owned by Hercules, which represents, in the aggregate, 51% of the Stock.

WHEREAS, WSP, SPG and the Company are parties to that certain Stockholders Agreement, dated as of January 31, 2006 ("Stockholders Agreement") which sets forth certain rights and obligations of the holders of the Stock.

WHEREAS, WSP desires to grant to SPG an option to acquire 140 shares of Stock, which represents, in the aggregate, 14% of the Stock; and

WHEREAS, this Agreement provides that, among other things, WSP shall grant SPG an option to acquire the Optioned Shares, which option shall be exercisable during the Exercise Period (as defined below) on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, the parties hereto, intending to be legally bound, agree as follows:

SECTION 1. Definitions. For purposes of this Agreement, the following terms when appearing with initial capital letters will have the following meanings:

"Affiliate" of a Person shall mean a Person Controlling, Controlled by or under common Control with such Person.

"Agreement" shall have the meaning set forth in the preamble hereto.

"Contribution Agreement" shall have the meaning set forth in the Background.

"Contribution Amount" shall have the meaning set forth in the Contribution Agreement.

"Closing" shall mean the consummation of the transactions contemplated by the Contribution Agreement.

“Closing Date” shall mean the date on which the Closing occurs.

“Company” shall have the meaning set forth in the Background.

“Control” and each derivative thereof shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

“Debt Financing” shall mean the bank financing described in Section 5.3 of the Contribution Agreement.

“Definitive Agreements” shall mean this Agreement, the Amendment and all other documents and certificates delivered by any party at the Option Closing.

“Encumbrance” shall mean any encumbrance, security interest, mortgage, lien, pledge, claim, lease, agreement, right of first refusal, option, limitation on transfer or use or assignment or licensing, restrictive easement, charge or any other restriction or third party rights of any kind with respect to any property or assets (tangible or intangible), including any restriction on the ownership, use, voting, transfer, possession, receipt of income or other exercise of any attributes of ownership of such property or assets (whether tangible, intangible, real or personal).

“Exercise Period” shall have the meaning set forth in Section 2.1(a).

“Hercules” shall have the meaning set forth in the Background.

“HSR Act” shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“Indemnified Party” shall have the meaning set forth in Section 8.5.

“Indemnifying Party” shall have the meaning set forth in Section 8.5.

“Liens” shall mean any claims, liens, charges, restrictions, options, preemptive rights, mortgages, hypothecations, assessments, pledges, encumbrances or security interests of any kind or nature whatsoever.

“Losses” shall have the meaning set forth in Section 8.1(a).

“Option” shall have the meaning set forth in Section 2.1(a).

“Option Closing” shall have the meaning set forth in Section 2.1(c).

“Option Closing Consideration” shall have the meaning set forth in Section 2.1(b).

“Option Closing Date” shall have the meaning set forth in Section 2.1(c).

“Optioned Shares” shall have the meaning set forth in the preamble hereto.

“Order” shall mean any judgment, order, writ, decree, injunction or other determination of any authority or arbitrator or similar body whose finding, ruling or holding is legally binding or is enforceable as a matter of right (in any case, whether preliminary or final).

“Person” shall mean an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, any other form of business organization, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

“Schedules” shall mean the disclosure schedules delivered by each of the parties hereto, and which form a part of this Agreement.

“Securities Act” shall have the meaning set forth in Section 3.4.

“SPG Indemnified Parties” shall have the meaning set forth in Section 8.1(a).

“SPG Indemnifying Parties” shall have the meaning set forth in Section 8.1(b).

“Stock” shall have the meaning set forth in the Background.

“Stockholders Agreement” shall have the meaning set forth in the Background.

“Subsidiaries” shall mean any corporation, partnership, limited liability company or other entity owned 51% or more by the Company as listed on Schedule 1.1 hereto.

“Third Person” shall have the meaning set forth in Section 8.6.

“Third-Person Claim” shall have the meaning set forth in Section 8.6.

“Transaction” shall mean all of the transactions contemplated in this Agreement collectively, including, but not limited to, each of the transactions contemplated in Section 2 hereof, and all actions in furtherance thereof.

“WSP Indemnified Parties” shall have the meaning set forth in Section 8.1(b).

“WSP Indemnifying Party” shall have the meaning set forth in Section 8.1(a).

SECTION 2. Grant of Option

2.1 Grant of Option; Option Closing.

(a) Grant of Option. WSP hereby grants to SPG an option (the “Option”) to purchase, on the Option Closing Date, all of the Optioned Shares from WSP for the Option Closing Consideration and on the terms set forth herein. The Option may be exercised by SPG at any time during the period beginning on January 1, 2007 and expiring on January 31, 2007 (the “Exercise Period”). Notwithstanding anything herein to the contrary, if the Option is not exercised during the Exercise Period, the Option will immediately terminate and shall be of no further force or effect.

(b) Exercise of Option; Sale of Optioned Shares. In the event that SPG exercises the Option during the Exercise Period, on the Option Closing Date each of the following shall occur simultaneously and are expressly conditioned upon each other: (i) WSP shall sell, assign and transfer the Optioned Shares to SPG and SPG shall purchase from WSP the Optioned Shares for a purchase price in an amount in cash equal to Seven Million Four Hundred Thousand Dollars (\$7,400,000) (the "Option Closing Consideration"), and (ii) the Company's stock ledger shall be amended to reflect (x) SPG as the holder of 650 shares of Stock, which represents, in the aggregate, sixty-five percent (65%) of the Stock and (y) WSP as the holder of 350 shares of Stock, which represents, in the aggregate, thirty-five percent (35%) of the Stock.

(c) Option Closing. The Option Closing shall take place within five (5) business days after SPG has notified the Company and WSP in writing of its intent to exercise the Option and the conditions precedent to the Option Closing shall have been satisfied or waived by the appropriate party. The consummation of the Transaction shall be referred to herein as the "Option Closing" and the date on which the Option Closing occurs shall be herein referred to as the "Option Closing Date."

(d) Option Closing Procedures. At the Option Closing, the parties shall deliver to each other the instruments, documents and consideration and shall take the actions specified in Sections 5 and 6, as applicable.

(e) Option Non-Exercise Fee. In the event that SPG does not exercise the Option during the Exercise Period, then the Option shall expire pursuant to the terms of this Agreement and SPG shall pay a non-exercise fee to WSP equal to 14% of (i) any 2006 Earnout Payment plus (ii) any 2007 Earnout Payment due to Hercules pursuant to Section 5.2 of the Contribution Agreement. SPG shall make any payment in cash within thirty (30) days after the respective Earnout Payment becomes payable.

SECTION 3. Representations and Warranties of WSP. WSP hereby makes the representations and warranties set forth in this Section 3 as of the Option Closing Date. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SPECIFICALLY PROVIDED IN THIS SECTION 3, NO REPRESENTATION OR WARRANTY OF ANY KIND OR NATURE, WHETHER EXPRESS OR IMPLIED IS MADE TO SPG. In addition, WSP makes no representation or warranty of any kind or nature, whether express or implied, that the FiberVisions Business or SPG's ownership, possession, operation or use of the FiberVisions Business will yield any given or stated economic, financial, profit or business result to SPG or will result in SPG having any given standing or position in any business, market or product.

3.1 Organization; Good Standing; Corporate Power.

(a) WSP is a Delaware corporation duly formed, validly existing and in good standing under the laws of the State of Delaware and has the requisite power and authority to execute and deliver this Agreement and to consummate the Transaction.

(b) This Agreement and the Transaction have been duly authorized by all corporate action required to be taken on the part of WSP. This Agreement, when executed and delivered by SPG, will constitute a valid and legally binding obligation of WSP, enforceable in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (ii) applicable federal or state securities law limiting rights of indemnification, and (iii) the effect of rules of law governing the availability of equitable remedies.

3.2 Non Contravention. Except as set forth on Schedule 3.2, neither the execution, delivery and performance of this Agreement nor the consummation of the Transaction by WSP will: (a) conflict with or result in a violation by WSP of its organizational documents; (b) result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in a violation of, or give rise to the acceleration of the time for performance or payment under, in any case, whether with or without the passage of time or the giving of notice or both, any agreement, contract, instrument, or evidence of indebtedness to which WSP is a party or by which WSP is bound, except for possible defaults, actions or omissions as would not reasonably be expected to have a material adverse effect on the financial condition or business of WSP, taken as a whole; or (c) except for the applicable requirements of such consents, approvals, Orders, authorizations or notices as set forth on Schedule 3.2, violate any provision of any existing law, statute, rule or regulation of any jurisdiction or any Order to which WSP or any of its assets or properties is subject.

3.3 Brokers. Except as set forth on Schedule 3.3, WSP has not employed or retained any broker, finder or other intermediary in connection with the Transaction. The fees and expenses of any broker, finder or other intermediary set forth on Schedule 3.3 shall be paid in accordance with Section 5.2 hereof.

3.4 Required Consents; Approvals. Except for filings under the HSR Act or as otherwise specifically contemplated by this Agreement or the Stockholders Agreement and as required under the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state securities laws, WSP is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement and the Stockholders Agreement in accordance with the terms hereof or thereof or to transfer the Optioned Shares.

3.5 Title. WSP is the beneficial and record owner of all of the Optioned Shares. WSP has good and marketable title to the Optioned Shares, free and clear of any Liens, except with respect to liens granted in connection with the Debt Financing. Upon consummation of the transactions contemplated by this Agreement in accordance with the terms hereof, SPG will acquire good and marketable title to all of the Optioned Shares, free and clear of any Liens, other than transfer restrictions under federal and state securities laws and any Liens granted by SPG.

3.6 Survival of Representations. All representations and warranties contained in this Section 3 shall survive the Option Closing Date.

SECTION 4. Representations, and Warranties of SPG. SPG represents and warrants to WSP as follows:

4.1 Organization; Good Standing, Corporate Power. SPG is a limited liability company duly formed, validly existing and in good standing under the laws of the jurisdiction of its formation, as set forth in Schedule 4.1, and has full legal power and authority to enter into this Agreement, and to acquire the Optioned Shares. All limited liability company action on the part of SPG's members and managers, necessary for (a) the authorization, execution and delivery by SPG of, and the performance of all obligations of SPG under, this Agreement, and (b) the purchase by SPG of the Optioned Shares from WSP pursuant to this Agreement, has been taken. This Agreement, when executed and delivered by WSP will constitute a valid and legally binding obligation of SPG, enforceable in accordance with its terms, except as may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (b) applicable federal or state securities law limiting rights of indemnification, and (c) the effect of rules of law governing the availability of equitable remedies.

