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

FORM 10-K

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

For the fiscal year ended December 31, 2001

OR

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

For the transition period from ___to ___
Commission file number 1-6450

GREAT LAKES CHEMICAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**95-1765035**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

500 EAST 96TH STREET, SUITE 500
INDIANAPOLIS, INDIANA 46240

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 317-715-3000

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

TITLE OF EACH CLASS

Common Stock, $1.00 Par Value
Common Stock Purchase Rights

NAME OF EACH EXCHANGE ON WHICH REGISTERED

New York Stock Exchange
Pacific Stock Exchange

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the 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. [ ]

As of March 14, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant was $x,xxx,xxx.

As of March 14, 2002, 50,186,685 shares of the registrant's stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on May 2, 2002, are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

GENERAL

Great Lakes Chemical Corporation is a Delaware corporation incorporated in 1933 having its principal executive offices at 500 East 96th Street, Suite 500, Indianapolis, Indiana 46240. As used in this report, except where otherwise stated or indicated by the context, "Great Lakes" or "the Company" means Great Lakes Chemical Corporation and its consolidated subsidiaries.

Great Lakes is a customer-focused supplier of innovative specialty chemical solutions. The Company serves customers and markets through a global network of integrated sales, production, research, technical service and distribution facilities. The Company is organized into four global business units:

Polymer Additives – The Polymer Additives business unit is a leading developer, producer and marketer of bromine-, phosphorus- and antimony-based flame retardants; value-added antioxidants; UV absorbers; light stabilizers; performance additives and fluids; and optical monomers. These compounds are integrated into customer solutions that resist ignition and ensure the stability of products during processing or while in use.

Performance Chemicals – The Performance Chemicals business unit is a collection of individual businesses that apply their expertise in complex chemical synthesis, process development, manufacturing and toxicological testing to meet highly specific requirements for pharmaceutical, agrochemical and a wide range of industrial chemical applications.

Water Treatment – The Water Treatment business unit is the world's premier formulator of water treatment biocides and related specialty chemicals that make water better. This business unit extends innovative recreational water treatment products across the value chain to mass merchants, wholesale distributors, specialty store owners and retail customers. Its bromine-based biocides and proprietary polymer-based antiscalants and corrosion inhibitors target industrial customers in the global cooling process, wastewater, paper and desalination industries.

Energy Services and Products (OSCA) – OSCA provides specialized oil and gas well completion fluids, completion services and downhole completion tools to major oil companies and independent exploration and production companies, primarily in the Gulf of Mexico and in select international markets. Effective June 15, 2000, OSCA completed an initial public offering of its Class A common stock. As of December 31, 2001, Great Lakes had sold approximately 47% of its ownership in OSCA's outstanding common stock. Great Lakes has retained approximately 92% of the combined voting power of OSCA's outstanding voting stock through its ownership of all of the outstanding Class B shares, which have disproportionate voting rights.

On February 20, 2002, the Company announced that OSCA entered into a definitive merger agreement with BJ Services Company. Under the terms of the agreement, BJ services will acquire all of the outstanding shares of OSCA, including the Company's 53.2% holding, for $28.00 per share in cash.

The Company expects this transaction to close during the second quarter of 2002, subject to regulatory and other customary approvals. This transaction is expected to provide the Company with after-tax proceeds of approximately $200 million in cash, which will reduce the Company's net debt position.

There can be no assurances that the merger will be consummated in accordance with the terms of the merger agreement, if at all.

