

ALBEMARLE CORP  
Form 10-Q  
October 25, 2011  
Table of Contents

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

**FORM 10-Q**

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

For Quarterly Period Ended September 30, 2011

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 1-12658

**ALBEMARLE CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: ALBEMARLE CORP - Form 10-Q

**VIRGINIA**  
(State or other jurisdiction of  
incorporation or organization)  
**451 FLORIDA STREET**  
**BATON ROUGE, LOUISIANA**  
(Address of principal executive offices)  
**54-1692118**  
(I.R.S. Employer  
Identification No.)  
**70801**  
(Zip Code)  
**Registrant's telephone number, including area code - (225) 388-8011**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock, \$.01 par value, outstanding as of October 19, 2011: 88,761,049

**Table of Contents**

**ALBEMARLE CORPORATION**

**INDEX FORM 10-Q**

	<b>Page Number(s)</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income – Three Months and Nine Months Ended September 30, 2011 and 2010</u>	3
<u>Condensed Consolidated Balance Sheets – September 30, 2011 and December 31, 2010</u>	4
<u>Consolidated Statements of Changes in Equity – Nine Months Ended September 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2011 and 2010</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7-16
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17-33
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	34
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 6. <u>Exhibits</u>	35
<b><u>SIGNATURES</u></b>	36
<b><u>EXHIBITS</u></b>	

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited).****ALBEMARLE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(In Thousands, Except Per Share Amounts)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 722,977	\$ 585,036	\$ 2,161,615	\$ 1,757,789
Cost of goods sold	464,965	388,213	1,418,638	1,208,328
Gross profit	258,012	196,823	742,977	549,461
Selling, general and administrative expenses	77,169	61,924	233,115	195,319
Research and development expenses	20,534	14,336	58,096	43,722
Restructuring and other charges				6,958
Operating profit	160,309	120,563	451,766	303,462
Interest and financing expenses	(9,710)	(6,139)	(28,576)	(18,059)
Other income, net	956	1,303	534	1,584
Income before income taxes and equity in net income of unconsolidated investments	151,555	115,727	423,724	286,987
Income tax expense	38,097	27,886	100,423	68,917
Income before equity in net income of unconsolidated investments	113,458	87,841	323,301	218,070
Equity in net income of unconsolidated investments (net of tax)	9,500	9,179	37,118	29,950
Net income	122,958	97,020	360,419	248,020
Net income attributable to noncontrolling interests	(6,860)	(3,331)	(23,582)	(9,272)
Net income attributable to Albemarle Corporation	\$ 116,098	\$ 93,689	\$ 336,837	\$ 238,748
Basic earnings per share	\$ 1.29	\$ 1.03	\$ 3.70	\$ 2.61
Diluted earnings per share	\$ 1.28	\$ 1.02	\$ 3.66	\$ 2.59
Weighted-average common shares outstanding basic	89,935	91,312	91,094	91,335
Weighted-average common shares outstanding diluted	90,958	92,082	92,090	92,129
Cash dividends declared per share of common stock	\$ 0.165	\$ 0.14	\$ 0.495	\$ 0.42

See accompanying Notes to the Condensed Consolidated Financial Statements.



**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands)****(Unaudited)**

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 481,258	\$ 529,650
Trade accounts receivable, less allowance for doubtful accounts (2011 \$3,819; 2010 \$2,527)	394,159	340,888
Other accounts receivable	45,788	33,772
Inventories	474,787	389,210
Other current assets	53,362	54,678
<b>Total current assets</b>	<b>1,449,354</b>	<b>1,348,198</b>
Property, plant and equipment, at cost	2,570,256	2,440,178
Less accumulated depreciation and amortization	1,479,359	1,433,865
<b>Net property, plant and equipment</b>	<b>1,090,897</b>	<b>1,006,313</b>
Investments	201,051	180,690
Other assets	112,178	125,878
Goodwill	281,404	272,238
Other intangibles, net of amortization	134,171	134,764
<b>Total assets</b>	<b>\$ 3,269,055</b>	<b>\$ 3,068,081</b>
<b>Liabilities And Equity</b>		
Current liabilities:		
Accounts payable	\$ 192,924	\$ 175,183
Accrued expenses	161,506	143,684
Current portion of long-term debt	12,795	8,983
Dividends payable	14,353	12,547
Income taxes payable	20,816	23,780
<b>Total current liabilities</b>	<b>402,394</b>	<b>364,177</b>
Long-term debt	878,384	851,927
Postretirement benefits	54,560	55,014
Pension benefits	53,341	102,836
Other noncurrent liabilities	96,705	108,811
Deferred income taxes	113,048	109,570
Commitments and contingencies (Note 8)		
Equity:		
Albemarle Corporation shareholders' equity:		
Common stock, \$.01 par value, issued and outstanding 88,756 in 2011 and 91,594 in 2010	888	916
Additional paid-in capital	3,245	18,835
Accumulated other comprehensive loss	(130,782)	(164,196)
Retained earnings	1,714,220	1,560,519

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Total Albemarle Corporation shareholders' equity	1,587,571	1,416,074
Noncontrolling interests	83,052	59,672
Total equity	1,670,623	1,475,746
<b>Total liabilities and equity</b>	<b>\$ 3,269,055</b>	<b>\$ 3,068,081</b>

See accompanying Notes to the Condensed Consolidated Financial Statements.

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(Unaudited)**

(In Thousands, Except Share Data)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Albemarle Shareholders Equity	Non-controlling Interests	Total Equity
	Shares	Amounts						
<b>Balance at January 1, 2011</b>	<b>91,593,984</b>	<b>\$ 916</b>	<b>\$ 18,835</b>	<b>\$ (164,196)</b>	<b>\$ 1,560,519</b>	<b>\$ 1,416,074</b>	<b>\$ 59,672</b>	<b>\$ 1,475,746</b>
Comprehensive income (loss):								
Net income					336,837	336,837	23,582	360,419
Foreign currency translation, net of tax of \$3,788				24,382		24,382	(202)	24,180
Pension and postretirement benefits, net of tax of \$(5,090)				8,905		8,905		8,905
Other, net of tax of \$(77)				127		127		127
<b>Total comprehensive income</b>				<b>33,414</b>	<b>336,837</b>	<b>370,251</b>	<b>23,380</b>	<b>393,631</b>
Cash dividends declared					(44,904)	(44,904)		(44,904)
Stock-based compensation and other			19,581			19,581		19,581
Exercise of stock options	87,350	1	1,102			1,103		1,103
Shares repurchased and retired	(3,000,000)	(30)	(39,870)		(138,232)	(178,132)		(178,132)
Tax benefit related to stock plans			5,923			5,923		5,923
Issuance of common stock, net	113,713	1	(1)					
Shares withheld for withholding taxes associated with common stock issuances	(38,676)		(2,325)			(2,325)		(2,325)
<b>Balance at September 30, 2011</b>	<b>88,756,371</b>	<b>\$ 888</b>	<b>\$ 3,245</b>	<b>\$ (130,782)</b>	<b>\$ 1,714,220</b>	<b>\$ 1,587,571</b>	<b>\$ 83,052</b>	<b>\$ 1,670,623</b>
<b>Balance at January 1, 2010</b>	<b>91,509,099</b>	<b>\$ 915</b>	<b>\$ 8,658</b>	<b>\$ (91,860)</b>	<b>\$ 1,287,983</b>	<b>\$ 1,205,696</b>	<b>\$ 47,622</b>	<b>\$ 1,253,318</b>
Comprehensive income (loss):								
Net income					238,748	238,748	9,272	248,020
Foreign currency translation, net of tax of \$(5,683)				(35,714)		(35,714)		(35,714)
Pension and postretirement benefits, net of tax of \$(5,596)				9,742		9,742		9,742
Other, net of tax of \$(37)				66		66		66
<b>Total comprehensive (loss) income</b>				<b>(25,906)</b>	<b>238,748</b>	<b>212,842</b>	<b>9,272</b>	<b>222,114</b>
Deconsolidation of Stannica LLC							(8,121)	(8,121)
Cumulative dividend adjustment on JBC noncontrolling interest							8,017	8,017
Cash dividends declared					(38,362)	(38,362)	(1,484)	(39,846)
Stock-based compensation and other			12,549			12,549		12,549
Exercise of stock options	352,559	4	4,675			4,679		4,679
Shares repurchased and retired	(400,356)	(4)	(14,941)			(14,945)		(14,945)
Tax benefit related to stock plans			4,182			4,182		4,182



Edgar Filing: ALBEMARLE CORP - Form 10-Q

Issuance of common stock, net	76,864	1	(1)					
Shares withheld for withholding taxes associated with common stock issuances	(89,619)	(2)	(3,904)			(3,906)		(3,906)
<b>Balance at September 30, 2010</b>	<b>91,448,547</b>	<b>\$ 914</b>	<b>\$ 11,218</b>	<b>\$ (117,766)</b>	<b>\$ 1,488,369</b>	<b>\$ 1,382,735</b>	<b>\$ 55,306</b>	<b>\$ 1,438,041</b>

See accompanying Notes to the Condensed Consolidated Financial Statements.

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Cash and cash equivalents at beginning of year	\$ 529,650	\$ 308,791
Cash flows from operating activities:		
Net income	360,419	248,020
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	71,926	71,486
Restructuring and other charges		6,958
Stock-based compensation	19,365	11,465
Excess tax benefits realized from stock-based compensation arrangements	(5,923)	(4,182)
Equity in net income of unconsolidated investments (net of tax)	(37,118)	(29,950)
Working capital changes	(110,408)	(50,503)
Dividends received from unconsolidated investments and nonmarketable securities	18,722	11,919
Pension and postretirement expense	20,551	15,974
Pension and postretirement contributions	(57,555)	(27,139)
Unrealized gain on investments in marketable securities	(636)	(89)
Deferred income taxes	14,653	24,391
Other, net	(8,529)	(2,618)
<b>Net cash provided by operating activities</b>	<b>285,467</b>	<b>275,732</b>
Cash flows from investing activities:		
Capital expenditures	(127,111)	(50,006)
Cash impact from deconsolidation of Stannica LLC, net		(13,074)
Cash payments related to acquisitions and other	(11,045)	(7,048)
Cash proceeds from divestitures		8,600
Sales of marketable securities, net	1,629	938
Investments in equity and other corporate investments	(10,868)	(5)
<b>Net cash used in investing activities</b>	<b>(147,395)</b>	<b>(60,595)</b>
Cash flows from financing activities:		
Repayments of long-term debt	(105,076)	(109,346)
Proceeds from borrowings	132,859	58,710
Dividends paid to shareholders	(43,098)	(36,883)
Repurchases of common stock	(178,132)	(14,945)
Proceeds from exercise of stock options	1,103	4,679
Excess tax benefits realized from stock-based compensation arrangements	5,923	4,182
Withholding taxes paid on stock-based compensation award distributions	(2,325)	(3,905)
Debt financing costs	(2,727)	
<b>Net cash used in financing activities</b>	<b>(191,473)</b>	<b>(97,508)</b>

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Net effect of foreign exchange on cash and cash equivalents	5,009	(1,747)
(Decrease) increase in cash and cash equivalents	(48,392)	115,882
Cash and cash equivalents at end of period	\$ 481,258	\$ 424,673

See accompanying Notes to the Condensed Consolidated Financial Statements.