4.2 Noncontravention. The execution, delivery and performance of this Agreement by SPG and the consummation by SPG of the Transaction will not (a) conflict with or result in a violation of SPG's Certificate of Formation, Operating Agreement or similar governing documents or (b) violate or conflict with, or result in a breach of, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, contract, indenture, patent, patent license or instrument to which SPG is a party, or (c) violate any provision of any existing law, statute, rule or regulation of any jurisdiction or any Order to which SPG or any of its assets or properties is subject. SPG is not in violation of its Certificate of Formation or Operating Agreement (or similar governing instruments) and SPG is not in default (and no event has occurred which with notice or lapse of time or both would put SPG in default) under, and SPG has not taken any action or failed to take any action that would give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, indenture or instrument to which SPG is a party or by which any property or assets of SPG is bound or affected.

4.3 Investment. SPG is acquiring the Optioned Shares for its own account for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, nor with any present intention of distributing or selling the same, and it has no obligation, indebtedness or commitment providing for the disposition thereof. SPG represents that it will not distribute or transfer any of the Optioned Shares, in the United States except in compliance with applicable federal and state securities laws, and only in compliance with the applicable provisions and restrictions set forth in the Stockholders Agreement, as amended. SPG further represents that it understands that: (a) the Optioned Shares have not been registered under the Securities Act or the securities laws of any state by reason of their issuance in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof predicated upon SPG's warranties contained in this Section 4; and (b) the Optioned Shares cannot be sold unless a subsequent disposition thereof is registered under the Securities Act and under any applicable state securities law or is exempt from such registration.

4.4 Knowledge. SPG represents and warrants to WSP that under all applicable securities laws and otherwise, it has (a) has such knowledge and experience in financial and business matters as is necessary to enable it to evaluate the merits and risks of an investment in the Company; and (b) has such liquidity and capacity to sustain a complete loss of its investment in the Company. SPG acknowledges that it has been afforded: (a) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the merits and risks of investing in the Company; (b) access to information about the Subsidiaries, their respective results of operations, financial condition and cash flow, and business, in each case sufficient to enable SPG to evaluate whether to proceed with the execution and delivery of this Agreement and the acquisition of the Optioned Shares; and (c) the opportunity to obtain such additional information that the Company or the Subsidiaries possess, or can acquire without unreasonable effort or expense, that is necessary to make an informed investment decision with respect to the acquisition of the Optioned Shares. SPG understands and acknowledges that no foreign, federal or state authority has made any finding or determination as to the fairness for investment of the Optioned Shares or has recommended or endorsed the Optioned Shares.

4.5 Accredited Investor. SPG is an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act and was not organized for the specific purpose of acquiring the Optioned Shares.

4.6 Accuracy of Certain Information. The state or country of SPG’s principal office and its exact legal name are accurately set forth on Schedule 4.6 hereto.

4.7 Brokers. Except as set forth on Schedule 4.7, SPG has not employed or retained any broker, finder, or intermediary in connection with the Transaction. The fees and expenses of any broker, finder, or intermediary set forth on Schedule 4.7 shall be paid in accordance with Section 5.2 hereof.

4.8 Required Consents; Approvals. Except for filings under the HSR Act or as specifically contemplated by this Agreement, the Stockholders Agreement and as required under the Securities Act, and any applicable state securities laws, SPG is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement and the Stockholders Agreement in accordance with the terms hereof or thereof or to transfer the Membership Interests.

4.9 Survival of Representations. All representations and warranties contained in this Section 4 shall survive the Option Closing Date.

SECTION 5. Covenants

5.1 Efforts to Consummate. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use its reasonable best efforts to take or cause to be taken all action and to do or cause to be done all things necessary, proper or advisable under applicable laws to consummate and make effective, as soon as reasonably practicable, the Transaction, including without limitation the obtaining of all consents, authorizations, Orders and approvals of any third party, whether private or governmental, required in connection with such party's performance of such Transaction, and each of the parties hereto shall cooperate with the others with respect to the foregoing; provided, however, that no party shall be required to compensate any third party, commence or participate in litigation or offer or grant any accommodation (financial or otherwise) to any third party to obtain any such consent or approval of such third party.

5.2 Further Assurances. The parties shall execute and deliver, or shall cause to be executed and delivered, such documents and other papers and shall take, or shall cause to be taken, such further actions as may be reasonably required to carry out the provisions of this Agreement and give effect to the Transaction, provided, however, that any such additional documents must be reasonably satisfactory to each of the parties and not impose upon any party any material liability, risk, obligation, loss, cost or expense not contemplated by this Agreement.

SECTION 6. Conditions Precedent to Option Closing. The obligations of each party hereto to proceed with the Option Closing is expressly conditioned upon the satisfaction of each of the following conditions:

(a) The Company and WSP shall have received a notice of SPG's intent to exercise the Option within the Exercise Period.

(b) SPG shall not be in material breach of this Agreement.

(c) SPG shall have purchased the Optioned Shares from WSP in exchange for the Option Closing Consideration in accordance with Section 2.1(b) hereof.

(d) The Company's stock ledger shall have been amended to reflect SPG as the holder of 650 shares of Stock, which represents, in the aggregate, 65% of the Stock and WSP as the holder of 350 shares of Stock, which represents, in the aggregate, 35% of the Stock.

(e) The parties shall have complied with all of their respective obligations in this Agreement that are to be performed at or prior to the Option Closing, including but not limited to those set forth in Sections 5 and 7.

(f) All actions by or in respect of or filings with any governmental body, agency, official or authority required to permit the consummation of the Option Closing shall have been taken, made or obtained, including, without limitation, any filings required under the HSR Act.

(g) In respect of the notification of SPG on the one hand and WSP on the other hand pursuant to the HSR Act, the applicable waiting period and any extensions thereof shall have expired or been terminated.

(h) All contractual and other third party consents and notices required to be obtained or made prior to the Option Closing Date shall have been obtained.

SECTION 7. Closing Deliveries.

7.1 WSP Option Closing Deliveries.

(a) At the Option Closing, WSP shall deliver to SPG the documents set forth below:

(i) A Certificate of the Secretary of WSP to the effect that (1) the resolutions of the Board of Directors approving the sale by WSP to SPG of the Optioned Shares and the execution of this Agreement by WSP, attached to such certificate were duly adopted and continue in force and effect, and (2) the officers of WSP executing this Agreement and such other documents executed and delivered pursuant to or in connection with this Agreement are incumbent officers of WSP, and that the specimen signatures on such certificate or certificates are their genuine signatures; and

(ii) The representations and warranties of WSP contained in this Agreement and in any certificate or other document delivered in connection herewith shall be true in all material respects at and as of the Option Closing Date, as if made at and as of such date, (2) the covenants contained in this Agreement to be complied with by WSP at or before the Option Closing shall have been complied with in all material respects; and (3) WSP shall have delivered to SPG a certificate to such effect signed by a duly authorized representative thereof.

7.2 SPG Option Closing Deliveries. At the Option Closing, SPG shall deliver to the Company the following:

(i) A Certificate of the Secretary of SPG to the effect that (1) the resolutions of the Board of Directors approving the exercise of the option by SPG and the execution of this Agreement by SPG, attached to such certificate were duly adopted and continue in force and effect, and (2) the officers of SPG executing this Agreement and such other documents executed and delivered pursuant to or in connection with this Agreement are incumbent officers of SPG, and that the specimen signatures on such certificate or certificates are their genuine signatures;

(ii) Payment of the Option Closing Consideration to WSP by wire transfer of immediately available funds as directed by WSP; and

(iii) (1) The representations and warranties of SPG contained in this Agreement and in any certificate or other document delivered in connection herewith shall be true in all material respects at and as of the Option Closing Date, as if made at and as of such date, (2) the covenants contained in this Agreement to be complied with by SPG at or before the Option Closing shall have been complied with in all material respects; and (3) SPG shall have delivered a certificate to the Company to such effect signed by a duly authorized representative thereof.

SECTION 8. Indemnification.

8.1 Indemnification by Parties.

(a) WSP (the “WSP Indemnifying Party”) agrees to indemnify and hold SPG and its Affiliates, officers, directors, members, heirs, successors, permitted assigns, executors, employees and agents (the “SPG Indemnified Parties”) harmless from and against any and all claims, actions, damages, losses, liabilities, costs and expenses (including reasonable attorneys’ fees) (collectively, “Losses”) resulting from any material misrepresentation or material breach of a representation or warranty or covenant by WSP made in this Agreement.

(b) SPG (the “SPG Indemnifying Party”), agrees to indemnify and hold WSP and its Affiliates, officers, directors, partners, members, successors, permitted assigns, employees and agents (in such capacity, the “WSP Indemnified Parties”) harmless from and against all Losses, resulting from any material misrepresentation or material breach of a representation or warranty or a covenant made by SPG in this Agreement.

8.2 Limitations on Indemnity. Notwithstanding the foregoing provisions of Section 8.1 and any other provision of this Agreement: The WSP Indemnifying Party shall not have any obligation or liability to make indemnification payments under this Agreement except in respect of matters as to which the Indemnified Parties shall have asserted a claim in the manner set forth in Section 8.3 hereof. Notwithstanding the expiration of claims as set forth in Section 8, any claim that has been timely asserted by an Indemnified Party (as hereinafter defined) in accordance with Section 8.5 hereof within the applicable time period specified in Section 8 shall survive the applicable time limit set forth in Section 3.6 until the final resolution of the claim.

8.3 Effect of Insurance. With respect to any indemnifiable claim hereunder, the amount recoverable by the party seeking indemnification shall take into account any reimbursements, net of taxes, realized by such party from insurance policies or other indemnification sources arising from the same incident or set of facts or circumstances giving rise to the claim for indemnification. Upon the payment of the indemnified claim from the Indemnifying Party to the Indemnified Party, the Indemnifying Party shall have a right of subrogation with respect to any insurance proceeds or other rights to third party reimbursement for such claims held by the Indemnifying Party. Nothing in this Section 8.3 shall create an obligation on the part of any party to carry any specific types or amounts of insurance.

8.4 Exclusive Remedy. With the exception of any claims for fraud, willful misrepresentation, the indemnification obligations of WSP under this Section 8 shall constitute the sole and exclusive remedy of SPG with respect to any breach of any representation, warranty or covenant by WSP hereunder.

8.5 Notice of Claim. In the event that a SPG Indemnified Party or a WSP Indemnified Party (an “Indemnified Party”) seeks indemnification, the Indemnified Party shall give reasonably prompt written notice to the WSP Indemnifying Party or SPG Indemnifying Party, as the case may be (the “Indemnifying Party”), specifying the facts in reasonable detail constituting the basis for such claim and the amount, to the extent known, of the claim asserted. The parties shall attempt for not less than thirty (30) days to negotiate a mutually satisfactory resolution of such matter. In the event the parties are not able to agree on a mutually satisfactory resolution, either party may seek to resolve the dispute by litigation.