PRODUCTS AND SERVICES

Following is a list of the Company's principal products and services, markets and production facilities:

POLYMER ADDITIVES

Products and Services	Principal Markets	Production Facilities
Flame Retardants		
Bromine-, phosphorus- and antimony-based flame retardants marketed under the trade names Firemaster®, Fyrebloc®, Kronitex®, Reofos®, Reogard®, Ongard®, Oncor™, Pyrobloc®, Smokebloc® and Timonox®	Consumer electronics, computers and business equipment, automotive, furniture, wire and cable, building and construction materials, textiles and polymers	El Dorado, AR; Newport, TN; Nitro, WV; Reynosa, Mexico; Aycliffe, U.K.; Trafford Park (Manchester), U.K.
Polymer Stabilizers		
Antioxidants, UV absorbers, light stabilizers, optical monomers and patented No Dust Blends (NDB™) marketed under the trade names Alkanox®, Anox™, Anox™ NDB™, Lowilite® and Lowinox®	Fibers, cables, household appliances, communications equipment, computer and business machines, automotive, packaging, textiles, construction, cosmetics and optical lenses	Newport, TN; Pasadena, TX; Catenoy, France; Persan, France; Waldkraiburg, Germany; Pedrengo, Italy; Ravenna, Italy; Pyongtaek, Korea

PERFORMANCE CHEMICALS

Products and Services	Principal Markets	Production Facilities
Agricultural Products		
Methyl bromide	Soil, crop and structural pest control	El Dorado, AR
Bromine Intermediates		
Bromine, bromine derivatives and bromine-based specialty chemicals	Electronics, photographic papers and films, rubber compounds, detergents and pharmaceuticals	El Dorado, AR; Amlwch, U.K.
Fluorine		
Fire extinguishing agent FM-200®, organo-fluorine compounds and fluorinated intermediates	Telecommunications, information technology, electronics, refrigerants and pharmaceuticals	El Dorado, AR
Fine Chemicals		
Specialty and fine chemical intermediates	Pharmaceuticals and agrochemicals	Newport, TN; Konstanz, Germany; Halebank, U.K.; Holywell, U.K.
Toxicological Services		
All phases of nonclinical toxicological testing and bioanalytical services; design of specialized toxicological, metabolic and analytical chemistry programs	Pharmaceutical, chemical and biotechnology industries	Ashland, OH

WATER TREATMENT

Products and Services	Principal Markets	Production Facilities
Recreational		
Water treatment sanitizers AquaBrom®, Aqua Chem®, Aqua Clear®, Bayrol®, BioGuard®, Guardex®, Hydrotech™, Miami, Omni™, Pool Season™, Pool Time®, Spa Guard®, Sun® and Vantage®; algicides, biocides, oxidizers, pH balancers, mineral balancers and specialty chemicals	Pool and spa dealers and distributors, mass market retailers, residential and commercial pools, pool service companies, residential and commercial builders	Conyers, GA; Lake Charles, LA; Adrian, MI; Melbourne, Australia; Toronto, Canada; Mundolsheim, France; Barbera Del Valles, Spain; Kyalami, South Africa; Andoversford, U.K.
BioLab Water Additives		
Antiscalants, biocides, corrosion inhibitors, dispersants, antifoams, hydantoin derivatives, formulated oxidizers and biocide dispensing equipment	Industrial cooling water treatment, industrial and municipal wastewater treatment, municipal desalination, pulp and paper processing, food processing and preservative intermediates	Adrian, MI; El Dorado, AR; Conyers, GA; Trafford Park (Manchester), U.K.

ENERGY SERVICES AND PRODUCTS

Products and Services	Principal Markets	Production Facilities
Completion products and services, reservoir analysis, solids-free fluids, sand control, filtration, downhole tools, stimulation and marine well services marketed under the trade names HyCal™, NoCal™, BrineDril™, InsulGel™, Well Wash™, RheoFlex™, CompSet™ and CompSeal™	Oil and gas industry	Geismer, LA; Mansfield, TX

RAW MATERIALS

The essential raw material for bromine is brine from Company-owned wells in Arkansas and a sea water extraction plant in Europe. The Arkansas properties are located atop the Smackover lime deposits, which constitute a vast underground sea of bromine-rich brine. The 35-mile area between El Dorado and Magnolia, Arkansas, provides the best-known geological location for bromine production in the United States, and both major domestic bromine manufacturers are located in this area. Based on projected production rates, the Company's brine reserves are estimated to be adequate for the foreseeable future.