**Table of Contents**

**ALBEMARLE CORPORATION AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**NOTE 1 Basis of Presentation:**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Albemarle Corporation and our wholly-owned, majority-owned and controlled subsidiaries (collectively, Albemarle, we, us, our, or the Company ) contain all adjustments necessary for a fair statement, in all material respects, of our condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, our consolidated statements of income for the three-month and nine-month periods ended September 30, 2011 and 2010 and our condensed consolidated statements of cash flows and consolidated statements of changes in equity for the nine-month periods ended September 30, 2011 and 2010. All adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the Securities and Exchange Commission, or the SEC, on February 25, 2011. The December 31, 2010 consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles, or GAAP, in the United States, or the U.S. The results of operations for the three-month and nine-month periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the accompanying consolidated financial statements and the notes thereto to conform to the current presentation.

**NOTE 2 Foreign Exchange:**

Our consolidated statements of income include foreign exchange transaction gains (losses) of \$0.3 million and \$(1.8) million for the three- and nine-month periods ended September 30, 2011, respectively, and \$0.8 million and \$0.7 million for the three- and nine-month periods ended September 30, 2010, respectively.

**NOTE 3 Income Taxes:**

The effective income tax rate for the three- and nine-month periods ended September 30, 2011 was 25.1% and 23.7%, respectively, compared to 24.1% and 24.0% for the three- and nine-month periods ended September 30, 2010, respectively. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the 2011 and 2010 periods is mainly due to the impact of earnings from outside the U.S.

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 Earnings Per Share:**

Basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2011 and 2010 are calculated as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands, except per share amounts)</b>			
<b>Basic earnings per share</b>				
Numerator:				
Net income attributable to Albemarle Corporation	\$ 116,098	\$ 93,689	\$ 336,837	\$ 238,748
Denominator:				
Weighted-average common shares for basic earnings per share	89,935	91,312	91,094	91,335
Basic earnings per share	\$ 1.29	\$ 1.03	\$ 3.70	\$ 2.61
<b>Diluted earnings per share</b>				
Numerator:				
Net income attributable to Albemarle Corporation	\$ 116,098	\$ 93,689	\$ 336,837	\$ 238,748
Denominator:				
Weighted-average common shares for basic earnings per share	89,935	91,312	91,094	91,335
Incremental shares under stock compensation plans	1,023	770	996	794
Total shares	90,958	92,082	92,090	92,129
Diluted earnings per share	\$ 1.28	\$ 1.02	\$ 3.66	\$ 2.59

On October 13, 2011, the Company increased the regular quarterly dividend by 6% to \$0.175 per share and declared a cash dividend of said amount for the fourth quarter of 2011, which is payable on January 1, 2012 to shareholders of record at the close of business as of December 15, 2011.

During the three and nine months ended September 30, 2011, we repurchased 3.0 million shares of our common stock for \$178.1 million pursuant to the terms of our share repurchase program.

**NOTE 5 Inventories:**

The following table provides a breakdown of inventories at September 30, 2011 and December 31, 2010:

Edgar Filing: ALBEMARLE CORP - Form 10-Q

	September 30, 2011	December 31, 2010
	(In thousands)	
Finished goods	\$ 336,739	\$ 279,365
Raw materials	92,742	66,645
Stores, supplies and other	45,306	43,200
 Total inventories	 \$ 474,787	 \$ 389,210

**NOTE 6 Investments:**

During the nine months ended September 30, 2011, we made approximately \$10.9 million in capital contributions to our 50% owned joint venture Saudi Organometallic Chemicals Company (SOCC).

Effective January 1, 2010, we entered into a new operating agreement relating to our heretofore consolidated joint venture Stannica LLC and divested ten percent of our interest in the venture to our partner for proceeds of approximately \$2.1 million (of which \$1.6 million in cash was received in the first quarter of 2010 and the remainder was collected in the third quarter of 2010), reducing our ownership to fifty percent. We determined that the joint venture was a variable interest entity but that we were not the primary beneficiary of the venture arrangement; accordingly, we deconsolidated our investment in this venture. We recorded a gain of approximately \$1.1 million on the transaction (included in consolidated gross profit), an \$8.1 million reduction in noncontrolling interests and \$20.4 million reduction in other consolidated net assets comprised of \$14.7 million in cash plus other net working capital. Our retained equity investment in the joint venture was recorded at its

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

fair value of \$11.3 million (giving rise to the gain amount noted above) and is reported in Investments in our condensed consolidated balance sheet. To estimate the fair value of our investment, we used an income approach based on a discounted cash flow model which incorporated estimates and assumptions supported mainly by unobservable inputs, including pricing and volume data, anticipated growth rates, profitability levels, inflation factors, tax and discount rates. Our maximum exposure to loss in connection with our continuing involvement with Stannica LLC is limited to our investment carrying value. Starting in the first quarter of 2010, the earnings associated with our investment in Stannica LLC were reported in Equity in net income of unconsolidated investments in our consolidated statement of income in our Catalysts segment. Prior to this transaction, Stannica LLC was included in our Polymer Solutions segment. The carrying value of our investment in Stannica LLC was \$7.9 million and \$10.2 million at September 30, 2011 and December 31, 2010, respectively.

**NOTE 7 Long-Term Debt:**

Long-term debt at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Variable-rate domestic bank loans	\$ 120,000	\$
5.10% Senior notes, net of unamortized discount of \$112 at September 30, 2011 and \$137 at December 31, 2010	324,888	324,863
4.50% Senior notes, net of unamortized discount of \$2,893 at September 30, 2011 and \$3,128 at December 31, 2010	347,107	346,872
Fixed rate foreign borrowings	27,336	33,223
Capital lease obligation	4,026	5,873
Variable-rate foreign bank loans	67,341	149,520
Miscellaneous	481	559
Total long-term debt	891,179	860,910
Less amounts due within one year	12,795	8,983
Long-term debt, less current portion	\$ 878,384	\$ 851,927

In September 2011, we amended and restated our previous \$675.0 million credit facility. The amended and restated five-year, revolving, unsecured credit facility (hereinafter referred to as the September 2011 credit agreement) matures on September 22, 2016 and (i) increased the borrowing capacity to \$750.0 million from \$675.0 million; (ii) provides for an additional \$250.0 million in credit, if needed, subject to the terms of the agreement; (iii) provides for the ability to extend the maturity date under certain conditions; (iv) eliminated the covenant that required a minimum level of consolidated tangible domestic assets; and (v) increased the interest rate spread and commitment fees applicable to the Company's borrowings under the credit facility. Fees and expenses of \$2.7 million were incurred and paid in connection with this new agreement. Borrowings bear interest at variable rates based on the London Inter-Bank Offered Rate ( LIBOR ) for deposits in the relevant currency plus an applicable margin which ranges from 0.900% to 1.400%, depending on the Company's credit rating applicable from time to time. The margin on the facility was 0.975% and the interest rate was 1.25% as of September 30, 2011. As of September 30, 2011, \$120.0 million of borrowings were outstanding under the September 2011 credit agreement.

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 8 Commitments and Contingencies:**

We had the following activity in our recorded environmental liabilities for the nine months ended September 30, 2011, as follows (in thousands):

Beginning balance at December 31, 2010	\$ 13,806
Expenditures	(876)
Changes in estimates and other	(320)
Foreign currency translation	342
Ending balance at September 30, 2011	12,952
Less amounts reported in Accrued expenses	1,013
Amounts reported in Other noncurrent liabilities	\$ 11,939

The amounts recorded represent our future remediation and other anticipated environmental liabilities. Approximately 70% of our recorded liability is related to the closure and post-closure activities at a former landfill associated with our Bergheim, Germany site, which was recorded at the time of our acquisition of this site in 2001. This closure project has been approved under the authority of the governmental permit for this site and is scheduled for completion in 2017, with post-closure monitoring to occur for 30 years thereafter. The remainder of our recorded liability is associated with sites that are being evaluated under governmental authority but for which final remediation plans have not yet been approved. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of these remediation liabilities, management estimates (based on the latest available information) that there is a reasonable possibility that future environmental remediation costs associated with our past operations, in excess of amounts already recorded, could be up to approximately \$16.8 million before income taxes.

In connection with the remediation activities at our Bergheim, Germany site as required by the German environmental authorities, we have pledged certain of our land and housing facilities at this site with a recorded value of \$6.0 million.

We believe that any sum we may be required to pay in connection with environmental remediation matters in excess of the amounts recorded should occur over a period of time and should not have a material adverse effect upon our results of operations, financial condition or cash flows on a consolidated annual basis, although any such sum could have a material adverse impact on our results of operations, financial condition or cash flows in a particular quarterly reporting period.

On July 3, 2006, we received a Notice of Violation, or the 2006 NOV, from the U.S. Environmental Protection Agency Region 4, or EPA, regarding the implementation of the Pharmaceutical Maximum Achievable Control Technology standards at our plant in Orangeburg, South Carolina. The alleged violations include (i) the applicability of the specific regulations to certain intermediates manufactured at the plant, (ii) failure to comply with certain reporting requirements, (iii) improper evaluation and testing to properly implement the regulations and (iv) the sufficiency of the leak detection and repair program at the plant. In the second quarter of 2011, the Company was served with a complaint by the EPA in the United States District Court for the District of South Carolina, based on the alleged violations set out in the 2006 NOV seeking civil penalties and injunctive relief. The complaint was subsequently amended to add the State of South Carolina as a plaintiff. We intend to vigorously defend this action. Any settlement or finding adverse to us could result in the payment by us of fines, penalties, capital expenditures, or some combination thereof. At this time, it is not possible to predict with any certainty the outcome of this litigation or the financial impact which may result therefrom. However, we do not expect any financial impact to have a material adverse effect on the Company's results of



## Edgar Filing: ALBEMARLE CORP - Form 10-Q

operations, financial condition or cash flows.

In addition, we are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks.

We have contracts with certain of our customers, which serve as guarantees on product delivery and performance according to customer specifications that can cover both shipments on an individual basis as well as blanket coverage of multiple shipments under customer supply contracts that are executed through certain financial institutions. The financial coverage provided by these guarantees is typically based on a percentage of net sales value.

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 9 Operating Segments:**

Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

Summarized financial information concerning our reportable segments is shown in the following table. Corporate & other includes corporate-related items not allocated to the reportable segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
(In thousands)				
<b>Net sales:</b>				
Polymer Solutions	\$ 243,931	\$ 231,847	\$ 792,604	\$ 683,789
Catalysts	299,531	214,785	827,339	658,438
Fine Chemistry	179,515	138,404	541,672	415,562
<b>Total net sales</b>	<b>\$ 722,977</b>	<b>\$ 585,036</b>	<b>\$ 2,161,615</b>	<b>\$ 1,757,789</b>
<b>Segment operating profit:</b>				
Polymer Solutions	\$ 55,219	\$ 58,699	\$ 203,900	\$ 145,193
Catalysts	93,682	61,721	209,251	167,056
Fine Chemistry	34,793	17,799	111,387	50,251
<b>Total segment operating profit</b>	<b>183,694</b>	<b>138,219</b>	<b>524,538</b>	<b>362,500</b>
<b>Equity in net income of unconsolidated investments:</b>				
Polymer Solutions	1,357	2,040	6,496	6,859
Catalysts	8,170	7,166	30,796	23,173
Fine Chemistry				
Corporate & Other	(27)	(27)	(174)	(82)
<b>Total equity in net income of unconsolidated investments</b>	<b>9,500</b>	<b>9,179</b>	<b>37,118</b>	<b>29,950</b>
<b>Net income attributable to noncontrolling interests:</b>				
Polymer Solutions	(2,021)	(2,235)	(9,200)	(4,749)
Catalysts				
Fine Chemistry	(4,789)	(1,291)	(14,439)	(4,443)
Corporate & Other	(50)	195	57	(80)
<b>Total net income attributable to noncontrolling interests</b>	<b>(6,860)</b>	<b>(3,331)</b>	<b>(23,582)</b>	<b>(9,272)</b>

Edgar Filing: ALBEMARLE CORP - Form 10-Q

<b>Segment income:</b>				
Polymer Solutions	54,555	58,504	201,196	147,303
Catalysts	101,852	68,887	240,047	190,229
Fine Chemistry	30,004	16,508	96,948	45,808
<b>Total segment income</b>	<b>186,411</b>	<b>143,899</b>	<b>538,191</b>	<b>383,340</b>
Corporate & other	(23,462)	(17,488)	(72,889)	(52,242)
Restructuring and other charges <sup>(1)</sup>				(6,958)
Interest and financing expenses	(9,710)	(6,139)	(28,576)	(18,059)
Other income, net	956	1,303	534	1,584
Income tax expense	(38,097)	(27,886)	(100,423)	(68,917)
<b>Net income attributable to Albemarle Corporation</b>	<b>\$ 116,098</b>	<b>\$ 93,689</b>	<b>\$ 336,837</b>	<b>\$ 238,748</b>

- (1) The nine-month period ended September 30, 2010 included charges amounting to \$6,958 (\$4,593 after income taxes) associated with restructuring costs related to reductions in force at our Bergheim, Germany site.