8.6 Third Person Claims. If an Indemnified Party is entitled to indemnification hereunder because of a claim asserted by any claimant other than an Indemnified Party (a "Third Person"), the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof. The Indemnifying Party shall have the right, upon written notice to the Indemnified Party, and using counsel reasonably satisfactory to the Indemnified Party, to investigate, contest, control the defense of or settle the claim alleged by such Third Person (a "Third-Person Claim"); the Indemnified Party may thereafter participate in (but not control) the defense of any such Third-Person Claim with its own counsel at its own expense. Any settlement must be consented to by the Indemnified Party unless such settlement provides for a full release and satisfaction of all outstanding claims against the Indemnified Party and only involves the payment of money in satisfaction of such claim. Upon the reasonable request of the Indemnifying Party, the Indemnified Party shall promptly provide such information as may be reasonably needed by the Indemnifying Party to make a determination of whether or not to assume defense of such claim. If after the receipt of such information the Indemnifying Party shall fail to assume the defense of any such Third-Person Claim within twenty (20) days of receiving written notification of such claim and such requested information:

(a) the Indemnified Party, in good faith, may defend against such claim, in such manner as it may deem appropriate, including, but not limited to, settling such claim, after giving at least thirty (30) days' advance notice of any proposed settlement to the Indemnifying Party and receiving the Indemnifying Party's prior written consent, which may not be unreasonably withheld, on such terms as the Indemnified Party, in good faith, may deem appropriate; and

(b) the Indemnifying Party may participate in (but not control) the defense of such action, with its own counsel at its own expense. The Parties shall make available to each other all relevant information in their possession relating to any such Third-Person Claim and shall cooperate in the defense thereof.

SECTION 9. Termination and Waiver.

9.1 Termination. This Agreement may be terminated prior to the Option Closing:

(a) by the mutual written consent of WSP and SPG;

(b) by either WSP or SPG in the event of the issuance of a final, nonappealable governmental order restraining or prohibiting the consummation of the Transaction; or

(c) automatically at 5:00 p.m. (EST) on January 31, 2007.

9.2 Notice of Termination. Any party desiring to terminate this Agreement pursuant to Section 9.1 shall give written notice of such termination to the other parties to this Agreement.

9.3 Effect of Termination. In the event of the termination of this Agreement as provided in Section 9.1, this Agreement shall forthwith become void and there shall be no liability on the part of any party to this Agreement, except as set forth in Section 9.4 and Section 10, provided, however, that nothing in this Agreement shall relieve any party from liability for any (i) any intentional, knowing and material misrepresentation or breach of warranty by such party or (ii) a willful and material breach by the such party of any covenant or agreement contained herein.

9.4 Return of Documents. Upon termination of this Agreement prior to the Option Closing, SPG shall deliver to WSP the originals and all copies made available to SPG of information concerning WSP, and SPG shall not retain or furnish to any third party any copies, extracts, or other reproductions in whole or in part of such information.

SECTION 10. Miscellaneous.

10.1 Binding Agreement. This Agreement and each provision herein shall be binding upon and applicable to, and shall inure to the benefit of, the parties hereto, their heirs, executors, successors and permitted assigns.

10.2 Notices. All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly made and received when personally delivered, five (5) days after deposit with the United States Post Office, by registered or certified mail, postage prepaid, return receipt requested or one (1) business day after being sent via facsimile (with answer back receipt and hard copy sent by mail as provided above) or nationally-recognized overnight courier service, addressed as set forth below or at such other address as such party may designate in the manner set forth in this Section 10.2:

If to WSP, then to:

c/o Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6491
Facsimile No.: (302) 594-6909
Attention: Allen Spizzo

With a copy to:

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-5128
Facsimile No.: (302) 594-7252
Attention: Israel Floyd

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894
Telephone No.: (302) 594-6460
Facsimile No.: (302) 594-7730
Attention: Gregory McCoy

Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
Telephone No: (215) 864-8606
Facsimile No: (215) 864-9166
Attention: Justin P. Klein

If to SPG, then to the address indicated on Schedule 4.6 hereto.

With a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Ave
New York, NY
Telephone No.: (215) 455-3629
Facsimile No.: (215) 455-2502
Attention: Alan G. Schwartz

10.3 Consents and Waivers. No consent or waiver, express or implied, by any party hereto of the breach, default or violation by any other party hereto of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach, default or violation of the same or any other obligations of such party hereunder. Failure on the part of any party hereto to complain of any act of any of the other parties or to declare any of the other parties hereto in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of his rights hereunder.

10.4 Assignments, Successors, and No Third-Party Rights. No party may assign any of its rights or obligations under this Agreement without the prior written consent of the other party hereto, and any attempted prohibited assignment shall be void. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and permitted assigns.

10.5 Amendments and Termination. No change, modification or termination of this Agreement shall be valid unless the same is in writing and signed by WSP and SPG.

10.6 Governing Law; Consent to Jurisdiction. This Agreement and all questions relating to its validity, interpretation and performance shall be governed by and construed in accordance with the laws of the State of Delaware without regard to its conflict of law principles or rules. Each party hereto consents and agrees that the state or federal courts located in the State of Delaware shall have exclusive jurisdiction to hear and determine any claims or disputes pertaining to this Agreement or any of the other Definitive Agreements, and each party hereto expressly submits and consents in advance to such jurisdiction in any action or suit commenced in such court, and such party hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue or *forum non conveniens*.

10.7 Prior Agreements. This Agreement, including the Exhibits and Schedules hereto, supersede any prior or contemporaneous understanding or agreement among the parties respecting the subject matter hereof or thereof. There are no arrangements, understandings or agreements, oral or written, among the parties hereto relating to the subject matter of this Agreement, except those fully expressed herein or in documents executed contemporaneously herewith. No change or modification of this Agreement shall be valid or binding upon the parties hereto unless such change or modification or waiver shall be in writing and signed by the parties hereto.

10.8 Public Announcements. Except as may be required by Law or stock exchange rules, no party to this Agreement or any Affiliate or representative of such party shall make any public announcements or otherwise communicate with any news media in respect of this Agreement or the Transaction contemplated by this Agreement without the prior written consent of WSP or SPG, as the case may be (which consent shall not be unreasonably withheld), and prior to any announcement or communication the parties shall cooperate as to the timing and contents of any such announcement or communication.

10.9 Severability. In case any of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

10.10 Counterparts. This Agreement may be signed in any number of counterparts and/or by facsimile, each of which shall be an original for all purposes, but all of which taken together shall constitute only one agreement.

10.11 Captions. The captions and headings in this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement.

[SIGNATURES ARE ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

WSP, INC.

By: _____
Name: _____
Title: _____

SPG/FV INVESTOR LLC

By: _____
Name: _____
Title: _____

DMEAST #9317156 v10

Schedule 1.1

Subsidiaries

DMEAST #9317156 v10

Schedule 3.2

Non Contravention

DMEAST #9317156 v10

Schedule 3.3

WSP Broker Fees and Expenses

DMEAST #9317156 v10

Schedule 4.1

Organization; Good Standing; Corporate Power

DMEAST #9317156 v10

Schedule 4.6

Accuracy of Certain Information

DMEAST #9317156 v10

Schedule 4.7

SPG Broker Fees and Expenses

DMEAST #9317156 v10

TRANSITION SERVICES AND FACILITIES USE LICENSE AGREEMENT

This Transition Services and Facilities Use License Agreement ("Agreement") is dated as of the ____ day of _____, 2005, by and between Hercules Incorporated, a Delaware corporation with offices at 1313 North Market Street, Wilmington, Delaware ("Hercules"), and FiberVisions, Delaware Corporation, a Delaware corporation with offices at [_____] including its subsidiaries ("FV"). Hercules and FV may be referred to herein individually as a "Party" and together as the "Parties." As used herein, FV shall include FV's affiliated companies receiving Services pursuant to this Agreement, and Hercules shall include Hercules' affiliated companies providing Services pursuant to this Agreement. Additionally, country-specific counterparts of this Agreement may be used with regard to affiliates of the Parties, in which case this Agreement shall govern the provision of Services as to such affiliates only to the extent not expressly superseded by the country-specific counterpart.

WHEREAS, FV is a 51% owned subsidiary of Hercules and a 49% owned subsidiary of WSP, Inc., a wholly owned subsidiary of Hercules ("WSP").

WHEREAS, Hercules has sold its 51% ownership in FV to SPG/FV Investor LLC, a Delaware limited liability company ("SPG") in accordance with that certain Contribution Agreement dated January 31, 2006 among Hercules, WSP, SPG and FV ("Contribution Agreement") and whereby following the transaction SPG intends to operate FV independently of Hercules (the "Acquired Business").

WHEREAS, FV has been receiving certain services in support of its operations from Hercules or from entities affiliated with Hercules, and FV desires to continue to receive certain of such services in connection with the Acquired Business for the time periods set forth herein;

WHEREAS, FV has been using space in facilities of Hercules and FV desires to continue to use certain of such space for the Acquired Business for the time periods set forth herein;

WHEREAS, Hercules agrees, upon the terms and conditions set forth in this Agreement, to make available for use by and/or to provide or cause to be provided to FV certain space and support services for the time periods set forth herein; and

WHEREAS, the Parties desire this Agreement to become automatically effective on [date hereof] (the "Effective Date").

NOW THEREFORE, the Parties hereby agree as follows:

SECTION 8. ARTICLE 1. SCOPE OF SERVICES

8.1 A.Services. During the term of this Agreement, FV hereby engages Hercules to provide, and Hercules hereby agrees to provide or cause to be provided to FV for the Acquired Business the services identified in Exhibit A hereof (as from time to time added to or deleted from such Exhibit A pursuant to this Agreement, collectively referred to hereinafter as the "Services"). Except where Services are currently outsourced by Hercules or as provided in Article 1B, below, Hercules shall provide the Services by and through the Hercules employees. Certain Services are currently provided to Hercules and its affiliated companies (for FV as well as other businesses of Hercules) by other companies which are affiliated with Hercules, or by third-Parties, or pursuant to certain shared service or cost agreements by and between Hercules and various companies affiliated with Hercules. Hercules shall take such steps as are necessary and appropriate to cause the various Hercules-affiliated entities to provide Services to FV for the Acquired Business. Hercules shall use its best efforts to obtain the consent of others and third parties to provide the Services (and FV shall provide reasonable cooperation to assist in connection with obtaining such consent) hereunder. Hercules shall use reasonable efforts to cause any third parties to provide Services to the Acquired Business, but in each case, only in accordance with the terms and conditions of this Agreement. In the event Hercules is not able to secure the agreement of any third parties to provide Services to the Acquired Business, the Parties will mutually cooperate (at FV's expenses) to obtain like services from another source. Hercules shall obtain any required licenses or license modifications for software used to provide transition services to FV if such licenses are required by the software owner; FV agrees to pay the license fees for services provided under Exhibit A. If a third party supplier or vendor will not provide the same contract terms to FV, Hercules shall pass any additional cost to FV. Hercules shall bear the cost associated with loss of favorable terms and conditions on the business retained by Hercules.