Other raw materials used in the business are obtained from outside suppliers through purchase agreements. The cost of raw materials is generally based on market prices, although risk management tools may be utilized, as appropriate, to mitigate short-term market price fluctuations. Other raw materials purchased include chlorine, caustic, hexafluoropropene, phenol, bisphenol A and antimony oxide.

The Company has multiple suppliers for most key raw materials and uses quality raw materials management principles, such as the establishment of long-term relationships with suppliers and ongoing performance assessment and benchmarking, as part of the total supplier selection process. In addition, the Company uses electricity and natural gas to meet its energy needs.

INTERNATIONAL OPERATIONS

Great Lakes has a significant presence in foreign markets, principally Western Europe and Asia. Approximately one-third of the Company's assets and sales are outside the United States. The geographic segment data is set forth in Note 15: "Segment Information" of the Notes to Consolidated Financial Statements.

CUSTOMERS AND DISTRIBUTION

During the last three years, no single customer accounted for more than 10% of Great Lakes' total consolidated sales. The Company has no material contracts or subcontracts with government agencies. A major portion of the Company's sales are sold to industrial or commercial businesses for use in the production of other products. Some products, such as recreational water treatment chemicals and supplies, are sold to a large number of retail pool stores, mass merchandisers and distributors. Some export sales are marketed through distributors and brokers.

The Company's business does not normally reflect any material backlog of orders at year-end.

COMPETITION

Great Lakes is in competition with businesses producing the same or similar products, as well as businesses producing products intended for similar use. The only other major producer of bromine and bromine derivatives in the United States competes with the Company in varying degrees, depending on the product. In addition, the Company competes with only one major overseas manufacturer of bromine and brominated products in the United States and elsewhere. Several small producers in the United States and overseas are competitors for several individual products. Furthermore, there are numerous manufacturers that compete with the Company by offering alternatives to Great Lakes products. In Polymer Stabilizers, the Company competes with a significantly larger supplier across the entire product line and with a number of smaller companies in individual product areas. Within Performance Chemicals, the Fluorine business competes with a global manufacturer producing similar products, as well as manufacturers with products intended for similar use. The Company's Water Treatment business competes with several manufacturers and distributors of swimming pool and spa chemicals.

Principal methods of competition are innovation, price, product quality and purity, technical services and the ability to deliver promptly. The Company is able to move quickly in providing new products to meet identified market demands. Management believes these factors, combined with highly qualified technical personnel, allow the Company to compete effectively.

SEASONALITY AND WORKING CAPITAL

The Company's products sold to the agricultural and swimming pool industries exhibit some seasonality, which is reflected in relatively higher sales and profits in the first half of each year. Seasonality also requires that the Company build inventories for rapid delivery at certain times of the year. In particular, the pool product season is strongest during the first six months, requiring a build-up of inventory at the beginning of the year. Except for certain arrangements with distributors and dealers of swimming pool and spa products, customers are not permitted to return unsold material at the end of a season.

The effect of the above items on working capital and liquidity requirements is not material.

RESEARCH AND DEVELOPMENT AND PATENTS

The Company holds various patents and trademarks covering a number of its products and processes. While the Company believes these patents and trademarks offer significant commercial benefits, the Company's management does not believe any individual patent or trademark is of material importance to the Company's business as a whole or that the success of the Company's business is dependent upon its portfolio of patents and trademarks.

Research and development expenditures are described in Note 14: "Research and Development Expenses" of the Notes to Consolidated Financial Statements.

ENVIRONMENTAL

The Company's operations are subject to various laws and regulations relating to maintaining or protecting the quality of the environment. Information regarding environmental compliance and contingencies is set forth under the "Environmental" caption in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 18, "Commitments and Contingencies," of the Notes to Consolidated Financial Statements.