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 10 Pension Plans and Other Postretirement Benefits:**

The following information is provided for domestic and foreign pension and postretirement defined benefit plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>(In thousands)</b>				
<b>Net Periodic Pension Benefit Cost (Credit):</b>				
Service cost	\$ 3,242	\$ 2,802	\$ 9,677	\$ 8,443
Interest cost	8,252	7,942	24,713	23,875
Expected return on assets	(12,152)	(10,397)	(36,438)	(31,200)
Amortization of net transition asset		(2)		(7)
Amortization of prior service benefit	(238)	(247)	(714)	(740)
Amortization of net loss	6,562	4,338	19,669	13,050
Total net periodic pension benefit cost	\$ 5,666	\$ 4,436	\$ 16,907	\$ 13,421
<b>Net Periodic Postretirement Benefit Cost (Credit):</b>				
Service cost	\$ 65	\$ 95	\$ 197	\$ 286
Interest cost	848	891	2,545	2,673
Expected return on assets	(127)	(132)	(382)	(395)
Amortization of prior service benefit	(174)	(426)	(523)	(1,278)
Amortization of net loss	602	423	1,807	1,267
Total net periodic postretirement benefit cost	\$ 1,214	\$ 851	\$ 3,644	\$ 2,553
Total net periodic pension and postretirement benefit cost	\$ 6,880	\$ 5,287	\$ 20,551	\$ 15,974

We have made contributions of \$1.1 million and \$54.7 million to our qualified and nonqualified pension plans during the three-month and nine-month periods ended September 30, 2011, respectively. Also, we made \$2.5 million and \$24.6 million in contributions to our qualified and nonqualified pension plans during the three-month and nine-month periods ended September 30, 2010, respectively.

We paid approximately \$0.7 million and \$2.8 million in premiums to the U.S. postretirement benefit plan during the three-month and nine-month periods ended September 30, 2011, respectively. Also, we paid approximately \$1.1 million and \$2.5 million in premiums to the U.S. postretirement benefit plan during the three-month and nine-month periods ended September 30, 2010, respectively.

**NOTE 11 Fair Value of Financial Instruments:**

In assessing the fair value of financial instruments, we use methods and assumptions that are based on market conditions and other risk factors existing at the time of assessment. Fair value information for our financial instruments is as follows:

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

Cash and Cash Equivalents, Trade and Other Accounts Receivables and Accounts Payable The carrying value approximates fair value due to their short-term nature.

Long-Term Debt The carrying value of long-term debt reported in the accompanying consolidated balance sheets, with the exception of the 4.50% and 5.10% senior notes and the foreign currency denominated debt at Jordan Bromine Company Limited, approximates fair value as substantially all of the long-term debt bears interest based on prevailing variable market rates currently available in the countries in which we have borrowings.

	September 30, 2011		December 31, 2010	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Long-term debt	\$ 891,179	\$ 950,074	\$ 860,910	\$ 879,511

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

**Foreign Currency Forward Contracts** We enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. These derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At September 30, 2011 and December 31, 2010, we had outstanding foreign currency forward contracts with notional values totaling \$194.8 million and \$375.4 million, respectively. At September 30, 2011, \$0.1 million was included in Other accounts receivable and \$0.9 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts. At December 31, 2010, we had balances of \$0.5 million and \$5.4 million in Other accounts receivable and Accrued expenses, respectively, associated with the fair value of our foreign currency forward contracts.

Gains and losses on foreign currency forward contracts are recognized currently in income; however, fluctuations in the value of these contracts are generally offset by the changes in the value of the underlying exposures being hedged. For the three- and nine-month periods ended September 30, 2011, we recognized a loss of \$1.6 million and a gain of \$4.1 million, respectively, in Other income, net in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. For the three- and nine-month periods ended September 30, 2010, we recognized gains of \$4.6 million and \$2.2 million, respectively, in Other income, net in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. These amounts are substantially offset by changes in the value of the underlying exposures being hedged which are also reported in Other income, net. Also, for the nine months ended September 30, 2011, we recorded \$(4.1) million related to the change in the fair value of our foreign currency forward contracts and \$0.1 million of cash settlements in Other, net in our consolidated statement of cash flows. For the nine months ended September 30, 2010, we recorded \$(2.2) million related to the change in the fair value of our foreign currency forward contracts and \$(1.3) million of cash settlements in Other, net in our consolidated statement of cash flows.

**NOTE 12 Fair Value Measurement:**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3 Unobservable inputs for the asset or liability

**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
<b>Assets:</b>			
Investments under executive deferred compensation plan <sup>(a)</sup>	\$ 16,772	\$ 16,772	\$
Equity securities <sup>(b)</sup>	\$ 19	\$ 19	\$
Foreign currency forward contracts <sup>(c)</sup>	\$ 78	\$	\$ 78
<b>Liabilities:</b>			
Obligations under executive deferred compensation plan <sup>(a)</sup>	\$ 16,772	\$ 16,772	\$
Foreign currency forward contracts <sup>(c)</sup>	867		867
	December 31, 2010	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
<b>Assets:</b>			
Investments under executive deferred compensation plan <sup>(a)</sup>	\$ 17,763	\$ 17,763	\$
Equity securities <sup>(b)</sup>	\$ 29	\$ 29	\$
Foreign currency forward contracts <sup>(c)</sup>	\$ 540	\$	\$ 540
<b>Liabilities:</b>			
Obligations under executive deferred compensation plan <sup>(a)</sup>	\$ 17,763	\$ 17,763	\$
Foreign currency forward contracts <sup>(c)</sup>	\$ 5,413	\$	\$ 5,413

<sup>(a)</sup> We maintain an Executive Deferred Compensation Plan, or the Plan, that was adopted in 2001 and subsequently amended. The purpose of the Plan is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The Plan is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust, or the Trust, that was created to provide a source of funds to assist in meeting the obligations of the Plan, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statements of income) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.

<sup>(b)</sup> Our investments in equity securities are classified as available-for-sale and are reported in Investments in the consolidated balance sheets. The changes in fair value are reported in Other within Comprehensive income (loss) in our statements of changes in equity. These securities are classified within Level 1.

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

- (c) As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, we minimize our risks from interest and foreign currency exchange rate fluctuations through the use of derivative financial instruments. The foreign currency forward contracts are valued using broker quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.



**Table of Contents****ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 13 Restructuring and Other Charges:**

We had the following activity in our recorded workforce reduction liabilities for the nine months ended September 30, 2011 (in thousands):

Beginning balance at December 31, 2010	\$ 7,074
Workforce reduction charges	1,787
Payments	(2,632)
Foreign currency translation	293
Ending balance at September 30, 2011	6,522
Less amounts reported in Accrued expenses	3,648
Amounts reported in Other noncurrent liabilities	\$ 2,874

During the three-month and nine-month periods ended September 30, 2011, we recorded approximately \$0.8 million and \$1.8 million, respectively, in charges related to restructuring programs at various manufacturing locations. Payments under these programs are expected to occur within the next 12 months. The nine-month period ended September 30, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) associated with restructuring costs related to planned reductions in force at our Bergheim, Germany site. Payments under this restructuring plan are expected to occur through 2014.

**NOTE 14 Recently Issued Accounting Pronouncements:**

In October 2009, the FASB issued new accounting guidance relating to separating consideration in multiple-deliverable revenue arrangements. Under this guidance, multiple-deliverable arrangements will be accounted for separately (rather than on a combined basis) by selecting the best evidence of selling price among vendor-specific objective evidence, third-party evidence or estimated selling price. This new guidance, effective for fiscal years beginning on or after June 15, 2010, did not have a material effect on our consolidated financial statements.

In January 2010, new accounting guidance was issued by the FASB that requires additional disclosures about amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons therefor. Additionally, entities are now required to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable (Level 3) inputs. The amendments also clarified that entities should provide fair value measurement disclosures for each class, or subset, of assets or liabilities within a line item in the statement of financial position, and entities should disclose information about inputs and valuation techniques for Level 2 and Level 3 fair value measurements, whether recurring or nonrecurring. These amendments were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation of fair value measurements using Level 3 inputs, which were effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The provisions of this guidance did not have a have a material effect on our consolidated financial statements.

In December 2010, the Financial Accounting Standards Board, or FASB, amended its accounting guidance related to the disclosure of pro forma information for business combinations. Under the amended guidance, a public entity that presents comparative financial statements must disclose the revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the prior annual reporting period. The amendments also require public entities to provide a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to business combination(s) that are included in the reported pro forma revenue and earnings. These amendments became effective for us on January 1, 2011 and did not have a material impact on our consolidated financial statements.

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

In May 2011, the FASB issued additional authoritative guidance relating to fair value measurement and disclosure requirements. For fair value measurements categorized in Level 3 of the fair value hierarchy, the new guidance requires (1) disclosure of quantitative information about unobservable inputs; (2) a description of the valuation processes used by the entity; and (3) a qualitative discussion about the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. Entities must report the level in the fair value hierarchy of assets and liabilities that are not recorded at fair value in the statement of financial position but for which fair value is disclosed. The new requirements clarify that the concepts of *highest and best use* and *valuation premise* only apply to

**Table of Contents**

**ALBEMARLE CORPORATION AND SUBSIDIARIES**

**Notes to the Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

measuring the fair value of nonfinancial assets. The new requirements also specify that in the absence of a Level 1 input, a reporting entity should incorporate a premium or a discount in a fair value measurement if a market participant would take into account such an input in pricing an asset or liability. Additionally, the new guidance introduces an option to measure certain financial assets and financial liabilities with offsetting positions on a net basis if certain criteria are met. For public entities, these new requirements become effective for interim and annual periods beginning after December 15, 2011. We are assessing the impact of these new requirements on our financial statements.

In June 2011, the FASB issued new accounting guidance which eliminates the current option to present other comprehensive income and its components in the statement of changes in equity. However, under the new guidance, comprehensive income and its components must still be presented under one of two new alternatives. Under the first alternative, the components of other comprehensive income and the components of net income may be presented in one continuous statement referred to as the statement of comprehensive income. Under the second alternative, a statement of other comprehensive income would immediately follow the statement of net income and must be shown with equal prominence as the other primary financial statements. Under either alternative, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. For public entities, these new requirements will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively to all prior periods presented. We do not expect this new guidance to have a material effect on our consolidated financial statements.