8.2 B.Service Standard. Hercules shall provide or cause to be provided the personnel, facilities, equipment, systems and management to perform the Services (but only to the extent the same have been provided by Hercules to FV during the six (6) month period immediately preceding the Effective Date) and Hercules shall provide the Services consistent with Hercules' practices and policies in effect during the six months period preceding the Effective Date. The foregoing standard shall be referred to herein and in the Exhibits hereto as the "Hercules Standards" or "Services Standard." Exhibit A, attached hereto, shall take precedence in defining the Services to be provided to FV by Hercules.

8.3 To the extent reasonably practicable, Hercules shall give FV at least fifteen (15) days prior notice of Hercules' inability to provide Services. If despite using its commercially reasonable efforts, Hercules is unable to provide a specific Service, Hercules will permit a mutually acceptable FV employee or third party to provide such Services at FV's sole cost and expense, provided such employee or third party will pose no unreasonable risk of material interruption or diminished functionality to the existing Hercules systems or business operations. In the event a third party is to provide such Services or assist in connection therewith, such third party shall be required to execute a confidentiality agreement reasonably acceptable to Hercules and FV prior to initiating such Services. Such third party shall operate under the direct supervision of Hercules personnel. In the event that Services cannot be provided through the above mentioned employee or third party, then Hercules and FV shall use commercially reasonable efforts to cooperate with each other to find a mutually acceptable means of having the affected Services provided to FV for the remainder of the relevant Term thereof.

8.4 Neither Hercules nor any of its affiliated companies will be required to stay in business, replace employees who voluntarily terminate their employment with Hercules or the provider of the Services or take other extraordinary measures solely to provide the Services to FV for the Acquired Business. Notwithstanding the foregoing, without the prior written consent of FV, (a) Hercules shall not be entitled to terminate a Service to FV if Hercules otherwise provides a comparable service to one or more other businesses of Hercules that would not be terminated, and (b) in the event a Service is reduced, such reduction shall not disproportionately affect the Service provided to FV as compared to a similar service otherwise provided to Hercules.

8.5 C.Special Services and Projects. During the term of this Agreement, FV may from time to time request that Hercules provide special services or projects in addition to the Services, and Hercules shall make commercially reasonable efforts to provide such additional services or projects. If Hercules provides such additional services or projects, the Parties shall negotiate in good faith the terms (including, without limitation, price) for providing such additional services or projects and, following agreement on such terms, Exhibit A hereof shall be amended to include such additions. If despite using commercially reasonable efforts, Hercules is unable to provide such additional services or projects, Hercules will permit a mutually acceptable FV employee or third party to Hercules and FV to provide such additional services or projects at FV's sole cost and expense, provided such employee or third party reasonably concludes that provision of such additional services or projects will pose no risk of material interruption or diminished functionality to the existing Hercules systems or business operations. In the event a third party is to provide such additional services or projects or assist in connection therewith, such third party shall be required to execute a confidentiality agreement reasonably acceptable to Hercules and FV prior to initiating such additional services or projects. Such third party shall operate under the direct supervision of Hercules personnel.

8.6 D.Agreement Contacts. In order to monitor, coordinate and facilitate implementation of the terms and conditions of this Agreement, the Parties shall designate a single contact person. The initial contact person for a party shall be the person listed below each party's signature hereto. A party may change its contact person by giving the other party notice thereof.

SECTION 9. ARTICLE 2. FACILITIES USE LICENSE

9.1 A.License Grant. During the term of this Agreement, FV hereby engages Hercules to provide, and Hercules hereby agrees to provide and license to FV, as set forth below, the right to use space as set forth on Exhibit B, at the end of Exhibit B, for the benefit of the Acquired Business (the "License"). To the extent building services are required of any landlord of Hercules for a Licensed Premises, this License shall be deemed a sublease.

9.2 B.The Licensed Premises. In consideration of the covenants and agreements hereinafter contained, to be kept and performed by FV (including but not limited to, the fees to be paid hereunder), Hercules grants to FV the license and privilege of using the premises set forth on Exhibit B (the "Licensed Premises"). The License shall include the right to use the driveways, parking lots, washroom facilities, office equipment, furniture and fixtures, and other similar amenities at the Licensed Premises. The Licensed Premises shall be used solely by FV for operating the Acquired Business, and shall include offices (furnished by Hercules in accordance with Hercules' normal standards) and work space for FV's employees, contractors and invitees. It is agreed that nothing herein shall be construed to prevent Hercules, its employees, representatives and/or agents from entering upon and working in the Licensed Premises to provide the Services; provided that (i) the provision of the Services does not unreasonably disturb the operations of FV, and (ii) Hercules and its affiliates will not be denied, delayed or impeded from using the Licensed Premises for Hercules' other businesses operating at the Licensed Premises, provided that such use is in a manner consistent with and to the extent of the Hercules' practices as of the Effective Date. FV's use of space in any Licensed Premises shall at all times during the Term be in compliance with the applicable lease for such Licensed Premises (subject to Hercules providing FV with notice of the applicable terms on or before the Effective Date), and in compliance with all applicable laws, rules, regulations, codes, and ordinances, and Hercules' safety procedures.

9.3 C.Quiet Possession. Subject to the terms of this Agreement, Hercules covenants and agrees that FV shall, and may at all times during the Term, peaceably possess and quietly have, hold and enjoy the Licensed Premises without unreasonable disturbance of FV by Hercules or any person claiming through or under Hercules.

9.4 D.Ancillary Services. In connection with the specific Services and level of Services set forth on Exhibit A, and the use of the Licensed Premises by the Acquired Business, Hercules shall, consistent with its past practices, furnish to the Acquired Business, free of any cost in addition to the amounts paid hereunder, as part of the services rendered by Hercules to the Acquired Business, the following ancillary services: adequate light, heat, gas, hot and cold water, air conditioning, janitorial maintenance services, electricity, mailroom services, and telephone switching services (hereinafter the "Ancillary Services"). FV shall pay (where possible, directly to the third party service provider) for all local, toll and long distance calls, parcel post, special and other shipping of packages, products and the like (including, but not limited to, by private overnight delivery services such as Federal Express, United Parcel Service and DHL). Hercules shall provide the Ancillary Services in compliance with all applicable laws, statutes and ordinances. Unless caused by its negligence or willful misconduct, Hercules shall not be responsible for any interruption or failure of the Ancillary Services.

9.5 E.Deliveries. Hercules shall accept at its receiving docks all deliveries consigned to FV or the Acquired Business and notify FV thereof, whereupon FV shall promptly remove same from the receiving dock.

9.6 F.Fixtures. Unless otherwise agreed to by the Parties in writing or as provided in the following sentence, all additional fixtures (other than those facilities and items included in the Licensed Premises) which shall be required by FV in the operation of the Acquired Business shall be provided by FV, provided, however, that with respect to fixtures to be affixed to the Licensed Premises, use by FV shall be subject to the approval of Hercules with respect to style, design, construction, color, and finish prior to installation (such approval not to be unreasonably withheld, conditioned or delayed). FV may use fixtures at the Licensed Premises during the Term so long as: (a) such fixtures were used regularly in the ordinary course of the Business prior to the Effective Date; (b) such fixtures are located within the space licensed to FV; (c) FV's use of such fixtures is not reasonably likely to result in the disclosure of confidential information of Hercules or its affiliates to FV or its employees, contractors or invitees; and (d) FV has not discontinued use of such Licensed Premises. Any fixtures, equipment and accessories provided by FV (or sold by Hercules to FV under the Contribution Agreement) shall remain the property of FV and shall be removed at FV's expense from the Licensed Premises within a reasonable time after the cessation of operations at the Licensed Premises by FV. FV shall repair any damage occasioned by all such removals at its own expense, and in default thereof, and without affecting in any way any remedies Hercules may have in law or in equity as a result of such default, Hercules may, following notice to FV, effect such repairs and FV shall reimburse Hercules for the reasonable cost thereof.

9.7 G.Casualty Loss and Condemnation. In the event of damage to any of the Licensed Premises, by fire or any other casualty loss occasioned by natural or human force, by which the Licensed Premises shall be destroyed to the extent that, for the remainder of the Term, it is impracticable for FV to carry on the Acquired Business therein, or in the event of the loss of use of the Licensed Premises due to condemnation by a governmental or quasi-governmental agency, this License shall ipso facto terminate and be of no further force and effect with respect to the Licensed Premises at issue; provided, however, that if the Licensed Premises at issue is only partially destroyed so that it may be restored within a reasonable time to a suitable condition for the continuation of the Acquired Business, or only partially taken through condemnation such that the Acquired Business can continue to operate without a material adverse impact, this License shall remain in full force and effect.

9.8 H.Insurance. FV, at its own cost and expense, shall be responsible for insuring or self-insuring its owned or leased personal property (including trade fixtures, and equipment,) located on or about the Licensed Premises, it being understood that the same is not the responsibility of Hercules nor shall Hercules be liable therefore, except where caused by the gross negligence or willful misconduct of Hercules. Further, FV, at its own cost and expense, shall be responsible for insuring or self-insuring any liability it may have for damage to Hercules property. All insurance policies carried by FV pursuant to this Article 2H shall expressly waive any insurer's right of subrogation against Hercules. Hercules, at its own cost and expense, shall be responsible for insuring or self-insuring its owned or leased personal property (including trade fixtures, machinery, equipment, stocks, inventories and contents), located on or about the Licensed Premises, it being understood that the same is not the responsibility of FV nor shall FV be liable therefore, except where caused by the negligence or willful misconduct of FV. Further, Hercules, at its own cost and expense, shall be responsible for insuring or self-insuring any liability it may have for damage to FV property. All insurance policies carried by Hercules pursuant to this Article 2H shall expressly waive any insurer's right of subrogation against FV.

9.9 I.Alterations. FV may not make alterations, changes, additions and improvements to the Licensed Premises without the prior written approval of Hercules, which shall not be unreasonably withheld, conditioned or delayed.

SECTION 10. ARTICLE 3. TERM AND TERMINATION

10.1 A.Term. Except as set forth in Article 3B, below, this Agreement shall be effective as of the Effective Date, and shall continue for twelve months, unless a different period is provided therefore on Exhibit A and Exhibit B, respectively, or the Parties mutually agree in writing to an extended period (the "Term"), or unless earlier terminated pursuant to Article 3B, below. During the Term, FV shall endeavor to not need Services beyond six (6) months after the Effective Date; however, if there are Services which FV desires to have beyond six months then FV shall notify Hercules as soon as practicable (but in no event later than 30 days prior to the date six months after the Effective Date). Also, FV and Hercules shall endeavor to meet 30 days before the expiration of this Agreement to discuss (with no obligation to agree) whether this Agreement will be extended for any period.