EMPLOYEES

The Company currently employs approximately 5,600 people, 40% of which are employed outside the United States. Approximately 320 employees are represented by collective bargaining agreements. The Company maintains good employee relations and has successfully concluded its most recent labor negotiations without a work stoppage. The Company, however, cannot predict the outcome of future contract negotiations.

ITEM 2. PROPERTIES

The Company leases its principal executive offices in Indianapolis, Indiana, and owns its principal corporate facility in West Lafayette, Indiana. The Company operates 29 production facilities in 11 countries. The Company has distribution facilities at all of its manufacturing sites. Listed under "Item I. Business" above in the table captioned "Products and Services" are the production facilities by business unit. The Company's principal research facilities are in West Lafayette, Indiana; Decatur, Georgia; Lafayette, Louisiana; and Trafford Park (Manchester), U.K. Most principal locations are owned.

In addition, the Company owns or leases warehouses, distribution centers and space for administrative and sales offices throughout the world. All of the Company's facilities are in good repair, suitable for the Company's businesses and have sufficient capacity to meet present market demands at an efficient operating level.

ITEM 3. LEGAL PROCEEDINGS

The Company has been cooperating with the United States Department of Justice (DOJ) and the European Commission since the spring of 1998 in their respective investigations of the bromine and brominated products industry. Both investigations were initiated after the Company self-reported to those agencies certain business practices that raised questions under antitrust laws. As a result of the Company's cooperation, the Company and its current directors and employees have been accepted into the DOJ's amnesty program. The Company will be exempt from United States federal criminal prosecution and fines relating to the practices in question if the Company complies with certain conditions, including its full cooperation with the DOJ's investigation and policy regarding reasonable remedial efforts. Concurrently, the Company is seeking favorable treatment under a program in the European Union that also rewards self-reporting and cooperation.

The Company believes it has fully complied with all applicable conditions to date and has continued to cooperate with the DOJ in connection with certain follow-up matters arising out of the investigation, all of which are covered by the Company's acceptance into the amnesty program. The Company intends to continue full compliance with the DOJ and European Commission programs.

Participation in the above programs does not provide the Company with immunity from civil liability, including restitution claims. To date, 10 federal purported class action lawsuits and five California purported class actions have been filed against the Company, each claiming treble damages. These suits claim, among other things, that the Company conspired with others in violation of antitrust laws regarding the pricing of bromine and brominated products. The federal lawsuits have been consolidated in the District Court for the Southern District of Indiana. The plaintiffs filed a motion to certify a class of purchasers of three particular brominated products, and the Company has opposed the motion. In September 2001, the district court preliminarily certified a litigation class, and the Company promptly filed an application with the U.S. Court of Appeals for the Seventh Circuit in Chicago, requesting an interlocutory review and reversal of the class certification. That appeal was denied and the class was certified. The Company will continue to defend that litigation. The California cases remain stayed pending resolution of the federal cases.

On September 18, 2000, the Company's Energy Services and Products subsidiary, OSCA, was served with notice that a lawsuit was filed against it and other named defendants on September 1, 2000, in the District Court of Harris County, Texas. The action was brought by certain underwriting syndicates of Lloyd's of London who claim to be subrogated to the claim of their insureds, Newfield Exploration Company, Apache Oil Corporation, Continental Land & Fur and Fidelity Oil ("Plaintiffs"). The other defendants include High Pressure Integrity, Inc. and Chalmers, Collins & Alwell, Inc. On September 8, 2000, OSCA filed a lawsuit against the Plaintiffs and the other defendants in the United States District Court, Western District of Louisiana, Lafayette-Opelousas Division. Other actions have also been filed in connection with the same circumstances. All actions have now been consolidated into one proceeding in the United States District Court, Southern District of Texas.