In September 2011, the FASB issued new accounting guidance intended to simplify how entities test goodwill for impairment. The new guidance gives entities the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test under existing accounting guidance is required to be performed. Otherwise, no further testing is required. These new provisions are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, early adoption is permitted in certain circumstances. We do not expect this new guidance to have a material effect on our consolidated financial statements.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following is a discussion and analysis of our financial condition and results of operations since December 31, 2010. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading "Financial Condition and Liquidity" on page 30.

***Forward-looking Statements***

Some of the information presented in this Quarterly Report on Form 10-Q, including the documents incorporated by reference, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on our current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. We have used words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" and similar expressions to identify such forward-looking statements.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, there can be no assurance that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

changes in economic and business conditions;

changes in financial and operating performance of our major customers and industries and markets served by us;

the timing of orders received from customers;

the gain or loss of significant customers;

competition from other manufacturers;

changes in the demand for our products;

limitations or prohibitions on the manufacture and sale of our products;

availability of raw materials;

changes in the cost of raw materials and energy, and our inability to pass through such increases;

acquisitions and divestitures, and changes in performance of acquired companies;

changes in our markets in general;

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

fluctuations in foreign currencies;

changes in laws and government regulation of our operations or our products;

the occurrence of claims or litigation;

the occurrence of natural disasters;

the inability to maintain current levels of product or premises liability insurance or the denial of such coverage;

political unrest affecting the global economy, including adverse effects from terrorism or hostilities;

political instability affecting our manufacturing operations or joint ventures;

changes in accounting standards;

the inability to achieve results from our global manufacturing cost reduction initiatives as well as our ongoing continuous improvement and rationalization programs;

changes in jurisdictional mix of our earnings and changes in tax laws and rates;

changes in monetary policies or inflation or interest rates which may impact our ability to raise capital or increase our cost of funds, performance of our pension fund investments and increase our pension expense and funding obligations;

## **Table of Contents**

volatility and substantial uncertainties in the debt and equity markets;

technology or intellectual property infringement; and

the other factors detailed from time to time in the reports we file with the SEC.

We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws. The following discussion should be read together with our consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

### ***Overview***

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals for consumer electronics, petroleum refining, utilities, packaging, construction, automotive/transportation, pharmaceuticals, crop protection, food-safety and custom chemistry services. We are committed to global sustainability and are advancing responsible eco-practices and solutions in our three business segments. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

### ***Third Quarter 2011***

During the third quarter of 2011:

We achieved quarterly earnings of \$1.28 per share (on a diluted basis), up 25 percent over third quarter 2010 results.

Our net sales for the quarter were \$723.0 million, up 24 percent from net sales of \$585.0 million in the third quarter of 2010.

We had improved top-line performance year-over-year, led by net sales and income growth in our Catalysts segment as well as strong year-over-year performance in our Fine Chemistry segment, offset in part by some demand-softening seen in Polymer Solutions.

We held a groundbreaking ceremony with SABIC to initiate the construction of the new aluminum alkyls manufacturing facility in Jubail, Saudi Arabia in connection with our SOCC joint venture.

We announced the formation of our new Environmental division with the opening of a new environmental research and development facility in Baton Rouge, LA. Our Environmental division is part of our Fine Chemistry segment and will provide environmental control solutions to the coal-fired utility, cement kiln and industrial boiler markets through the development of multi-pollutant control technologies.

Our board of directors declared a quarterly dividend of \$0.165 per share on July 12, 2011, payable on October 1, 2011 to shareholders of record at the close of business as of September 15, 2011.

### ***Outlook***

During the first nine months of 2011, we have seen strong performance in the global markets that we serve. Our businesses have been well positioned and we continue to invest to capitalize on opportunities in those markets that continue to bring new demand.

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

Over the course of the third quarter of 2011, we began to see expected signs of volume softness affecting mainly our Polymer Solutions segment versus what we had seen in the first half of 2011. We are closely monitoring customer order patterns and other performance trends in our businesses overall and the markets which they serve in light of current uncertainties in the global economy. While we expect some typical slower year end order patterns in some of our businesses in the fourth quarter, we believe our businesses are fundamentally strong and that our second half 2011 should be similar to the first half of the year and position us for another successful year in 2012.

**Polymer Solutions:** Our pricing programs combined with favorable impacts from foreign currency have resulted in strong year-over-year financial performance through the first nine months of 2011, especially in our fire safety business. Successful implementation of our pricing initiatives has helped offset raw material inflation as well as fund further investment in new products and technologies. During the third quarter of 2011, we began to see signs of softening demand in our fire safety business (largely in mineral flame retardants) which we believe is attributable to end market order patterns in response to the current uncertainties in the global economy. While we expect some typical seasonal contraction and volume softening in the fourth quarter, we are closely

**Table of Contents**

monitoring customer order patterns in this business for indications of sustaining slow growth. However, we believe our business fundamentals in this sector remain strong, and combined with our competitive cost position and overall operating discipline, we believe we will be in a position to manage through any potential sustained slow growth trends in the markets this business serves.

On a long-term basis, we continue to believe improving global standards of living, coupled with the potential for increasingly stringent fire-safety regulations and global climate initiatives, should drive continued long-term demand for fire safety products. Further, we continue to focus on globalization in this segment, with our presence in China expected to be in position to grow with the capacity of our antioxidants facility in Shanghai. Also, our phosphorous-based flame-retardant production capability at our Nanjing site is well positioned to serve the Asia Pacific construction and electronics markets.

Greenarmor™, the first Earthwise™ product from our Polymer Solutions segment, is expected to be commercially available in 2011. The Earthwise™ portfolio, comprised of products that serve the polymers industry and which are greatly enhanced in both end market performance and environmental responsibility, is expected to grow to include products from other business units and segments of Albemarle.

**Catalysts:** Higher pricing to counter significant raw material price increases, favorable impacts from overall improved volumes and stronger year-over-year results from our equity joint ventures have driven net sales and earnings growth in our Catalysts segment in the first nine months of 2011. Increased global demand for petroleum products, generally deteriorating quality of crude oil feedstock and implementation of more stringent fuel quality requirements are expected to drive growth in our refinery catalyst business. We expect growth in our polyolefin catalysts division to come from growing global demand for plastics, particularly in Asia and the Middle East. Our fluidized catalytic cracking, or FCC, refinery catalysts business has seen significant price increases in rare earth materials due to recent Chinese export quotas. Our steps to maintain sufficient security of supply for the foreseeable future, as well as cost pass-through mechanisms that have been implemented, are helping us sustain current profitability levels for this business in the current year.

New market penetrations and introduction of innovative cost-effective products for the refining and polyolefins industries have contributed to the segment's performance in 2011. We believe our focus on advanced product development in Catalysts is achieving commercial success, and we have introduced new value-added refining solutions and technologies that enable refiners to increase yields, a critical advantage for refiners. Our marketing and research groups are tightly aligned, enabling us to continue to bring innovative technologies to the market. Additionally, we expect to continue exploring new alternative fuel opportunities by partnering with leading renewable fuels technology developers who can benefit from Albemarle's catalysis expertise. We recently expanded our presence in the biofuels market with the acquisition of Catilin, Inc., announced on May 11, 2011. Catilin is a technology leader in the development and application of heterogeneous biodiesel catalysis whose technology and products will further strengthen our offerings for the renewable fuels market.

We expect to leverage our existing positions in the Middle East, Asia and Brazil, along with our joint ventures, to capitalize on growth opportunities and further develop our leading position in those emerging markets. Our joint venture in Saudi Arabia with SABIC, expected to be operational in 2012, positions us to lead in the key Middle East developing region and the fast growing Middle East polyolefins market. Construction at our recently acquired Yeosu, South Korea site is progressing well, where existing assets have allowed us to rapidly develop research and small-scale production facilities, adding immediate value to the metallocene polyolefin and high brightness LED regional markets. Intermediate commercial operations at the site began in 2011, with the commercial facility expected to be fully operational in 2012, to meet regional growth in metallocene polyolefins and trimethyl gallium (TMG) markets for high brightness LED. Additionally, we are finalizing project scope and design elements for our new Brazilian hydroprocessing catalysts investment with Petrobras. This project, to be operated within our FCC SA joint venture, remains on track for start-up in the beginning of 2014.

**Fine Chemistry:** Our Fine Chemistry segment continues to benefit from the rapid pace of innovation and the introduction of new products, coupled with the movement by companies to outsource certain research, product development and manufacturing functions. We believe we can sustain healthy margins with continued focus on the two strategic areas in our Fine Chemistry segment—maximizing our bromine franchise value in the performance chemicals sector and continued growth of our fine chemistry services business.

In our performance chemicals sector, we have seen strong growth in the first nine months of 2011 as demand across our bromine franchise expanded, with new applications widening the breadth of use of our bromine and bromine derivatives and global supply remaining tight. Our completion fluids business has regained traction during the first nine months of 2011 and we expect this trend to continue through the end of the year as global drilling activity continues to operate at significantly higher levels than in the prior year. Additionally, we are encouraged by long-term drivers in the U.S. and China for our mercury control business. We are positioned to



## Table of Contents

provide these markets with sensible, sustainable solutions to meet new regulatory demands, including emission prevention and control directives for coal-fueled power plants in the U.S. and China and waste reduction initiatives in the cement production industry in connection with the new Cement-MACT mercury emission standard. In response to the emerging opportunities in this market, during third quarter 2011 we formed our new Environmental division. This division will function within our Fine Chemistry segment and will provide environmental control solutions to the coal-fired utility, cement kiln and industrial boiler markets through the development of multi-pollutant control technologies.

We are focused on profitably growing our globally competitive bromine and derivatives production network to serve all major bromine consuming products and markets. We believe the global supply/demand gap will continue to tighten as demand for existing and new uses of bromine expand and global supply remains tight. We are positioned to expand capacity as needed at our low-cost production facilities.

Our fine chemistry services product pipeline is strong and opportunities are expanding. Our pharmaceutical and crop protection businesses continue to deliver solid results. We expect product development opportunities to continue, such as partnering with ExxonMobil Corporation to make a specialty lubricant and with pharmaceutical developers like SIGA Technologies in their manufacture of the ST-246 smallpox drug. Also, in the third quarter of 2011 we announced our agreement to provide customer scale-up and production services for synthetic, renewable base oils for the lubricants market to Novvi S.A., a joint venture between Amyris, Inc. and Cosan S.A. Indústria e Comércio focused on the development, production, marketing and distribution of high-performance renewable base oils.

Our technical expertise, manufacturing capabilities and speed to market allow us to develop preferred outsourcing positions serving leading chemical and pharmaceutical innovators in diverse industries. We believe we will continue to generate growth in profitable niche products leveraged from this service business.

**Corporate and Other:** We continue to focus on cash generation, working capital management and process efficiencies. We expect our global effective tax rate for 2011 to be 23.7%, however our rate will vary based on the locales in which income is actually earned.

The strong performance of our businesses has enabled us to announce two dividend increases in 2011. In the first quarter of 2011 we increased our quarterly dividend payout to 16.5 cents per share, followed by another increase to 17.5 cents per share on October 13, 2011 to shareholders of record at the close of business on December 15, 2011.

During the third quarter of 2011, we repurchased 3.0 million shares of our common stock for approximately \$178 million under our existing share repurchase program, and we may periodically repurchase shares in the future on an opportunistic basis.