10.2 B.Termination. Except as otherwise provided herein, FV may terminate this Agreement or one or more of the Services or one or more of the Facility Licenses provided pursuant to this Agreement as of the end of any calendar month upon at least thirty (30) days advance written notice to Hercules. Upon termination of this Agreement, or upon termination of one or more of the Services or one or more of the Facility Licenses provided pursuant to this Agreement, Hercules shall cease and shall cause its affiliates to cease providing the terminated Service(s), and FV shall vacate the facility where the Facility License has been terminated, leaving such facility in broom clean condition and otherwise in compliance with the terms and conditions of this Agreement. FV's obligation to pay monies owed to Hercules for Services provided prior to the effective date of such termination notice(s) shall survive the termination or expiration of this Agreement.

SECTION 11. ARTICLE 4. USE LICENSE FEE AND SERVICES FEE

11.1 A.FV agrees to pay to Hercules on a monthly basis during the Term of this Agreement, in consideration for the Services rendered to FV and the Acquired Business as herein provided ("Service Fees"), and for the License for the Licensed Premises ("License Fees") the amounts set forth opposite each such Service and Licensed Premises on Exhibit A and Exhibit B, respectively.

11.2 B.To the extent that during the Term the Parties mutually agree to modify, amend, delete or add to the Licensed Premises and/or the Services, the Parties shall cooperate to determine in good faith an equitable adjustment to the amounts paid by FV to Hercules.

SECTION 12. ARTICLE 5. COMPENSATION, BILLING AND PAYMENT

12.1 A.SERVICE FEES UNDER EXHIBIT A and LICENSE FEES UNDER EXHIBIT B

12.2 (1)Each month, Hercules shall submit to FV for payment an invoice reasonably detailing the amounts due for Service Fees and License Fees for the immediately preceding month. Such invoice shall be payable by FV within thirty (30) days from the date of such invoice unless FV contests in good faith the amounts set forth in such invoice by giving written notice to Hercules of such dispute within the payment period, in which case FV shall pay all amounts not in dispute within such 30 day period. Any properly due amounts not in dispute set forth in an invoice not timely paid by FV shall bear interest at the rate of LIBOR plus 200 basis points per annum until paid. In the event that the Parties mutually agree, the amounts due under this provision may be paid as a lump sum combined with the net payments due under Article 5B of this Agreement.

12.3 (2)In the event that a review of invoices for amounts paid by FV indicates an overpayment by FV for Service Fees or License Fees, Hercules will, within ten (10) days after completion of such review, reimburse FV for the full amount of any such overpayment, plus the costs of such review and interest accrued from the date of overpayment at the rate of LIBOR plus 200 basis points per annum, not to exceed the maximum rate permitted under applicable law.

12.4 (3)If either Party believes that there has been a material change in the quantity or quality of Services being delivered, they may request a review by the Steering Committee of the monthly Service Fee or License Fee to adapt Article 4 A and/or Exhibit A in accordance with such

change.

12.5 B.SETTLEMENT OF ACCOUNTS FOR ACQUIRED BUSINESS

12.6 (1)Not later than thirty (30) days after the last business day of each month during the Term, Hercules shall provide to FV an accounting of all amounts due under this Agreement, all collections, receipts and other remittances to Hercules on account of the Acquired Business and all expenses for the Acquired Business paid by Hercules on behalf of the Acquired Business since the last accounting in accordance with Schedule A hereto. With such accounting, Hercules shall identify the net amount due Hercules or remit to FV by wire transfer the net amount due FV. If there is a net amount due Hercules, FV shall remit to Hercules via wire transfer the net amount due Hercules within seven (7) days following receipt of the cash flow statement. Any properly due amounts due either Party not timely paid to shall bear interest at the rate of LIBOR plus 200 basis points per annum until paid.

12.7 C.SURVIVAL OF OBLIGATIONS

12.8 Notwithstanding the expiration or earlier termination of this Agreement, the Parties obligations to each other under this Article 5 regarding events or obligations occurring or arising during the Term shall survive such expiration or earlier termination until fulfilled.

12.9 ARTICLE 6. NOTICES.

12.10 Any notice, request, instruction or other document to be given hereunder by any Party to any other Party shall be in writing and delivered personally, by facsimile (with electronic confirmation of receipt and with a confirmed copy sent by first class mail or by overnight courier), or sent by registered or certified mail, postage prepaid, or sent by a recognized overnight courier (e.g., Federal Express, Airborne or UPS) (a "Notice") as follows:

If to Hercules to:

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, Delaware 19894-0001

Phone Number: (302) 594-6460
Attention: Gregory S. McCoy

With a copy to:

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, Delaware 19894-0001

Phone Number: (302) 594-5128
Facsimile Number: (302) 594-7252
Attention: Israel Floyd

If to FV to:

SPG/FV Investor LLC
667 Madison Avenue
New York, NY 10021

Phone Number: (212) 508-3300
Facsimile Number: (212) 508-3301
Attention: Ian Snow

With a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017

Phone Number: (212) 455-2000
Facsimile Number: (212) 455-2502
Attention: Alan Schwartz

or at such other address or to such other person for a Party as shall be specified by like Notice. Any Notice which is delivered in the manner provided herein shall be

deemed to have been duly given to the Party to whom it is directed upon actual receipt by such Party.

12.11 **ARTICLE 7. DELEGATION AND ASSIGNMENT.**

12.12 Except to the extent permitted by Article 1A of this Agreement, Hercules shall not delegate any of its duties to perform Services hereunder. FV shall not assign or subcontract its rights, duties or obligations under this Agreement, except (a) to its subsidiaries, affiliates, contractors or agents (with reasonable prior notice to Hercules and subject to Hercules' ability to provide Services to such persons) or (b) with the prior written consent of Hercules. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the Parties.

12.13 **ARTICLE 8. LIMITED WARRANTY.**

12.14 In performing the Services, Hercules shall employ methods, procedures and utilities of a quality at least equal to those employed by it with respect to its own business and affairs. Except as otherwise provided in this Agreement, HERCULES EXPRESSLY DISCLAIMS (i) ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, THOSE OF WORKMANSHIP, DESIGN, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND INFRINGEMENT; AND (ii) THAT THE SERVICES PROVIDED HEREUNDER WILL YIELD ANY GIVEN OR STATED ECONOMIC, FINANCIAL, PROFIT OR BUSINESS RESULT TO FV OR WILL RESULT IN FV HAVING ANY GIVEN STANDING OR POSITION IN ANY BUSINESS, MARKET OR PRODUCT. NEITHER PARTY SHALL HAVE LIABILITY TO THE OTHER FOR ANY PUNITIVE DAMAGES OF ANY TYPE OR KIND.

12.15 **ARTICLE 9. BOOKS AND RECORDS.**

12.16 A. Hercules shall keep, and make available to FV and its representatives, complete and accurate records and accounts, in accordance with the Hercules' normal practices, of all transactions pertaining to the Services, Licenses and payroll records, receipts and payments hereunder, and shall preserve them for a period of eight (8) years following the end of the fiscal year to which they pertain. After the expiration of the eight (8) year period referred to in this Article 9A, Hercules shall have no further duty to retain any of such books and records or to notify FV before the disposition or destruction thereof. FV may review these books and records upon reasonable advance notice during normal business hours.

12.17 B. Notwithstanding the expiration or earlier termination of this Agreement, the Parties obligations to each other under this Article 9 regarding events or obligations occurring or arising during the Term shall survive such expiration or earlier termination until fulfilled.

SECTION 13. ARTICLE 10. CONFIDENTIAL INFORMATION

13.1 A. For purposes hereof, "Confidential Information" means any and all information of either Party that might reasonably be considered confidential, secret, sensitive, proprietary or private. To the extent practicable, Confidential Information shall be marked "proprietary" or "confidential." Confidential Information shall include the following:

- (a) (1) data, know-how, formulae, processes, designs, sketches, photographs, plans, drawings, specifications, samples, reports, lists, financial information, studies, findings, inventions and ideas, or proprietary information relating to either Party or the methods or techniques used by either Party;
- (b) (2) data, documents or proprietary information employed in connection with the marketing and implementation of each Party's products, including cost information, business policies and procedures, revenues and markets, distributor and customer lists, and similar items of information;
- (c) (3) any other data or information obtained by either Party during the term of this Agreement which is not generally known to and not readily ascertainable by proper means by third persons who could obtain economic value from its use or disclosure;
- (d) (4) as to FV's confidentiality obligations hereunder, any data obtained from the use of Hercules' computer systems by FV's employees or agents, including but not limited to SAP and Lotus Notes, except data pertaining solely to the Acquired Business; and
- (e) (5) as to Hercules' confidentiality obligations hereunder, any data, information, or documents pertaining to the assets sold to FV or the Acquired Business.

13.2 B. The receiving Party shall treat as confidential all Confidential Information of the other Party, or of any subsidiaries or affiliates of such other Party, that comes to the receiving Party's knowledge through this Agreement. The receiving Party shall take such steps to prevent disclosure of such Confidential Information to any third person as it would take in protecting its own proprietary or confidential information, and shall not use any portion of such Confidential Information for any purpose not authorized herein.

13.3 C. No person receiving Confidential Information shall be under any obligations with respect to any Confidential Information:

- (a) (1) which is, at the time of disclosure, available to the general public;
- (b) (2) which becomes at a later date available to the general public through no fault on its part and then only after said later date;

(c) (3) which it can demonstrate was in its possession before receipt from the discloser (excluding Confidential Information possessed by Hercules prior to Closing that relates to the assets sold to FV or the Acquired Business);

(d) (4) which is disclosed to it without restriction on disclosure by a third party who has the lawful right to disclose such information;

(e) (5) which it can demonstrate was independently developed by it (excluding Confidential Information possessed by Hercules prior to Closing that relates to the assets sold to FV or the Acquired Business); or

(f) (6) after five (5) years from the date of disclosure.

13.4 D. In the event that any Party is requested or required (by oral questions, interrogatories, requests for information or documents, or other similar process utilized in connection with legal proceedings, or in connection with compliance with a subpoena, civil investigative demand or other similar process) to disclose any such Confidential Information, such Party shall provide the other Party with prompt written notice of any such requests or requirements so that the other Party may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of Article 10 of this Agreement.

13.5 E. In order to protect the interests of both Parties with respect to Confidential Information contained within the information technology systems (both hardware and software) which will be utilized by the Parties during the Term, both Parties shall use reasonable best efforts to implement and effect security procedures intended to protect such Confidential Information.

13.6 F. SUBJECT TO THE ABOVE ARTICLE 10C., THE CONFIDENTIALITY AND NON-DISCLOSURE OBLIGATIONS OF THIS ARTICLE SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THIS AGREEMENT.

SECTION 14. ARTICLE 11 INDEPENDENT CONTRACTOR

SECTION 15. Hercules is and shall remain at all times an independent contractor of FV in the performance of all Services hereunder; and all persons employed by Hercules or under contract or agreement with Hercules to perform such Services shall be and remain employees or contractors solely of Hercules and subject only to the supervision and control of Hercules supervisory personnel.