The lawsuits relate to a blowout of a well situated off the shore of Louisiana in the Gulf of Mexico for which OSCA and others were engaged to perform specific workover operations. In the Texas case, Plaintiffs seek damages, interest and other costs in the approximate amount of $21.4 million, alleging that OSCA and the other defendants breached their contracts to perform workover operations and were negligent in performing those operations. OSCA alleges negligence against the Plaintiffs and other defendants and seeks damages, interest, costs and general and equitable relief. OSCA has amended its complaint to include Cardinal Wireline Service, which was performing wireline operations aboard the platform immediately before the blowout. OSCA has also filed a third party demand against its underwriters and insurance broker in support of coverage of claims asserted against OSCA in the Newfield matter.

OSCA has denied that it breached its contract or was negligent and intends to vigorously defend itself and to prosecute the merits of its claims. Mediation in the combined lawsuits is scheduled for March 5, 2002, and a trial date of March 14, 2002, has been set. On February 22, 2002, the court issued preliminary rulings in the case, one of which was partial summary judgment in favor of Newfield and against OSCA on the issue of breach of contract and another ruling was a dismissal of OSCA's claims against Cardinal Wireline Service. The court specifically stated, and OSCA believes, that this ruling is not dispositive as to whether OSCA's actions caused the blowout and therefore is liable for damages to Newfield. Management is unable to predict whether the outcome of the legal actions will have a material adverse effect on the results of operations in any particular period. However, management does not believe that the outcome will have a material adverse effect on the Company's consolidated financial position or liquidity (see Note 19).

West Lafayette Corporation, a wholly owned subsidiary of the Company, is a defendant in a judicial proceeding filed on August 30, 2000, by the State of Illinois in the Circuit Court of Illinois. The State is seeking penalties based on alleged failure to maintain air emission permits required by the State of Illinois and federal law. The Company is currently investigating the issue and has neither agreed to nor denied the allegations. However, the Company's management believes that the liability, if any, associated with such allegations will not have a material adverse effect on the Company.

Various other lawsuits and claims, other than those mentioned above, are pending against the Company and certain of its consolidated subsidiaries. While it is not possible to predict or determine the outcome of legal actions brought against the Company or the ultimate cost of these actions, the Company believes the costs associated with all such actions in the aggregate will not have a material adverse effect on its consolidated financial position, liquidity or results of operations. Furthermore, no director, officer or affiliate of the Company, or any associate of any director or officer is involved, or has a material interest in, any proceeding that could have a material adverse effect on the Company.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2001.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of Great Lakes Chemical Corporation is traded on the New York Stock Exchange (the "NYSE") under the symbol GLK. The following table sets forth the quarterly dividends paid per share and the ranges of high and low market prices per share on the NYSE for the last two fiscal years, based upon information supplied by the NYSE.

2001	March 31	June 30	September 30	December 31
Cash dividends paid per share	**$ 0.08**	**$ 0.08**	**$ 0.08**	**$ 0.08**
Stock Price Data				
High	**$37.63**	**$34.75**	**$32.01**	**$25.12**
Low	**29.40**	**29.85**	**20.00**	**20.61**
Year-end close				**24.28**

2000	March 31	June 30	September 30	December 31
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Stock Price Data				
High	$40.44	$35.81	$33.94	$39.19
Low	26.75	26.50	26.56	28.13
Year-end close				37.19

As of March 14, 2002, there were approximately X,XXX stockholders of record of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