On September 22, 2011, we amended and restated our previous \$675.0 million credit facility. Under the terms of the amended and restated five-year, revolving, unsecured credit facility, we have the ability to borrow \$750.0 million (with an option for another \$250 million under the terms of the agreement), which we believe will give us continuing liquidity for both our short-term and long-term operating needs.

We remain committed to evaluating the merits of any opportunities that may arise for acquisitions or other business development activities that will complement our business footprint. Additional information regarding our products, markets and financial performance is provided at our web site, [www.albemarle.com](http://www.albemarle.com). Our web site is not a part of this document nor is it incorporated herein by reference.

**Table of Contents****Results of Operations**

The following data and discussion provides an analysis of certain significant factors affecting our results of operations during the periods included in the accompanying consolidated statements of income.

*Third Quarter 2011 Compared to Third Quarter 2010*

**Selected Financial Data (Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(In thousands, except percentages and per share amounts)</b>		
<b>NET SALES</b>	\$ 722,977	\$ 585,036	24%
Cost of goods sold	464,965	388,213	20%
<b>GROSS PROFIT</b>	258,012	196,823	31%
<b>GROSS PROFIT MARGIN</b>	35.7%	33.6%	
Selling, general and administrative expenses	77,169	61,924	25%
Research and development expenses	20,534	14,336	43%
<b>OPERATING PROFIT</b>	160,309	120,563	33%
<b>OPERATING PROFIT MARGIN</b>	22.2%	20.6%	
Interest and financing expenses	(9,710)	(6,139)	58%
Other income, net	956	1,303	(27)%
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	151,555	115,727	31%
Income tax expense	38,097	27,886	37%
Effective tax rate	25.1%	24.1%	
<b>INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	113,458	87,841	29%
Equity in net income of unconsolidated investments (net of tax)	9,500	9,179	3%
<b>NET INCOME</b>	122,958	97,020	27%
Net income attributable to noncontrolling interests	(6,860)	(3,331)	106%
<b>NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION</b>	\$ 116,098	\$ 93,689	24%
<b>PERCENTAGE OF NET SALES</b>	16.1%	16.0%	
Basic earnings per share	\$ 1.29	\$ 1.03	25%
Diluted earnings per share	\$ 1.28	\$ 1.02	25%

*Net Sales*

For the three-month period ended September 30, 2011, we recorded net sales of \$723.0 million, a 24% increase compared to net sales of \$585.0 million for the three-month period ended September 30, 2010. This increase was due primarily to favorable pricing in all segments as well as favorable impacts of foreign currency. Overall our pricing was favorable 19%, while impacts from foreign currency (mainly the stronger Euro) had a favorable impact on our net sales of 4%. Volume impacts were also favorable 1%.

Polymer Solutions net sales increased \$12.1 million, or 5%, for the three-month period ended September 30, 2011 compared to the same period in 2010, due mainly to favorable impacts from pricing of 15% and foreign currency of 4%, partly offset by impacts of lower volumes of 14%. Catalysts net sales increased \$84.7 million, or 39%, for the three-month period ended September 30, 2011, compared to the same period last year due mainly to an increase in pricing contributing 26%, as well as favorable volume impacts of 9% and foreign currency of 4%. Fine Chemistry net sales increased \$41.1 million, or 30%, for the three-month period ended September 30, 2011 as compared to the same period last year, primarily due to favorable price impacts of 15% and higher volumes contributing 12% of the increase. Foreign currency also favorably impacted Fine Chemistry's net sales by 3% during the third quarter of 2011 versus the corresponding period in 2010. For a detailed discussion of revenues and segment income for each segment, see Segment Information Overview below.

---

## **Table of Contents**

### *Gross Profit*

For the three-month period ended September 30, 2011, our gross profit increased \$61.2 million, or 31%, from the corresponding 2010 period due mainly to favorable pricing across our segments and net favorable impacts from foreign currency (mainly the stronger Euro), partly offset mainly by higher variable input costs (mainly raw materials) and increases in manufacturing spending. Overall, these factors contributed to our improved gross profit margin for the three-month period ended September 30, 2011 of 35.7%, up from 33.6% for the corresponding period in 2010.

### *Selling, General and Administrative Expenses*

For the three-month period ended September 30, 2011, our selling, general and administrative, or SG&A, expenses increased \$15.2 million, or 25%, from the three-month period ended September 30, 2010. This increase was primarily due to higher personnel-related costs as well as unfavorable foreign currency impacts primarily from the stronger Euro. As a percentage of net sales, SG&A expenses were 10.7% for the three-month period ended September 30, 2011, roughly flat compared to 10.6% for the corresponding period in 2010.

### *Research and Development Expenses*

For the three-month period ended September 30, 2011, our research and development, or R&D, expenses increased \$6.2 million, or 43%, from the three-month period ended September 30, 2010 due mainly to higher department spending as well as unfavorable foreign currency impacts from the stronger Euro. As a percentage of net sales, R&D expenses were 2.8% for the three-month period ended September 30, 2011, compared to 2.5% for the corresponding period in 2010.

### *Interest and Financing Expenses*

Interest and financing expenses for the three-month period ended September 30, 2011 increased \$3.6 million to \$9.7 million from the corresponding 2010 period due mainly to higher average interest rates on our outstanding borrowings.

### *Other Income, Net*

Other income, net for the three-month period ended September 30, 2011 was \$1.0 million versus \$1.3 million for the corresponding 2010 period. This change was due primarily to comparatively unfavorable results on our foreign exchange gains and losses and other miscellaneous income items, partly offset by higher interest income versus the corresponding period in 2010.

### *Income Tax Expense*

The effective income tax rate for the third quarter of 2011 was 25.1% compared to 24.1% for the third quarter of 2010. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the three-month periods ended September 30, 2011 and 2010 is mainly due to the impact of earnings from outside the U.S. Based on our current level and location of income, we expect our effective tax rate to be 23.7% for the year 2011.

### *Equity in Net Income of Unconsolidated Investments*

Equity in net income of unconsolidated investments was \$9.5 million for the three-month period ended September 30, 2011 compared to \$9.2 million in the same period last year. This increase was due primarily to improved results in our Catalysts segment joint ventures Fábrica Carioca de Catalisadores SA, or FCC SA, and Eurecat SA, partly offset by comparably unfavorable results from our Magnifin investment in our Polymer Solutions segment.

### *Net Income Attributable to Noncontrolling Interests*

For the three-month period ended September 30, 2011, net income attributable to noncontrolling interests was \$6.9 million compared to \$3.3 million in the same period last year. This increase was due primarily to improved volumes and profitability from our consolidated joint venture Jordan Bromine Company Limited, or JBC, based on higher demand for the products in our bromine and derivatives portfolio.



**Table of Contents***Net Income Attributable to Albemarle Corporation*

Net income attributable to Albemarle Corporation was \$116.1 million for the three-month period ended September 30, 2011, up from \$93.7 million in the three-month period ended September 30, 2010. This increase was primarily due to favorable pricing impacts, net favorable impacts from foreign currency and favorable equity in net income of unconsolidated investments. These favorable impacts were partly offset primarily by higher variable input costs, higher manufacturing and SG&A and R&D spending, higher interest and financing expenses, higher income taxes and higher net income attributable to noncontrolling interests.

**Segment Information Overview.** We have identified three reportable segments as required by current accounting guidance. Our Polymer Solutions segment is comprised of the flame retardants and stabilizers and curatives product areas. Our Catalysts segment is comprised of the refinery catalysts and polyolefin catalysts product areas. Our Fine Chemistry segment is comprised of the performance chemicals and fine chemistry services and intermediates product areas. Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

	Three Months Ended September 30,				Percentage Change 2011 vs. 2010
	2011	% of net sales (In thousands, except percentages)	2010	% of net sales	
<b>Net sales:</b>					
Polymer Solutions	\$ 243,931	33.8%	\$ 231,847	39.6%	5%
Catalysts	299,531	41.4%	214,785	36.7%	39%
Fine Chemistry	179,515	24.8%	138,404	23.7%	30%
Total net sales	\$ 722,977	100.0%	\$ 585,036	100.0%	24%
<b>Segment operating profit:</b>					
Polymer Solutions	\$ 55,219	22.6%	\$ 58,699	25.3%	(6)%
Catalysts	93,682	31.3%	61,721	28.7%	52%
Fine Chemistry	34,793	19.4%	17,799	12.9%	95%
Total segment operating profit	183,694		138,219		33%
<b>Equity in net income of unconsolidated investments:</b>					
Polymer Solutions	1,357		2,040		(33)%
Catalysts	8,170		7,166		14%
Fine Chemistry					%
Corporate & other	(27)		(27)		%
Total equity in net income of unconsolidated investments	9,500		9,179		3%
<b>Net income attributable to noncontrolling interests:</b>					
Polymer Solutions	(2,021)		(2,235)		(10)%
Catalysts					%
Fine Chemistry	(4,789)		(1,291)		271%
Corporate & other	(50)		195		(126)%
Total net income attributable to noncontrolling interests	(6,860)		(3,331)		106%

**Segment income:**

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Polymer Solutions	54,555	22.4%	58,504	25.2%	(7)%
Catalysts	101,852	34.0%	68,887	32.1%	48%
Fine Chemistry	30,004	16.7%	16,508	11.9%	82%
<b>Total segment income</b>	<b>186,411</b>		<b>143,899</b>		<b>30%</b>
Corporate & other	(23,462)		(17,488)		34%
Interest and financing expenses	(9,710)		(6,139)		58%
Other income, net	956		1,303		(27)%
Income tax expense	(38,097)		(27,886)		37%
<b>Net income attributable to Albemarle Corporation</b>	<b>\$ 116,098</b>		<b>\$ 93,689</b>		<b>24%</b>

**Table of Contents**

Our segment information includes measures we refer to as segment operating profit and segment income which are financial measures that are not required by, or presented in accordance with, accounting principles generally accepted in the United States ( GAAP ). The Company has reported segment operating profit and segment income because management believes that these financial measures provide transparency to investors and enable period-to-period comparability of financial performance. Segment operating profit and segment income should not be considered as an alternative to operating profit or net income attributable to Albemarle Corporation, respectively, as determined in accordance with GAAP.

See below for a reconciliation of segment operating profit and segment income, the non-GAAP financial measures, to operating profit and net income attributable to Albemarle Corporation, respectively, the most directly comparable financial measures calculated and reported in accordance with GAAP.

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Total segment operating profit	\$ 183,694	\$ 138,219
Add (less):		
Corporate & other <sup>(a)</sup>	(23,385)	(17,656)
<b>GAAP Operating profit</b>	<b>\$ 160,309</b>	<b>\$ 120,563</b>
Total segment income	\$ 186,411	\$ 143,899
Add (less):		
Corporate & other	(23,462)	(17,488)
Interest and financing expenses	(9,710)	(6,139)
Other income, net	956	1,303
Income tax expense	(38,097)	(27,886)
<b>GAAP Net income attributable to Albemarle Corporation</b>	<b>\$ 116,098</b>	<b>\$ 93,689</b>

<sup>(a)</sup> Excludes corporate equity income and noncontrolling interest adjustments of \$(77) and \$168 for the three-month periods ended September 30, 2011 and 2010, respectively.