SECTION 16. ARTICLE 12 COMPLIANCE WITH LAWS AND REGULATIONS

16.1 A. Each Party shall give all notices and obtain all licenses and permits required by applicable laws, rules, ordinances, codes or regulations and shall comply with all applicable laws, rules, ordinances, codes and regulations of any governmental entity or regulatory agency governing the Services to be provided hereunder.

16.2 B. If it is found that a service or report results in either Party being given notice that it is violation of a law or regulation by a third-Party regulatory or governmental agency, the Parties will mutually cooperate to provide the service in a way that is not in violation. Failing such best efforts, Hercules may cancel such service.

SECTION 17. ARTICLE 13 DEFAULT.

SECTION 18. Notwithstanding anything to the contrary contained herein, if either Party fails to fulfill any of its material obligations hereunder, unless such failure is otherwise excused by or subject to other provisions of this Agreement, the other Party may give notice to the defaulting Party of such default. If the defaulting Party does not cure the default within thirty (30) days of the date of this notice, or if the default is curable but the default is of such a nature that it cannot be cured within thirty (30) days, the defaulting Party has not taken reasonable steps to commence to cure the default (and proceeds with due diligence to complete the cure), the Party not in default upon written notice may terminate its further obligations hereunder directly related to the subject matter of the default effective on expiration of such thirty (30) day period; provided, however, that if the Party claimed to be in default disputes such claim, the dispute resolution procedures contained herein shall apply.

SECTION 19. ARTICLE 14. INDEMNITY AND LIMITED LIABILITY

19.1 A. For purposes of Articles 14 and 16 of this Agreement, the following defined terms shall apply:

“Applicable Law” means any law, ordinance, regulation or other requirement applicable to the subject matter hereof, in effect and as interpreted from time to time.

“DOEA” means the directors, officers, employees and agents of the relevant entity.

“Liabilities and Damages” means any and all claims, liabilities, actions, suits, proceedings, judgments, orders, fines, penalties, assessments, deficiencies, demands, debts, obligations, losses, injuries, damages (including, without limitation, direct, actual, special, liquidated, incidental, consequential or punitive damages), costs and expenses (including, without limitation, costs of defense, settlements and reasonable investigatory and attorneys' fees and expenses) of whatever kind or character (whether absolute, accrued, contingent or other), and regardless of the legal basis of liability or legal or equitable principle involved (including, without limitation, contract, warranty, indemnification, negligence, strict

liability, statutory liability, liability without fault, other tort, personal injury, death, damage to or loss of property, business interruption, lost profits, violation of Applicable Laws or otherwise).

19.2 B. In no event shall any Party, its affiliate(s) and/or its or their respective directors, officers, employees, representatives or agents be liable for punitive damages under or in connection with this Agreement.

C. FV is obligated to release, discharge, defend, indemnify, save and hold harmless Hercules, its DOEA, its affiliates and their respective DOEA, from and against any and all Liabilities and Damages arising out of any gross negligence or willful misconduct of FV, its DOEA, its affiliates and their respective DOEA, arising from or related to the performance of this Agreement and/or the Management Services Contract by FV, except to the extent caused by the negligent act or omission or willful misconduct of Hercules, its DOEA, its affiliates or their respective DOEA. Hercules is obligated to release, discharge, defend, indemnify, save and hold harmless FV, its DOEA, its affiliates and their respective DOEA, from and against any and all Liabilities and Damages arising out of any gross negligence or willful misconduct of Hercules, its DOEA, its affiliates and their respective DOEA, arising from or related to the performance of this Agreement and/or the Management Services Contract by Hercules, except to the extent caused by the negligent act or mission or willful misconduct of FV, its DOEA, its affiliates and their respective DOEA.

D. Any claim for indemnification or defense under this Agreement shall be made in accordance with the procedures set forth in this Article 16 of this Agreement. **This provision will survive any expiration or termination of this Agreement.**

SECTION 20. ARTICLE 15. FORCE MAJEURE

20.1 A. Neither Party shall be liable to the other Party for any loss, cost or damage for delay or non-performance of any of its obligations hereunder resulting from any requirement or intervention of civil, naval or military authorities or other agencies of the government, or by reason of any other causes whatsoever not reasonably within the control of such Party, including, but not limited to, acts of God, war, riot, insurrection, civil violence or disobedience, blockages, embargoes, sabotage, epidemics, fire, strikes, lock-outs or other industrial or labor disturbances, lightning, hurricanes, explosions and delay of carriers (all of the foregoing referred to hereinafter as a "Force Majeure"). Upon the occurrence of a Force Majeure, the Party whose performance is so prevented (the "Declaring Party") shall notify the other Party promptly of the cause of the Force Majeure, and the estimated time that such Force Majeure shall continue. The Declaring Party shall thereafter use its reasonable efforts to overcome the Force Majeure; provided, however, that the settlement of strikes, lock-outs and other industrial or labor disturbances shall be entirely within the discretion of the Declaring Party, and the Declaring Party shall not be required to make settlement of strikes, lock-outs and other industrial or labor disturbances by acceding to the demands of any opposing third party or Parties when such course is unfavorable in the Declaring Party's judgment. FV shall not be required to pay for any disrupted Services or Licensed Premises during the period in which they are not being provided to FV.

20.2 B. If Hercules' performance under this Agreement is suspended or rendered impractical by reason of Force Majeure for a period in excess of thirty (30) days during the Term, FV (i) shall have the right to terminate this Agreement with respect to the disrupted Services or Licensed Premises immediately upon written notice to Hercules. An event of Force Majeure shall not operate to extend the Term or to limit amounts payable for Services or Licensed Premises rendered on or prior to the actual date of the event of Force Majeure.

SECTION 21. ARTICLE 16. DISPUTES

21.1 A. Resolution Procedure

. Each Party agrees to use its reasonable efforts to resolve disputes under this Agreement by a negotiated resolution between the Parties or as provided for in this Article 16.

B. Resolution Panel

. The resolution panel shall consist of two members, i.e., a corporate officer of Hercules and a corporate officer of FV, each appointed by the chief executive officer of the respective company (the "Resolution Panel"). The Resolution Panel may act only by the affirmative vote of both its members.

C. Exchange Of Written Statements

. In the event of a dispute under this Agreement, either Party may give a Notice to the other Party requesting that the Resolution Panel in good faith try to resolve (but without any obligation to resolve) such dispute. Not later than fifteen (15) days after said Notice, each Party shall submit to the other Party a written statement setting forth such Party's description of the dispute and of the respective positions of the Parties on such dispute and such Party's recommended resolution and the reasons why such Party feels its recommended resolution is fair and equitable in light of the terms and spirit of this Agreement. Such statements represent part of a good-faith effort to resolve a dispute and as such, neither statement may be introduced as evidence or used as an admission against interest in any arbitral or judicial resolution of such dispute.

21.2 D. Good Faith Negotiations

. If the dispute continues unresolved for a period of seven (7) days (or such longer period as the Resolution Panel may otherwise agree upon) after the simultaneous exchange of such written statements, then the Resolution Panel shall promptly commence good-faith negotiations to resolve such dispute but without any obligation to resolve it. The initial negotiating meeting may be conducted by teleconference.

21.3 E. Determination Of Resolution Panel

. Not later than thirty (30) days after the commencement of good-faith negotiations: (i) if the Resolution Panel renders an agreed resolution on the matter in dispute, then both Parties shall be bound thereby; and (ii) if the Resolution Panel does not render an agreed resolution, then either Party may submit the dispute to arbitration in accordance with Article 16F hereof.

21.4 F. Arbitration

. A matter in dispute hereunder submitted for resolution by arbitration shall be arbitrated in accordance with the then existing commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof, subject to (1) through (8) below.

(a) (1) Upon the request of either Party, the Arbitration shall be conducted under the expedited rules of the American Arbitration Association for commercial arbitrations.

(b) (2) The Arbitrators shall be three (3) independent arbitrators, with one appointed by each Party, and the two appointees selecting the third arbitrator in accordance with the said Rules. If either Party fails to select an arbitrator within ten (10) days after Notice of such failure from the other Party or the American Arbitration Association, then the American Arbitration Association shall appoint such arbitrator. If the two appointees are unable to agree on the third arbitrator, then the American Arbitration Association shall select the same using the foregoing qualification. Each arbitrator shall be a competent and reputable individual with experience as a judge, a chief executive officer or chief financial officer.

(c) (3) The arbitration hearing shall be held in Philadelphia, Pennsylvania, at such date, time and place as established by the Arbitrators.

(d) (4) The Arbitrators shall have power to rule on their own competency and on the validity of this Agreement to make reference to arbitration.

(e) (5) Not later than fifteen (15) days after the conclusion of the arbitration hearing, but prior to the rendering of any arbitral decision and award, each Party may submit to the Arbitrators a written statement of such Party's (i) understanding and view of the Parties' respective positions on the dispute, and (ii) recommendation as to an appropriate resolution of the dispute and the reasons why it believes such resolution is appropriate. In reaching a decision on any dispute hereunder, the Arbitrators may take into account such statement.

(f) (6) The Arbitrators must render their arbitral decision and award and give a written opinion setting forth the basis of their decision, all not later than forty-five (45) days after the conclusion of the Arbitration.

(g) (7) Each Party shall take or cause to be taken all reasonable action to facilitate the conduct of the arbitration and the rendering of the arbitral award at the earliest possible date.

(h) (8) The costs of the Arbitration shall be borne and paid equally by the Parties.

(i) **G. Injunctive Relief**

. The Parties recognize and acknowledge that in the event of a potential, anticipatory or actual breach of this Agreement, it may be necessary or appropriate for the non-breaching Party to seek injunctive relief, if and to the extent legally available, in order to avoid harm or further harm to the non-breaching Party. If a Party desires injunctive relief, it may pursue the same in any court of competent jurisdiction; provided, however, that, if granted, such injunctive relief shall apply only to prevent a breach or further breaches and shall remain in effect only so long as the court deems necessary or appropriate to permit resolution of the underlying disputes in accordance with this Article 16. Neither the seeking of injunctive relief nor the granting thereof is intended or shall result in the application of a substantive or procedural law other than the applicable governing law pursuant to this Article 16.

21.5 H. Notwithstanding the expiration or earlier termination of this Agreement, the Parties obligations to each other under this Article 16 regarding events or obligations occurring or arising during the Term shall survive such expiration or earlier termination until fulfilled.

SECTION 22. ARTICLE 17. MISCELLANEOUS

22.1 A. If any provision of this Agreement or the application of any such provision to any person(s) or circumstance(s) shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and the Agreement shall remain in full force and be effectuated as if such illegal, invalid or unenforceable provision is not part hereof; provided, however, that (i) if the deletion of any provision of this Agreement frustrates an essential purpose(s) of the Agreement or material right(s) of a Party, then such Party may terminate this Agreement without further liability or obligation, and (ii) absent such frustration and to the extent legally possible, the Parties shall seek in good faith agree upon alternate provisions or arrangements to achieve the same purposes as the invalid, illegal or unenforceable provision.