(millions, except per share data) Years Ended December 31,	**2001**	2000	1999	1998	1997
Statement of Operations Data					
Net sales	**$1,594.7**	$1,670.5	$1,500.3	$1,435.7	$1,350.4
Operating income (loss) before special charges	**(10.2)**	203.6	180.3	190.4	191.6
Operating income (loss)[1]	**(277.3)**	140.2	162.1	73.9	141.8
Income (loss) from continuing operations before income taxes	**(356.9)**	164.9	175.4	66.2	117.2
Income taxes (credit)	**(67.4)**	37.9	35.8	9.8	45.4
Effective income tax rate	**(18.9)%**	23.0%	20.4%	14.8%	38.7%
Net income (loss) from continuing operations	**$ (289.5)**	$ 127.0	$ 139.6	$ 56.4	$ 71.8
Net income (loss) from discontinued operations	**—**	—	—	32.6	(14.9)
Total net income (loss)	**$ (289.5)**	$ 127.0	$ 139.6	$ 89.0	$ 56.9
Percent of average stockholders' equity	**(37.2)%**	13.1%	13.6%	7.5%	4.1%
Balance Sheet Data – Year-End					
Working capital (excluding cash and cash equivalents)	**$ 157.1**	$ 400.3	$ 378.0	$ 237.4	$ 290.5
Current ratio	**1.5**	2.6	3.8	2.9	2.2
Capital expenditures	**$ 166.2**	$ 157.0	$ 119.0	$ 160.6	$ 133.0
Total assets	**1,687.6**	2,134.4	2,261.0	2,004.6	2,270.4
Debt (net of cash and cash equivalents)	**467.4**	471.5	411.1	108.3	492.9
Debt	**539.0**	694.2	889.4	519.9	566.6
Percent of total capitalization	**46.8%**	42.2%	46.2%	31.9%	29.1%
Stockholders' equity	**$ 613.5**	$ 949.7	$ 994.1	$1,054.3	$1,307.4
Per share	**12.22**	18.88	18.24	18.05	22.18
Share Data					
Basic earnings (loss) per share					
Continuing operations	**$ (5.76)**	$ 2.42	$ 2.42	$ 0.96	$ 1.20
Discontinued operations	**—**	—	—	0.55	(0.25)
Total	**$ (5.76)**	$ 2.42	$ 2.42	$ 1.51	$ 0.95
Diluted earnings (loss) per share					
Continuing operations	**$ (5.76)**	$ 2.42	$ 2.41	$ 0.95	$ 1.19
Discontinued operations	—	—	—	0.55	(0.25)
Total	**$ (5.76)**	$ 2.42	$ 2.41	$ 1.50	$ 0.94
Cash dividends per share					
Declared during year	**$ 0.32**	$ 0.32	$ 0.32	$ 0.40	$ 0.63
Paid during year	**0.32**	0.32	0.32	0.48	0.62
Payout as a percent of net income (loss)	**(5.6)%**	13.2%	13.2%	26.5%	66.3%
Shares outstanding (basic)					
Average during year	**50.3**	52.4	57.8	59.0	60.0
At year-end	**50.2**	50.3	54.5	58.4	59.0
Stock price[2]					
At year-end	**$ 24.28**	$ 37.19	$ 38.19	$ 40.00	$ 44.88

(1) After special charges of $267.1 million, $63.4 million, $18.2 million, $116.5 million and $49.8 million in 2001, 2000, 1999, 1998 and 1997, respectively.

(2) Stock prices prior to May 22, 1998, do not reflect the Octel spin-off.

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

The following provides a review of the consolidated financial position of Great Lakes at December 31, 2001 and 2000, the consolidated results of operations for the three years ended December 31, 2001, and where appropriate, factors that may affect future financial performance. Please read this discussion in conjunction with the accompanying consolidated financial statements, notes and selected financial data.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Great Lakes Chemical Corporation is including the following cautionary statement to make applicable and take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 with respect to any forward-looking statement made by, or on behalf of, the Company. Forward-looking statements generally may be identified by words such as "believes," "expects," "intends," "may," "will likely result," "estimates," "anticipates," "should" and other similar expressions, or the negative of such words or expressions. The factors identified in this cautionary statement are important factors (but do not necessarily constitute all important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, the Company cautions that, while it believes such assumptions or bases to be reasonable and makes them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances. Where, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished.