*Polymer Solutions*

Polymer Solutions segment net sales for the three-month period ended September 30, 2011 were \$243.9 million, up 5% as compared to the same period in 2010 due mainly to the impact of favorable pricing of 15% resulting from the execution of recent price increases (mainly in our fire safety portfolio) largely in response to rising raw material costs. Also, impacts from foreign currency were favorable to the Polymer Solutions segment 4% (due mainly to the stronger Euro). These favorable impacts were offset by impacts of lower volumes of 14% due mainly to lower volumes in our fire safety portfolio where we have seen some demand softening in the related end markets. Our stabilizers and curatives business also showed unfavorable impacts from lower volumes in the third quarter 2011 over the corresponding period in 2010, although offset by favorable pricing and foreign exchange impacts. Segment income for Polymer Solutions declined 7% to \$54.6 million for the three-month period ended September 30, 2011 versus the same period in 2010, due mainly to the overall unfavorable volume impacts noted above, along with higher variable input costs (mainly raw materials) and increases in manufacturing and SG&A/R&D spending, offset by favorable pricing and overall impacts of foreign currency (due mainly to the stronger Euro). Further, Polymer Solutions segment results for the third quarter 2011 were unfavorably impacted by lower equity in net income from our unconsolidated investment Magnifin of \$0.7 million for third quarter 2011 versus the third quarter of 2010, offset slightly by \$ 0.2 million in lower charges from net income attributable to noncontrolling interests in our JBC joint venture.

*Catalysts*



## Edgar Filing: ALBEMARLE CORP - Form 10-Q

Catalysts segment net sales for the three-month period ended September 30, 2011 were \$299.5 million, an increase of 39% versus the three-month period ended September 30, 2010. This increase was due mainly to an increase in pricing contributing 26%, as well as the effects of favorable volume and foreign currency impacts (due mainly to the stronger Euro) of 9% and 4%, respectively. The favorable pricing impacts were mainly in refinery catalysts (mainly FCC and HPC) due mainly to the pass-through of higher raw material costs, while the favorable volume impacts were associated mainly with our HPC, polyolefin catalysts and FCC refinery catalysts businesses, partly offset by unfavorable volume impacts in alternative fuels. Catalysts segment income for the third quarter

**Table of Contents**

2011 was \$101.9 million, up 48% in comparison to the three-month period ended September 30, 2010. Catalysts segment income for the quarter benefitted mainly from the sales gains noted above as well as net favorable foreign currency impacts, partly offset mainly by the impacts of higher variable input costs (mainly raw materials) and higher manufacturing and SG&A/R&D spending. Also, Catalysts segment income for third quarter 2011 benefitted from year-over-year improvement in equity in net income of unconsolidated investments of \$1.0 million, resulting mainly from improved performance in our refinery catalysts joint ventures FCC SA and Eurecat SA due to improved performance year-over-year.

*Fine Chemistry*

Fine Chemistry segment net sales for the three-month period ended September 30, 2011 were \$179.5 million, an increase of 30%, versus the three-month period ended September 30, 2010. This increase was primarily attributable to favorable pricing impacts of 15% year-over-year for the segment (mainly in our performance chemicals business) as well as higher volumes (particularly in our custom services and intermediates business) contributing a 12% increase resulting mainly from improved customer demand versus the corresponding period of 2010. These favorable volume impacts on the segment's net sales were net of approximately \$0.9 million in unfavorable impact from the July 30, 2010 divestiture of our Teesport, UK site. Foreign currency was also favorable 3% during third quarter 2011 versus the corresponding period of 2010 due mainly to the stronger Euro. Segment income for the three-month period ended September 30, 2011 was \$30.0 million, up 82% from the corresponding period in 2010. These improved results were due mainly to sales pricing and volumes gains in the segment (particularly in performance chemicals) as well as net favorable foreign currency impacts (mainly the Euro), offset in part by higher variable input costs (mainly raw materials) and higher manufacturing and SG&A/R&D spending. Also, Fine Chemistry segment income results were unfavorably impacted by higher charges from net income attributable to noncontrolling interests of \$3.5 million (mainly from improved bromine portfolio performance in our JBC joint venture).

*Corporate and other*

For the three-month period ended September 30, 2011, our Corporate and other expense was \$23.5 million versus \$17.5 million for the corresponding period in 2010. This increase was primarily due to higher employee-related costs reflected mainly in SG&A expenses.

**Table of Contents**

Nine Months 2011 Compared to Nine Months 2010

**Selected Financial Data (Unaudited)**

	Nine Months Ended September 30,		Percentage Change 2011 vs. 2010
	2011	2010	
	(In thousands, except percentages and per share amounts)		
<b>NET SALES</b>	\$ 2,161,615	\$ 1,757,789	23%
Cost of goods sold	1,418,638	1,208,328	17%
<b>GROSS PROFIT</b>	742,977	549,461	35%
<b>GROSS PROFIT MARGIN</b>	34.4%	31.3%	
Selling, general and administrative expenses	233,115	195,319	19%
Research and development expenses	58,096	43,722	33%
Restructuring and other charges		6,958	*
<b>OPERATING PROFIT</b>	451,766	303,462	49%
<b>OPERATING PROFIT MARGIN</b>	20.9%	17.3%	
Interest and financing expenses	(28,576)	(18,059)	58%
Other income, net	534	1,584	(66)%
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	423,724	286,987	48%
Income tax expense	100,423	68,917	46%
Effective tax rate	23.7%	24.0%	
<b>INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	323,301	218,070	48%
Equity in net income of unconsolidated investments (net of tax)	37,118	29,950	24%
<b>NET INCOME</b>	360,419	248,020	45%
Net income attributable to noncontrolling interests	(23,582)	(9,272)	154%
<b>NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION</b>	\$ 336,837	\$ 238,748	41%
<b>PERCENTAGE OF NET SALES</b>	15.6%	13.6%	
Basic earnings per share	\$ 3.70	\$ 2.61	42%
Diluted earnings per share	\$ 3.66	\$ 2.59	41%

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

\* Percentage change calculation is not meaningful.

### *Net Sales*

For the nine-month period ended September 30, 2011, we recorded net sales of \$2.16 billion, a 23% increase compared to net sales of \$1.76 billion for the nine-month period ended September 30, 2010. This increase was due primarily to favorable pricing in all segments, as well as favorable volume impacts for the Company as a whole resulting mainly from improved market conditions year-over-year. Pricing was favorable 16% while volume had a favorable impact on our net sales of 5%. Additionally, foreign currency impacts were favorable 2% for the first nine months of 2011 over the corresponding period of 2010 (due mainly to the stronger Euro).

Polymer Solutions net sales increased \$108.8 million, or 16%, for the nine-month period ended September 30, 2011 compared to the same period in 2010, due mainly to the impact of favorable pricing of 19%, with slight volume decrease impacts of 6% offset by favorable foreign currency impacts of 3%. Catalysts net sales increased \$168.9 million, or 26%, for the nine-month period ended September 30, 2011, compared to the same period last year due mainly to favorable pricing of 15% as well as favorable volume impacts contributing 9% and favorable foreign currency impacts of 2%. Fine Chemistry net sales increased \$126.1 million, or 30%, for the nine-month period ended September 30, 2011, as compared to the same period last year, primarily due to higher volumes contributing 16% of the increase as well as favorable pricing impacts of 12% and favorable foreign currency impacts of 2%. For a detailed discussion of revenues and segment income for each segment, see Segment Information Overview below.

## **Table of Contents**

### *Gross Profit*

For the nine-month period ended September 30, 2011, our gross profit increased \$193.5 million, or 35%, from the corresponding 2010 period due mainly to favorable pricing across our segments as well as overall stronger volumes and related favorable production rate impacts on cost, partly offset by higher variable input costs (mainly raw materials) and higher manufacturing spending. Also, foreign currency was favorable to gross profit year-over-year due mainly to the stronger Euro. Overall, these factors contributed to our improved gross profit margin for the nine-month period ended September 30, 2011 of 34.4%, up from 31.3% for the corresponding period in 2010.

### *Selling, General and Administrative Expenses*

For the nine-month period ended September 30, 2011, our SG&A expenses increased \$37.8 million, or 19%, from the nine-month period ended September 30, 2010. This increase was primarily due to higher personnel-related costs, higher sales commissions and unfavorable foreign currency impacts (due mainly to the stronger Euro). As a percentage of net sales, SG&A expenses were 10.8% for the nine-month period ended September 30, 2011, compared to 11.1% for the corresponding period in 2010.

### *Research and Development Expenses*

For the nine-month period ended September 30, 2011, our R&D expenses increased \$14.4 million, or 33%, from the nine-month period ended September 30, 2010, mainly due to higher department spending and unfavorable foreign currency impacts (due mainly to the stronger Euro). As a percentage of net sales, R&D expenses were 2.7% for the nine-month period ended September 30, 2011, compared to 2.5% for the corresponding period in 2010.

### *Restructuring and Other Charges*

The nine-month period ended September 30, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) for restructuring costs related to reductions in force at our Bergeheim, Germany site.

### *Interest and Financing Expenses*

Interest and financing expenses for the nine-month period ended September 30, 2011 increased \$10.5 million to \$28.6 million from the corresponding 2010 period due mainly to higher average interest rates on our outstanding borrowings.

### *Other Income, Net*

Other income, net for the nine-month period ended September 30, 2011 was \$0.5 million versus \$1.6 million for the corresponding 2010 period. This change was due primarily to comparatively unfavorable results on our foreign exchange gains and losses year-over-year, offset by higher interest income and other miscellaneous income items versus the corresponding period in 2010.

### *Income Tax Expense*

The effective income tax rate for the first nine months of 2011 was 23.7% compared to 24.0% for the first nine months of 2010. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the nine-month periods ended September 30, 2011 and 2010 is mainly due to the impact of earnings from outside the U.S. Based on our current level and location of income, we expect our effective tax rate to be 23.7% for the year 2011.

### *Equity in Net Income of Unconsolidated Investments*

Equity in net income of unconsolidated investments was \$37.1 million for the nine-month period ended September 30, 2011 compared to \$30.0 million in the same period last year. This increase was due primarily to improved results in our Catalysts segment joint ventures FCC SA and Nippon Ketjen.

### *Net Income Attributable to Noncontrolling Interests*

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

For the nine-month period ended September 30, 2011, net income attributable to noncontrolling interests was \$23.6 million compared to \$9.3 million in the same period last year. This increase was due primarily to improved volumes and profitability from our consolidated joint venture Jordan Bromine Company Limited, or JBC, based on higher demand for the products in our bromine and derivatives portfolio.

**Table of Contents***Net Income Attributable to Albemarle Corporation*

Net income attributable to Albemarle Corporation was \$336.8 million for the nine-month period ended September 30, 2011, up from \$238.7 million in the nine-month period ended September 30, 2010, primarily due to overall favorable sales pricing and volume impacts, favorable impacts from foreign currency, lower restructuring and other charges and favorable equity in net income of unconsolidated investments. These favorable impacts were partly offset primarily by higher variable input costs, higher manufacturing spending, higher SG&A and R&D costs, higher interest and financing expenses, higher income taxes and higher net income attributable to noncontrolling interests.