22.2 B. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same instrument.

22.3 C. The headings for the articles, sections and paragraphs in this Agreement are for convenience and reference only and shall not limit in any way or otherwise affect any of the terms or provisions hereof.

22.4 D. This Agreement may not be changed, altered, modified or amended except in writing signed by the Parties.

22.5 E.The failure of either Party to demand strict performance of the terms hereof, or to exercise any right conferred herein shall not be construed as a waiver or relinquishment of its right to assert or rely on any such term or right in the future. Waiver by either Party of any term, provision or condition of this Agreement shall not be construed to be a waiver of any other term, provision or condition nor shall such waiver be deemed to be a waiver of a subsequent breach of the same term, provision or condition. Failure or delay by either Party to require performance of any provision of this Agreement will not affect or impair such Party's right to require full performance with such provision at any time thereafter. Any review or approval by a Party required or permitted pursuant to this Agreement shall not be deemed to be a waiver of any provision of this Agreement nor shall it excuse any non-conforming performance by the other Party.

22.6 F.The validity, interpretation and performance of this Agreement and any dispute connected with this Agreement will be governed by and determined in accordance with the statutory, regulatory and decisional law of the State of Delaware (exclusive of such state's choice or conflicts of laws rules).

22.7

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year first above written.

FIBERVISIONS, Delaware Corporation

HERCULES INCORPORATED

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT A

DESCRIPTION OF SERVICES

A-0 Charge and Term Schedule

A-1 Finance

A-2 Human Resources

A-3 Shared Services

A-4 Office Services

A-5 Information Management

A-6 Procurement

A-7 Supply Chain and Transportation

A-8 Safety, Health and Environment

A-9 Corporate Engineering

A-10 Legal

EXHIBIT B

LICENSED PREMISES

B-0 Charge Schedule

B-1 Hercules Plaza- Wilmington

EMPLOYEE LEASE AGREEMENT
Employee Working in Italy

This Employee Lease Agreement (the "Agreement"), is made effective as of January __, 2006 (the "Effective Date"), by and between Hercules Italia SpA, an entity organized and existing under the laws of Italy ("Employer"), and [**FiberVisions entity to be identified**], a Delaware limited liability company ("FiberVisions"). Sometimes herein, Employer or FiberVisions is referred to individually as a "Party" and collectively as the "Parties."

BACKGROUND

Both FiberVisions and Employer are members of the Hercules Incorporated family and believe that this Agreement is in their mutual best interest. FiberVisions desires to lease employees from Employer and Employer is willing to provide FiberVisions with the use of such employees. The said employees shall remain employees of Employer, unless this Agreement is terminated, FiberVisions recognizes that it will receive significant advantages from such an arrangement. Accordingly, in consideration of the mutual covenants and agreements contained in this Agreement, the Parties hereby agree as follows:

1. Term.

1.1 This Agreement shall become effective on the Effective Date and remain in force for the term of _____ (__) months thereafter (the "Initial Term"). Following the Initial Term, this Agreement shall remain in force from month to month until either Party gives written notice to the other Party as specified herein, at least seven (7) days prior to the expiration of any monthly extension of the Initial Term. Either Party may terminate this Agreement upon seven (7) days prior written notice should the other party breach any of the provisions of this Agreement.

1.2 Employer shall have the right to terminate this Agreement immediately in the event of (i) non-payment or late payment by FiberVisions, or (ii) a breach of this Agreement by FiberVisions (other than non-payment or late payment) which is not fully cured or remedied to the satisfaction of Employer within three (3) days after notice of such breach from Employer to FiberVisions occurring at any time after the date of this Agreement.

2. The Employees.

Employer will provide to FiberVisions the services of the employees listed on Exhibit A attached hereto and made a part hereof (individually and collectively the "Employees"), all subject to the obtainment of applicable and valid German work permits for the Employees. If a work permit cannot be obtained for given Employee(s), then the affected employee(s) shall be deleted from Exhibit A and this Agreement. Employer shall be fully responsible for notifying all Employees of their leased employee status. Each Employee shall be identified on Exhibit A according to proper code and pay status under applicable employment and labor laws. Employer will immediately notify FiberVisions of any change in such code and/or status for any Employee. No other employees shall become leased to FiberVisions hereunder unless specifically agreed by Employer.

4. Services Provided To FiberVisions.

4.1 Employer shall be fully responsible for payment of all payroll, payroll taxes, collection of taxes, unemployment insurance, and other administrative functions customarily performed by an Employer for its employees with regard to Employees while they are performing work for FiberVisions; provided, however, that FiberVisions shall fully and reasonably cooperate with Provider and/or Employees to ensure compliance with applicable German legal requirements (e.g. German source withholding tax, etc.). Employer shall, without regard to payments by FiberVisions, assume such responsibilities as are required by applicable law for payment of wages to Employees' until such employees are terminated from employment with Employer.

4.2 Subject to Employer's reservation of rights under Section 5 hereof, the services of all Employees shall be directed and supervised by, and performed in accordance with, the directives of FiberVisions' representatives or such persons, including officers of FiberVisions to whom FiberVisions has delegated responsibility for such supervision and direction. Without limiting the generality of the foregoing, the Parties agree that on behalf of FiberVisions, Employer (through its employees or agents) shall supervise and coordinate Employees in their performance of [describe primary area(s) of each Employer's activities]. Until further directives are received by Employer, each Employee shall continue to perform the services which such employee was performing immediately prior to the Effective Date.

4.3 Each Party shall designate one or two persons to act as its primary point(s) of contact on the implementation and administration of this Agreement; provided, however, such persons are not authorized to modify the terms of this Agreement.

4.4 Employer shall (A) cause Employees to follow the instructions of FiberVisions, (B) not incur any expenses (whether capital expenditures or otherwise) on behalf of FiberVisions without FiberVisions' prior written consent, but upon such consent Employer shall be reimbursed for all such costs, and (B) shall provide the services of Employees exclusively to FiberVisions during the Initial Term.

5. Reservation of Rights.

In compliance with applicable guidelines, Employer shall, after consultation with FiberVisions:

A. Have a right to recruit, hire, direct and control Employees.

B. Have a right to discipline, replace, and terminate the employment of Employees and designate the date of separation from employment.

C. Have a right to reward, promote, reassign, evaluate and determine the wages, hours, terms and conditions of employment.

D. Have the right to resolve and decide Employee grievances and disputes.

E. Supervise and direct Employees in a reasonable manner consistent with the practices of similar businesses and enterprises.

F. Have such sufficient direction and control over the Employees as is necessary to conduct the Employer's business and without which Employer would be unable to conduct its business, discharge any fiduciary responsibility that it may have, or comply with any applicable licensure, regulatory, or statutory requirement of Employer.

6. Compensation of Employer; Payment.

6.1 FiberVisions shall reimburse the Employer for the following costs incurred in connection with Employees: (i) wages, salaries and benefits (including Employer's pension service cost) consistent with Employer's current personnel policies, procedures and plans or as may be otherwise agreed in writing by Employer and FiberVisions; (ii) statutory benefits such as workers' compensation, social security, and unemployment compensation; (iii) costs incurred in hiring any additional employees hired at the request of FiberVisions and whose services are provided to FiberVisions under this Agreement; (iv) severance costs for employees to whom FiberVisions has offered employment, and (v) applicable value added taxes.

6.2 Employer provided benefit expenses attributable to Employees supplied under this Agreement shall be invoiced in accordance with Employer's actual premium costs (less employee contribution) for Life and Long Term Disability insurance, its accrual rate for Health and Dental coverages, its per capita charges for the employee assistance plans, its vacation accrual for the month(s) services are provided hereunder, its actual costs for short-term disability and severance or dismissal costs incurred during the period of providing services hereunder, its Company contribution expense under its savings, investment and pension plans.

6.3 Employer shall invoice FiberVisions for any amounts FiberVisions owes Employer under this Agreement and may at its option: 1) reduce any amounts Employer owes FiberVisions by the amount so invoiced hereunder, or 2) render invoices monthly for the amount to be reimbursed hereunder, in which case payment shall be due by FiberVisions within thirty (30) days of receipt of invoice. Invoices not paid when due shall bear interest at the prime bank rate in effect from time to time as listed in the then most recent edition of *The Wall Street Journal* newspaper.

7. Indemnification.

7.1 FiberVisions agrees to indemnify, defend and hold harmless Employer, its officers, non-leased employees, directors and agents from and against any and all losses, liabilities, expenses (including court costs and attorneys' fees) and claims for damage of any nature whatsoever, whether known or unknown as though expressly set forth and described herein, which Employer may incur, suffer, become liable for, or which may be asserted or claimed against Employer as a result of the actual or alleged acts, errors or omissions of FiberVisions, or any claims whatsoever arising out of actual or alleged violations of applicable employment and labor laws, all to the extent that such acts, errors, omissions or claims related to Employees, and/or FiberVisions' lease or direction thereof.

7.2 In the event that Employer is required to defend against any claim to which Employer reasonably believes it is entitled to indemnification under this Section, FiberVisions shall advance to Employer any attorneys' fees and litigation expenses related to the defense of such action that have not yet been previously reimbursed by FiberVisions.

7.3 In the event that a Party is required to defend against any claim or prosecute any claim occasioned by the breach or default in any provision of this Agreement to enforce the terms of this Agreement, such Party shall be awarded all reasonable cost pertaining thereto, including reasonable attorneys' fees and costs in addition to any other relief to which such Party may be entitled.

7.4 In no event will a Party be liable for any direct or consequential damages to the other Party as a result of a breach of this Agreement, nor for any loss of profits, business, or goodwill.

8. Invalidity of a Provision.

If any provision of this Agreement (or any portion thereof) shall be held to be invalid, illegal, or unenforceable, the validity, legality or enforceability of the remainder of this Agreement shall not in any way be affected or impaired thereby.

9. No Waiver.

The failure by either Employer or FiberVisions to insist upon strict performance of any of the provisions contained in this Agreement shall in no way constitute a waiver of any of its rights as set forth herein, at law or equity.

10. Termination.

This Agreement may be terminated by either Party if, at any time, (A) the other party breaches any material term of this Agreement, (B) such Party, in its

reasonable discretion, determines that a material adverse change has occurred in the financial condition, the business, or the business prospects of the other Party, or that the other Party is unable to pay its debts as they become due in the ordinary course of business, or (C) in the event of any federal or state legislation, regulatory action, or judicial decision which, in the reasonable discretion of such Party, materially adversely affects its ability to perform under this Agreement. This section is cumulative to all other incidents of termination recited in this Agreement. Upon termination by either Party of this Agreement only standard information in standard form and format will be supplied to FiberVisions by Employer. FiberVisions agrees that Employer has no obligation to supply information outside of its standard services as set forth in this Agreement.