Taking into account the foregoing, certain factors, including but not limited to, those listed below may cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

- Economic factors over which the Company has no control, including changes in inflation, tax rates, interest rates and foreign currency exchange rates.
- Competitive factors such as pricing pressures on key products and the cost and availability of key raw materials.
- Governmental factors including laws and regulations and judicial decisions related to the production or use of key products such as bromine and bromine derivatives.
- The difficulties and uncertainties inherent in new product development. New product candidates that appear promising in development may fail to reach the market because of safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringements of the patents or intellectual property rights of others.
- Legal factors, including unanticipated litigation of product liability claims, antitrust litigation, environmental matters or patent disputes with competitors, which could preclude commercialization of products or negatively affect the profitability of existing products.
- Inability to obtain existing levels of product liability insurance or denial of insurance coverage following a major product liability claim.
- Changes in tax laws, including future changes in tax laws related to the remittance of foreign earnings, or investments in foreign countries with favorable tax rates.
- Changes in accounting standards promulgated by the Financial Accounting Standards Board; the Securities and Exchange Commission; or the American Institute of Certified Public Accountants, which are adverse to the Company.
- Internal factors such as changes in business strategies and the impact of cost control efforts and business combinations.
- Loss of brine leases or inability to produce the bromide ion in required quantities due to depletion of resources or other causes beyond the Company's control.

ACCOUNTING POLICIES INVOLVING SIGNIFICANT ESTIMATES

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. See Note 1 to Great Lakes' audited consolidated financial statements included elsewhere in this document for a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements. The Company believes the following are some of the more critical judgment areas in the application of accounting policies that currently affect the Company's consolidated financial condition and results of operations.

GENERAL

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant estimates and assumptions relate to inventories, special charges, impairment of goodwill and intangible assets, income taxes, pensions and contingencies related to litigation and environmental matters. Actual amounts could differ significantly from these estimates.

INVENTORIES

The Company is required to state inventories at the lower of cost or market. In assessing the ultimate realization of inventories, the Company is required to make judgments as to future demand requirements and pricing and compare that with the current or committed inventory levels. Great Lakes recorded write-downs of inventory totaling $43.8 million in 2001 due to changes in strategic direction, such as discontinuing certain product lines, changes in market conditions, customer demand and unmarketable inventory. If future market conditions are less favorable than those predicted by management, additional inventory write-downs may be required.

SPECIAL CHARGES

The Company recorded special charges before reversals of $272.1 million, $66.4 million and $25.4 million in 2001, 2000 and 1999, respectively. These charges were in connection with detailed repositioning and restructuring plans that provided for a series of cost reduction initiatives to further streamline operations, strengthen the Company’s competitive position and provide a platform for future growth. The charges associated with these plans included estimates for amounts related to asset impairments, employee severance costs, plant closures and related environmental costs, and the settlement of various contractual obligations resulting from repositioning and restructuring actions. Although the Company does not anticipate significant changes to these estimates, the actual costs may differ. When it is determinable that the actual costs differ from the original estimates, adjustments, either additional charges or reversals, are made to the remaining special charge reserves at that time.

IMPAIRMENT OF LONG-LIVED AND INTANGIBLE ASSETS

The Company periodically evaluates long-lived assets, goodwill and other intangible assets for potential impairment indicators. Judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of the Company’s businesses. If impairment indicators are present, the Company is required to assess the recoverability of these assets. In assessing the recoverability of the Company’s long-lived assets, goodwill and other intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record additional impairment charges for these assets. Based upon assessments performed during 2001, the Company recorded $212.1 million of asset impairments including $128.8 million of impairment losses related to goodwill.

INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes,” which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

At December 31, 2001, the Company had deferred tax assets in excess of deferred tax liabilities of $65.1 million. At December 31, 2001 and 2000, management determined that it is more likely than not that $49.4 million and $12.2 million, respectively, of certain deferred tax assets will not be realized, requiring the Company to establish a valuation allowance for those amounts.

Each quarter, the Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The likelihood of realization is assessed by using the Company’s forecast of future taxable income and available tax planning strategies that could be implemented to support realization of certain deferred tax assets.