**Segment Information Overview**

	Nine Months Ended September 30,				Percentage Change 2011 vs 2010
	2011	% of net sales (In thousands, except percentages)	2010	% of net sales	
<b>Net sales:</b>					
Polymer Solutions	\$ 792,604	36.7%	\$ 683,789	38.9%	16%
Catalysts	827,339	38.3%	658,438	37.5%	26%
Fine Chemistry	541,672	25.0%	415,562	23.6%	30%
<b>Total net sales</b>	<b>\$ 2,161,615</b>	<b>100.0%</b>	<b>\$ 1,757,789</b>	<b>100.0%</b>	<b>23%</b>
<b>Segment operating profit:</b>					
Polymer Solutions	\$ 203,900	25.7%	\$ 145,193	21.2%	40%
Catalysts	209,251	25.3%	167,056	25.4%	25%
Fine Chemistry	111,387	20.6%	50,251	12.1%	122%
<b>Total segment operating profit</b>	<b>524,538</b>		<b>362,500</b>		<b>45%</b>
<b>Equity in net income of unconsolidated investments:</b>					
Polymer Solutions	6,496		6,859		(5)%
Catalysts	30,796		23,173		33%
Fine Chemistry					%
Corporate & other	(174)		(82)		112%
<b>Total equity in net income of unconsolidated investments</b>	<b>37,118</b>		<b>29,950</b>		<b>24%</b>
<b>Net income attributable to noncontrolling interests:</b>					
Polymer Solutions	(9,200)		(4,749)		94%
Catalysts					%
Fine Chemistry	(14,439)		(4,443)		225%
Corporate & other	57		(80)		(171)%
<b>Total net income attributable to noncontrolling interests</b>	<b>(23,582)</b>		<b>(9,272)</b>		<b>154%</b>
<b>Segment income:</b>					
Polymer Solutions	201,196	25.4%	147,303	21.5%	37%
Catalysts	240,047	29.0%	190,229	28.9%	26%
Fine Chemistry	96,948	17.9%	45,808	11.0%	112%
<b>Total segment income</b>	<b>538,191</b>		<b>383,340</b>		<b>40%</b>

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Corporate & other	(72,889)	(52,242)	40%
Restructuring and other charges		(6,958)	*
Interest and financing expenses	(28,576)	(18,059)	58%
Other income, net	534	1,584	(66)%
Income tax expense	(100,423)	(68,917)	46%
<b>Net income attributable to Albemarle Corporation</b>	<b>\$ 336,837</b>	<b>\$ 238,748</b>	<b>41%</b>

\* Percentage change calculation is not meaningful.

Our segment information includes measures we refer to as segment operating profit and segment income which are financial measures that are not required by, or presented in accordance with, accounting principles generally accepted in the United States ( GAAP ). The Company has reported segment operating profit and segment income because management believes that these financial measures provide transparency to investors and enable period-to-period comparability of financial performance. Segment operating profit and segment income should not be considered as an alternative to operating profit or net income attributable to Albemarle Corporation, respectively, as determined in accordance with GAAP.



**Table of Contents**

See below for a reconciliation of segment operating profit and segment income, the non-GAAP financial measures, to operating profit and net income attributable to Albemarle Corporation, respectively, the most directly comparable financial measures calculated and reported in accordance with GAAP.

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Total segment operating profit</b>	\$ 524,538	\$ 362,500
Add (less):		
Corporate & other <sup>(a)</sup>	(72,772)	(52,080)
Restructuring and other charges		(6,958)
<b>GAAP Operating profit</b>	<b>\$ 451,766</b>	<b>\$ 303,462</b>
Total segment income	\$ 538,191	\$ 383,340
Add (less):		
Corporate & other	(72,889)	(52,242)
Restructuring and other charges		(6,958)
Interest and financing expenses	(28,576)	(18,059)
Other income, net	534	1,584
Income tax expense	(100,423)	(68,917)
<b>GAAP Net income attributable to Albemarle Corporation</b>	<b>\$ 336,837</b>	<b>\$ 238,748</b>

<sup>(a)</sup> Excludes corporate equity income and noncontrolling interest adjustments of \$(117) and \$(162) for the nine-month periods ended September 30, 2011 and 2010, respectively.

*Polymer Solutions*

Polymer Solutions segment net sales for the nine-month period ended September 30, 2011 were \$792.6 million, up 16%, compared to the same period in 2010, due mainly to the impact of favorable pricing of 19% resulting from the execution of recent price increases during the year in our fire safety portfolio largely in response to rising raw material costs. Slightly lower volume impacts of 6% for the segment were offset by favorable foreign currency impacts of 3%. Our stabilizers and curatives business also showed favorable pricing and foreign currency impacts in the first nine months of 2011 over the first nine months of 2010, although partly offset by lower volumes. Segment income for Polymer Solutions was \$201.2 million for the nine-month period ended September 30, 2011, up 37% versus the same period in 2010, due mainly to the overall pricing improvements noted above and favorable impacts from foreign currency, partly offset by higher variable input costs (mainly raw materials), higher manufacturing and SG&A/R&D spending and impacts from lower volumes. Further, Polymer Solutions segment results for the first nine months of 2011 were unfavorably impacted \$4.5 million in higher charges from net income attributable to noncontrolling interests in our JBC joint venture, while equity in net income from our unconsolidated investment Magnifin was \$6.5 million for the nine months ended September 30, 2011, down slightly from the corresponding period ended September 30, 2010.

*Catalysts*

Catalysts segment net sales for the nine-month period ended September 30, 2011 were \$827.3 million, an increase of 26%, versus the nine-month period ended September 30, 2010. This increase was due mainly to favorable pricing impacts of 15%, favorable volume impacts contributing 9% and favorable effects from foreign currency of 2%. The favorable volume impacts were mainly in HPC and polyolefin catalysts, partly offset by lower volumes in alternative fuels and FCC refinery catalysts. Also, pricing was up for the nine months 2011 versus prior year in refinery catalysts (mainly FCC as well as in HPC) due mainly to the pass-through of higher raw material costs along with other announced price increases. Catalysts segment income increased 26% to \$240.0 million for the nine-month period ended September 30, 2011 in comparison to the nine-month period ended September 30, 2010. This increase was primarily in our refinery catalysts business due mainly to the pricing and overall volume gains noted above as well as favorable impacts from foreign currency, partly offset by higher variable input costs (mainly raw materials) and higher manufacturing and SG&A/R&D spending. Catalysts segment income for the nine-month period ended September 30, 2011

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

benefitted from year-over-year improvement in equity in net income from unconsolidated investments of \$7.6 million, resulting mainly from improved performance in our refinery catalysts joint venture FCC SA due to favorable sales performance year-over-year as well as favorable results from Nippon Ketjen.

---

## **Table of Contents**

### *Fine Chemistry*

Fine Chemistry segment net sales for the nine-month period ended September 30, 2011 were \$541.7 million, an increase of 30% versus the nine-month period ended September 30, 2010. This increase was primarily attributable to higher volumes (particularly in our custom services, agricultural intermediates and performance chemicals businesses) contributing a 16% increase resulting mainly from improved customer demand versus the corresponding period of 2010. These favorable volume impacts on the segment's net sales were net of \$9.6 million in unfavorable impact from the July 30, 2010 divestiture of our Teesport, UK site. Pricing was also favorable 12% year-over-year for the segment (mainly in performance chemicals) while foreign currency impacts were also favorable 2%. Segment income for the nine-month period ended September 30, 2011 was \$96.9 million, more than double the corresponding period in 2010. These improved results were due mainly to higher sales pricing and volumes in the segment mentioned above as well as favorable foreign currency impacts, offset in part by higher variable input costs (mainly raw materials) and higher manufacturing and SG&A/R&D spending. Also, Fine Chemistry segment income results were unfavorably impacted by higher charges from net income attributable to noncontrolling interests of \$10.0 million (mainly from improved bromine portfolio performance in our JBC joint venture).

### *Corporate and other*

For the nine-month period ended September 30, 2011, our Corporate and other expense was \$72.9 million versus \$52.2 million for the corresponding period in 2010. This increase was primarily due to higher employee-related costs reflected mainly in SG&A expenses.

## ***Financial Condition and Liquidity***

### *Overview*

The principal uses of cash in our business generally have been capital investments, funding working capital and repayment of debt. We also make contributions to our U.S. defined benefit pension plans as appropriate. Historically, cash to fund the needs of our business has been principally provided by cash from operations, debt financing and equity issuances.

We are continually focused on improving working capital efficiency particularly in the areas of accounts receivable and inventory. We anticipate that cash on hand, cash provided by operating activities and long-term borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund capital expenditures, make pension contributions and make dividend payments for the foreseeable future.

### *Cash Flow*

Our cash and cash equivalents decreased by \$48.4 million to \$481.3 million at September 30, 2011, down from \$529.7 million at December 31, 2010. For the nine-month period ended September 30, 2011, our operations provided \$285.5 million of cash as compared to \$275.7 million for the nine-month period ended September 30, 2010. This increase was primarily due to an increase in profitability, partly offset mainly by unfavorable changes in working capital and higher pension and postretirement contributions versus the first nine months of 2010. Combined with cash on hand, our cash from operations for the first nine months of 2011 funded capital expenditures for plant, machinery and equipment of \$127.1 million, \$10.9 million in additions to equity and other corporate investments, \$11.0 million in acquisitions of businesses and other, repayments of long-term debt of \$105.1 million and dividends to shareholders of \$43.1 million. Further, we had proceeds from borrowings during the nine month period ended September 30, 2011 of \$132.9 million, the majority of which we borrowed during the third quarter of 2011 to fund the repurchase of 3.0 million shares of our common stock at an aggregate cost of \$178.1 million. Also, our cash flows for the first nine months of 2010 were unfavorably impacted by \$13.1 million in reduced cash resulting from the deconsolidation of our Stannica LLC joint venture on January 1, 2010.

At September 30, 2011 and December 31, 2010, our cash and cash equivalents were comprised of approximately \$361.9 million and \$337.8 million, respectively, held by our foreign subsidiaries. The majority of these foreign cash balances are associated with earnings that we have asserted are permanently reinvested and which we plan to use to support our continued growth plans outside the U.S. through funding of capital expenditures, acquisitions, research, operating expenses or other similar cash needs of our foreign operations. From time to time, we repatriate cash from our foreign subsidiaries to the U.S. for normal operating needs through intercompany dividends, but only from subsidiaries whose earnings we have not asserted to be permanently reinvested or whose earnings qualify as previously taxed income as defined by the Internal Revenue Code. For the three- and nine-month periods ended September 30, 2011, we repatriated approximately \$79.2 million and \$98.5 million in cash, respectively, as part of these foreign cash repatriation activities. For the three- and nine-month periods ended September 30, 2010, we repatriated approximately \$3.2 million and \$14.5 million in cash, respectively, as part of these foreign cash repatriation activities.



**Table of Contents**

Net current assets increased \$62.9 million to \$1.05 billion at September 30, 2011 from \$984.0 million at December 31, 2010. This increase was due primarily to increases in accounts receivable and inventories, partly offset by a decrease in cash and cash equivalents and increases in accounts payable and accrued expenses.

Capital expenditures for the nine-month period ended September 30, 2011 of \$127.1 million were associated with property, plant and equipment additions. We expect our capital expenditures will be at least \$180 million in 2011 mainly due to capital projects associated with increased capacity, cost reduction and continuity of operations.

While we continue to closely monitor our cash generation, working capital management and capital spending, we believe we will have the financial flexibility and capability to opportunistically fund future growth initiatives. Additionally, we anticipate that future capital spending should be financed primarily with cash flow provided from operations, with additional cash needed, if any, provided by long-term borrowings. The amount and timing of any additional borrowings will depend on our specific cash requirements.