11. Venue and Jurisdiction.

Any action or counterclaim arising out of or related to this Agreement must be brought in [Switzerland]. Each Party hereby irrevocably consents to be subject to the jurisdiction of the courts of Switzerland concerning any case or controversy arising out of or related to the Agreement.

This Agreement shall be governed by and construed under the laws of [Switzerland], regardless of any choice of law provisions of any jurisdiction to the contrary.

12. Disputes Resolution.

12.1 In the event of a dispute, claim or controversy arising out of or relating to this Agreement, the Parties shall attempt to resolve such matter through good faith, friendly discussions and negotiations for a reasonable period of time. If, after such reasonable period of time of no more than three (3) months after written notice by one Party to the other Party regarding the dispute, claim or controversy, no resolution has been agreed upon, then either Party may require that the dispute, controversy or claim shall be referred to and finally determined by arbitration in accordance with the UNCITRAL Arbitration Rules, and administrated by the Zurich Chamber of Commerce. The arbitration tribunal shall consist of three arbitrators. The place of arbitration shall be Zurich, Switzerland. The language to be used in the arbitration proceedings shall be English if permitted under local law.

12.2 Absent a decision by the Swiss Federal Court that the arbitral award has “formal mistakes” or contradicts the “ordre public,” the arbitral award, which shall not include punitive damages, injunctive relief or specific performance, shall be final and binding upon all Parties and shall be enforceable in accordance with its terms in all jurisdictions and may be entered in any court having jurisdiction. The cost of the arbitration shall be borne by the Parties equally, and no allowance for attorneys’ fees shall be awarded. The Parties agree that the award is to be considered as a settlement of the dispute between them and shall accept it as the true expression of their own determination in connection therewith.

13. Miscellaneous.

13.1 In the event that this Agreement is executed in more than one language, the English language version shall control.

13.2 If any Article, section, term, provision, or clause thereof in this Agreement is found or held to be invalid or unenforceable in any jurisdiction in which this Agreement is being performed, the remainder of this Agreement shall be valid and enforceable and the Parties shall negotiate in good faith, a substitute, valid and enforceable provision which most nearly effects the Parties’ intent in entering into this Agreement.

14. Notices.

To be effective, any notice given under this Agreement must be in writing, shall be effective when received, and shall be sent by either (i) certified or registered air mail, postage prepaid, (ii) by fax and confirmed by certified mail, registered mail or overnight courier, (iii) by overnight courier (e.g. FedEx, UPS, Airborne, DHL and others) or (iv) by electronic mail and confirmed by certified mail, registered mail or overnight courier, to the following addresses:

If to FIBERVISIONS:

[Insert Address]
Attention: [Name or Title]
Telephone
Fax
E-mail

With a copy to:
[Insert name and contact information]

If to Employer:

Hercules Italia SpA
[Insert Address]
Attention: [Name or Title]
Telephone
Fax
E-mail

With a copy to:

[Insert name and contact information]

or to such other address as either Party may, in writing, from time to time, give notice to the other Party.

15. Headings.

The headings in the Agreement are intended for convenience or reference and shall not affect its interpretation.

16. Amendments.

This Agreement constitutes the entire Agreement between the Parties with regard to the subject matter and no other agreement, statement, promise or practice between the Parties relating to the subject matter shall be binding on the Parties. This Agreement may be changed pursuant to the terms hereof or by written amendment signed by both parties.

17. No Third Party Beneficiaries.

No rights of any third party are created by this Agreement and no person not a party to this Agreement may rely on any aspect of this Agreement notwithstanding any representation, written or oral, to the contrary.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

[FIBERVISIONS ENTITY]

HERCULES ITALIA SpA

By: _ By: _____

Name Name
Printed: _____ Printed: _____

Title: _ Title: _____

Date: _ Date: _____



EXHIBIT A

[Provide appropriate identifying information (*e.g.* pay status)]

Gianluca Cerruti Prinzi

Mr. Fred G. Aanonsen, Vice President and Controller
Hercules Incorporated
1313 North Market Street
Wilmington, Delaware 19894-0001

Dear Mr. Aanonsen:

As stated in Note 21 to the consolidated financial statements of Hercules Incorporated ("the Company") for the year ended December 31, 2005, the Company changed its valuation method of accounting for certain inventories from last-in, first out ("LIFO") method to the weighted average method and states that the newly adopted accounting principle is preferable in the circumstances because it results in a better reflection of the current value of the inventory in the balance sheet and the new valuation method results in a better matching of revenue and expense in the statement of operations. In connection with our audit of the above mentioned financial statements, we have evaluated the circumstances and the business judgment and planning which formulated your basis to make the change in accounting principle.

It should be understood that criteria have not been established by the Financial Accounting Standards Board for selecting from among the alternative accounting principles that exist in this area. Further, the American Institute of Certified Public Accountants has not established the standards by which an auditor can evaluate the preferability of one accounting principle among a series of alternatives. However, for purposes of the Company's compliance with the requirements of the United States Securities and Exchange Commission, we are furnishing this letter.

Based on our audit, we concur in management's judgment that the newly adopted accounting principle described in Note 21 is preferable in the circumstances. In formulating this position, we are relying on management's business planning and judgment, which we do not find to be unreasonable.

Very truly yours,

/s/ BDO Seidman, LLP
February 24, 2006

PRINCIPAL CONSOLIDATED SUBSIDIARIES AS OF DECEMBER 31, 2005

ArgentinaHercules Argentina S.A.

AustraliaLittle H Pty Ltd.

AustriaHercules Austria GmbH

BahamasHercules International Trade Corporation Limited

Belgium

Hercules Beringen B.V.B.A.

Hercules Doel B.V.B.A.

Hercules Europe B.V.B.A.

Hercules Holding B.V./B.V.B.A.

BermudaCurtis Bay Insurance Co. Ltd.

BrazilHercules do Brasil Produtos Quimicos Ltda.

British Virgin IslandsEver Success Overseas Limited

CanadaHercules Canada Inc.

ChileHercules Chile Limitada

China

FiberVisions (China) Textile Products Ltd.

Hercules Chemicals (Jiangmen) Company Limited

Hercules Trading (Shanghai) Company Ltd.

Shanghai Hercules Chemicals Co., Ltd. ⁽¹⁾

Czech (Republic)Hercules CZ s.r.o.

Denmark

ES FiberVisions ApS

FiberVisions (China) A/S

ES FiberVisions Holding ApS

FiberVisions, A/S

Hercules Investments ApS

Germany

Abieta Chemie GmbH (1)

FiberVisions GmbH

Hercules Deutschland GmbH

Hercules GmbH

Hong Kong

ES FiberVisions Hong Kong Ltd.

Hercules China Limited

IndiaHercules Industrial Chemicals Private Limited

IndonesiaP.T. Hercules Chemicals Indonesia

ItalyHercules Italia S.p.A.

JapanHercules Japan Ltd.

KoreaHercules Korea Chemical Co. Ltd.

LiechtensteinOrgana Trust, Registered

LuxembourgHercules Investments S.a.r.l.

Mexico

Hercules Mexico, S.A. de C.V.

Hercules Services Mexico S.A. de C.V.

The Netherlands

Aqualon France B.V.

Hercules B.V.

Hercules Chemical B.V.

Hercules Holding Specialty Materials B.V.

Hercules International Ltd. LLC

NorwayHercules Norway AS

PeruHercules Peru S.R.L.

Poland

FinlandHercules Finland OY

France

Aqualon France B.V.

Hercules SA

Hercules Polska Sp. z.o.o.

PortugalMisan Portuguesa Lda.

RussiaHercules Russia L.L.C.

SingaporeHercules Chemical Solutions Pte Ltd.

EXHIBIT 21.1

PRINCIPAL CONSOLIDATED SUBSIDIARIES AS OF DECEMBER 31, 2005

South AfricaHercules Chemicals South Africa (Proprietary) Limited

SpainHercules Quimica S.A.

SwedenHercules AB

SwitzerlandHercules International GmbH

TaiwanHercules Chemicals (Taiwan) Co., Ltd.

United Kingdom

Hercules Holding II Ltd.

Hercules Limited

United States

Aqualon Company, Delaware

Athens Holdings Inc., Delaware

Covington Holdings Inc., Delaware

East Bay Realty Services, Inc., Delaware

FiberVisions Incorporated, Delaware

FiberVisions, L.L.C., Delaware

FiberVisions L.P., Delaware

FiberVisions Products, Inc., Georgia

Hercules Country Club, Inc.

Hercules Euro Holdings, L.L.C., Delaware

Hercules Finance Company, Delaware

Hercules Flavor, Inc., Delaware

Hercules Hydrocarbon Holdings, Inc.

Hercules Paper Holdings, Inc.

WSP, Inc., Delaware

Virgin Islands

Ever Success Overseas Limited (British)

Hercules Islands Corporation (U.S.)⁽¹⁾

⁽¹⁾ *This entity is owned in part by Hercules with the remaining interest held by a third party*

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Registration Nos. 333-63423 and 333-29225) and Form S-8 (Registration Nos. 33-37279, 33-21668, 33-21667, 33-47664, 33-51178, 33-66136, 33-65352, 333-38795, 333-38797 and 333-68863) of Hercules Incorporated of our reports dated February 24, 2006, relating to the financial statements, financial statement schedule, and the effectiveness of Hercules Incorporated's internal control over financial reporting which appears in this Form 10-K.

/s/ BDO Seidman, LLP
March 3, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Registration Nos. 333-63423 and 333-29225) and Form S-8 (Registration Nos. 33-37279, 33-21668, 33-21667, 33-47664, 33-51178, 33-66136, 33-62314, 33-65352, 333-38795, 333-38797 and 333-68863) of Hercules Incorporated of our report dated March 16, 2005, except as to the Change in Accounting described in Note 21, which is as of February 17, 2006, relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers, LLP
March 3, 2006

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Craig A. Rogerson, President and Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hercules Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Craig A. Rogerson

Craig A. Rogerson
President and Chief Executive Officer

March 3, 2006

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Allen A. Spizzo, Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hercules Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Allen A. Spizzo

Allen A. Spizzo

Vice President and Chief Financial Officer

March 3, 2006

SECTION 1350 CERTIFICATION

In connection with the Annual Report on Form 10-K of Hercules Incorporated (the "Company") for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Craig A. Rogerson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Craig A. Rogerson

Craig A. Rogerson
President and Chief Executive Officer

March 3, 2006

SECTION 1350 CERTIFICATION

In connection with the Annual Report of Hercules Incorporated (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen A. Spizzo, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Allen A. Spizzo

Allen A. Spizzo
Vice President and Chief Financial Officer

March 3, 2006