Failure to achieve forecasted taxable income might affect the ultimate realization of certain deferred tax assets. Factors that may affect the Company’s ability to achieve sufficient forecasted taxable income include, but are not limited to, increased competition, general economic conditions, a decline in sales or earnings, loss of market share or delays in product availability.

In addition, the Company operates within multiple taxing jurisdictions and is subject to audits in these jurisdictions. These audits can involve complex issues that may require an extended period of time for resolution. In management’s opinion adequate provisions for income taxes have been made.

PENSIONS

The Company sponsors various defined benefit pension plans that have significant pension benefit costs developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates, expected return on plan assets and rates of compensation increases. The Company is required to consider current market conditions, including changes in interest rates and plan asset investment returns, in determining these assumptions. At December 31, 2001, appropriate changes were made in the interest rate and rate of compensation increase assumptions for all plans. The Company currently expects pension costs to increase in 2002 by approximately $4 million to $5 million compared to 2001.

CONTINGENCIES

The Company is subject to legal proceedings, lawsuits and other claims related to environmental, labor, product and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes related to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after careful analysis of each individual issue. At December 31, 2001, the Company had accrued $12.4 million and $59.1 million related to litigation and environmental liabilities, respectively, that management considers probable and for which a reasonable estimate of the liability can be made. These accruals may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy, in dealing with these matters.

RESULTS OF OPERATIONS

The following table sets forth the percentage relationship to net sales of certain income statement items for the Company's operations:

Years Ended December 31	**2001**	2000	1999
Net sales	**100.0%**	100.0%	100.0%
Cost of products sold	**84.0**	72.5	71.8
Gross profit	**16.0**	27.5	28.2
Selling, general and administrative expenses	**16.7**	15.3	16.2
Operating contribution	**(0.7)**	12.2	12.0
Special charges	**(16.7)**	3.8	1.2
Operating income (loss)	**(17.4)**	8.4	10.8
Gain on sale of subsidiary stock	**0.6**	3.6	—
Interest income (expense) - net	**(2.1)**	(2.0)	(0.6)
Other income (expense) - net	**(3.5)**	(0.2)	1.5
Income (loss) before income taxes	**(22.4)**	9.8	11.7
Income taxes (credit)	**(4.2)**	2.2	2.4
Net income (loss)	**(18.2)%**	7.6%	9.3%

2001 COMPARED WITH 2000

Net sales decreased 4.5% to $1,594.7 million from $1,670.5 million in the prior year. Volume growth in the Water Treatment business unit, which includes the effects of the acquisition of Aqua Clear LLC (Aqua Clear) in July 2000, and strong volume combined with moderate price increases in the Energy Services and Products (OSCA) business unit were offset by slowing end markets and lower selling prices in the Polymer Additives and Performance Chemicals business units. Additionally, unfavorable foreign exchange impacted all business units.

Gross profit margins decreased to 16.0% from 27.5% in the prior year. Excluding special charges, inventory write-downs and other charges (see Note 2) gross margins decreased to 21.3%. The adverse effects of price and volume decreases in the Polymer Additives business unit, efforts to reduce inventory levels across all business units and volume decreases in the Performance Chemicals business unit contributed to the decrease. Increased volume and a favorable product mix in the Energy Services and Products business unit partially offset the decrease.

Selling, general and administrative expenses increased $10.0 million to $266.1 million. As a percent of sales, selling, general and administrative expenses increased from 15.3% to 16.5%, excluding other charges of $3.3 million (see Note 2). This increase reflects higher sales and marketing costs in the Water Treatment business unit, including the impact of the Aqua Clear acquisition, and increased information technology and legal expenses partially offset by several cost containment efforts undertaken by the Company.

Special charges of $267.1 million reflects $272.1 million of charges recorded during 2001 for a series of cost reduction initiatives undertaken by the Company, offset by $3.7 million of reversals of special charges taken in the second quarter of 2001 and $1.3 million of special charges taken in 2000. The net of the 2001 special charges and reversals is reflected in the consolidated statement of operations as a separate component of operating income.