*Long-Term Debt*

In September 2011, we amended and restated our previous \$675.0 million credit facility. The amended and restated five-year, revolving, unsecured credit facility matures on September 22, 2016 and (i) increased the borrowing capacity to \$750.0 million from \$675.0 million; (ii) provides for an additional \$250.0 million in credit, if needed, subject to the terms of the agreement; (iii) provides for the ability to extend the maturity date under certain conditions; (iv) eliminated the covenant that required a minimum level of consolidated tangible domestic assets; and (v) increased the interest rate spread and commitment fees applicable to the Company's borrowings under the credit facility. Fees and expenses of \$2.7 million were incurred and paid in connection with this new agreement. Borrowings bear interest at variable rates based on the LIBOR for deposits in the relevant currency plus an applicable margin which ranges from 0.900% to 1.400%, depending on the Company's credit rating applicable from time to time. The margin on the facility was 0.975% and the interest rate was 1.25% as of September 30, 2011. As of September 30, 2011, \$120.0 million of borrowings were outstanding under the September 2011 credit agreement.

Borrowings under the September 2011 credit agreement are conditioned upon compliance with the following covenants: (i) consolidated funded debt, as defined in the agreement, must be less than or equal to 3.50 times consolidated EBITDA, as defined in the agreement, (which reflects adjustments for certain non-recurring or unusual items such as restructuring charges, facility divestiture charges and other significant non-recurring items), or herein consolidated adjusted EBITDA, as of the end of any fiscal quarter; (ii) with the exception of liens specified in our new credit facility, liens may not attach to assets when the aggregate amount of all indebtedness secured by such liens plus unsecured subsidiary indebtedness, other than indebtedness incurred by our subsidiaries under the new credit facility, would exceed 20% of consolidated net worth, as defined in the agreement; and (iii) with the exception of indebtedness specified in our new credit facility, subsidiary indebtedness may not exceed the difference between 20% of consolidated net worth, as defined in the agreement, and indebtedness secured by liens permitted under the agreement. We believe that as of September 30, 2011, we were, and currently are, in compliance with all of our debt covenants.

We currently have outstanding \$325.0 million of 5.10% senior notes due in 2015 and \$350.0 million of 4.50% senior notes due in 2020, or the senior notes. The senior notes are senior unsecured obligations and rank equally with all of our other senior unsecured indebtedness from time to time outstanding. The senior notes will be effectively subordinated to any of our future secured indebtedness and to the existing and future indebtedness of our subsidiaries. We may redeem the senior notes before their maturity, in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis using the Treasury Rate (as defined in the indentures governing the senior notes) plus 15 basis points for the senior notes maturing in 2015 and 25 basis points for the senior notes maturing in 2020, plus, in each case, accrued interest thereon to the date of redemption. However, the 2020 senior notes are redeemable in whole or in part, at our option, at any time on or after three months prior to the maturity date, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued and unpaid interest on the senior notes to be redeemed to the date of redemption. Holders of the 2020 senior notes may require us to purchase such notes at 101% upon a Change of Control Triggering Event, as defined in the related indenture.

The principal amounts of the senior notes become immediately due and payable upon the occurrence of certain bankruptcy or insolvency events involving us or certain of our subsidiaries and may be declared immediately due and payable

---

## **Table of Contents**

by the trustee or the holders of not less than 25% of the senior notes upon the occurrence of an event of default. Events of default include, among other things: failure to pay principal or interest at required times; failure to perform or remedy a breach of covenants within prescribed periods; an event of default on any of our other indebtedness or certain indebtedness of our subsidiaries of \$40.0 million or more that is caused by a failure to make a payment when due or that results in the acceleration of that indebtedness before its maturity; and certain bankruptcy or insolvency events involving us or certain of our subsidiaries. We believe that as of September 30, 2011, we were, and currently are, in compliance with all of the covenants of the indentures governing the senior notes.

The non-current portion of our long-term debt amounted to \$878.4 million at September 30, 2011, compared to \$851.9 million at December 31, 2010. In addition, at September 30, 2011, we had the ability to borrow \$630.0 million under our September 2011 credit agreement and \$229.2 million under other existing lines of credit, subject to various financial covenants under our September 2011 credit agreement. We have the ability to refinance our borrowings under our other existing credit lines with borrowings under the September 2011 credit agreement, as applicable. Therefore, the amounts outstanding under our other existing credit lines are classified as long-term debt.

### *Off-Balance Sheet Arrangements*

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, including bank guarantees and letters of credit, which totaled approximately \$34.8 million at September 30, 2011. None of these off-balance sheet arrangements has, or is likely to have, a material effect on our current or future financial condition, results of operations, liquidity or capital resources.

### *Other Obligations*

Total expected 2011 contributions to our domestic and foreign qualified and nonqualified pension plans should approximate \$56 million. We may choose to make additional pension contributions in excess of this amount. We have made \$54.7 million in total contributions to our domestic and foreign pension plans (both qualified and nonqualified) during the nine-month period ended September 30, 2011.

The liability related to uncertain tax positions, including interest and penalties, recorded in Other noncurrent liabilities totaled \$20.0 million and \$21.9 million at September 30, 2011 and December 31, 2010, respectively. Related assets for corresponding offsetting benefits recorded in Other assets totaled \$11.5 million at September 30, 2011 and \$12.3 million at December 31, 2010. We cannot estimate the amount of any cash payments associated with these liabilities for the remainder of 2011 or the next twelve months, and we are unable to estimate the timing of any such cash payments in the future at this time.

In September 2011, we amended and restated our previous \$675.0 million credit facility. See *Financial Condition and Liquidity Long-Term Debt* above for a discussion of the impact of this event.

We are subject to federal, state, local and foreign requirements regulating the handling, manufacture and use of materials (some of which may be classified as hazardous or toxic by one or more regulatory agencies), the discharge of materials into the environment and the protection of the environment. To our knowledge, we are currently complying and expect to continue to comply in all material respects with applicable environmental laws, regulations, statutes and ordinances. Compliance with existing federal, state, local and foreign environmental protection laws is not expected to have a material effect on capital expenditures, earnings or our competitive position, but the costs associated with increased legal or regulatory requirements could have an adverse effect on our results.

Among other environmental requirements, we are subject to the federal Superfund law, and similar state laws, under which we may be designated as a potentially responsible party, or PRP, and may be liable for a share of the costs associated with cleaning up various hazardous waste sites. Management believes that in cases in which we may have liability as a PRP, our liability for our share of cleanup is de minimis. Further, almost all such sites represent environmental issues that are quite mature and have been investigated, studied and in many cases settled. In de minimis situations, our policy generally is to negotiate a consent decree and to pay any apportioned settlement, enabling us to be effectively relieved of any further liability as a PRP, except for remote contingencies. In other than de minimis PRP matters, our records indicate that unresolved PRP exposures should be immaterial. We accrue and expense our proportionate share of PRP costs. Because management has been actively involved in evaluating environmental matters, we are able to conclude that the outstanding environmental liabilities for unresolved PRP sites should not have a material adverse effect upon our results of operations or financial condition.

### *Liquidity Outlook*

We anticipate that cash on hand, cash provided by operating activities and long-term borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund capital expenditures, make pension contributions and make dividend payments for the foreseeable future. In addition, as we have historically done, we will continue to evaluate the merits of any opportunities that may arise for

acquisitions of businesses or assets, which may require additional liquidity.

---

## **Table of Contents**

While we maintain business relationships with a diverse group of financial institutions, an adverse change in their credit standing could lead them to not honor their contractual credit commitments, renew their extensions of credit or provide new financing. While the corporate bond market remains strong, availability of bank debt is more limited than prior to the market disruptions in 2008 and 2009, which severely impacted many financial institutions. If bank debt remains relatively less prevalent, we may incur increased borrowing costs and reduced credit capacity as our various credit facilities mature. It is also possible that our ability to access the capital markets in future periods may be limited by market or counterparty factors at a time when we would need or desire to do so, which could have an impact on our ability to finance our businesses or react to changing economic and business conditions. In addition, our cash flows from operations may be negatively affected by adverse consequences to our customers and the markets in which we compete as a result of moderating global economic conditions and reduced capital availability.

At September 30, 2011, we had the ability to borrow in excess of \$859.2 million under our September 2011 credit agreement and other existing lines of credit, subject to various financial covenants under our September 2011 credit agreement. With generally strong cash generative businesses and no significant debt maturities before 2015, we believe we have and will maintain a solid liquidity position.

We had cash and cash equivalents totaling \$481.3 million as of September 30, 2011, which represents an important source of our liquidity. Our cash is invested in short-term investments including time deposits and readily marketable securities with relatively short maturities.

### *Recent Accounting Pronouncements*

For a description of recent accounting pronouncements, see Item 1 Financial Statements Note 14.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no significant changes in our interest rate risk, foreign currency exchange rate exposure, marketable securities price risk, or raw material price risk from the information we provided in our Annual Report on Form 10-K for the year ended December 31, 2010.

We had variable interest rate borrowings of \$187.3 million outstanding at September 30, 2011, bearing a weighted average interest rate of 2.67% and representing 21% of our total outstanding debt. A hypothetical 10% change (approximately 27 basis points) in the interest rate applicable to these borrowings would change our annualized interest expense by approximately \$0.5 million as of September 30, 2011. We may enter into interest rate swaps, collars or similar instruments with the objective of reducing interest rate volatility relating to our borrowing costs.

Our financial instruments, which are subject to foreign currency exchange risk, consist of foreign currency forward contracts with an aggregate notional value of \$194.8 million and with a fair value representing a net liability position of \$0.8 million at September 30, 2011. Fluctuations in the value of these contracts are generally offset by the value of the underlying exposures being hedged. We conducted a sensitivity analysis on the fair value of our foreign currency hedge portfolio assuming an instantaneous 10% change in select foreign currency exchange rates from their levels as of September 30, 2011, with all other variables held constant. A 10% appreciation of the U.S. Dollar against foreign currencies that we hedge would result in a decrease of approximately \$3.5 million in the fair value of our foreign currency forward contracts. A 10% depreciation of the U.S. Dollar against these foreign currencies would result in an increase of \$0.8 million in the fair value of our foreign currency forward contracts. The sensitivity of the fair value of our foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of September 30, 2011, without reflecting the effects of underlying anticipated transactions. When those anticipated transactions are realized, actual effects of changing foreign currency exchange rates could have a material impact on our earnings and cash flows in future periods.

In addition, certain of our operations use natural gas as a source of energy which can expose our business to market risk when the price of natural gas changes suddenly. In an attempt to mitigate the impact and volatility of price swings in the natural gas market, from time to time we enter into natural gas hedge contracts with one or more major financial institutions for a portion of our 12-month rolling forecast for North American natural gas requirements. Such derivatives are held to secure natural gas at fixed prices and are not entered into for trading purposes. At September 30, 2011 and December 31, 2010, we had no natural gas hedge contracts outstanding.



**Table of Contents**

**Item 4. Controls and Procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended September 30, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks. Additional information with respect to this Item 1 is contained in Note 8 to the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

**Item 1A. Risk Factors.**

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our results of operations and our financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table summarizes our repurchases of equity securities for the three-month period ended September 30, 2011:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs*	Maximum Number of Shares that May Yet Be Repurchased Under the Plans or Programs*
July 1, 2011 to July 31, 2011	800,600	\$ 67.98	800,600	3,024,144
August 1, 2011 to August 31, 2011	2,199,400	56.25	2,199,400	824,744
September 1, 2011 to September 30, 2011				824,744
Total	3,000,000	\$ 59.38	3,000,000	824,744

\* Our stock repurchase plan, which was authorized by our Board of Directors, became effective on October 25, 2000 and included ten million shares. On February 27, 2008, after 98% of the originally authorized repurchase was executed, our Board of Directors approved an increase to five million shares authorized for repurchase under our stock repurchase plan. As of September 30, 2011, 824,744 shares were available to be repurchased under the stock repurchase plan. On October 13, 2011, our Board of Directors authorized another increase in the number of shares the Company is permitted to repurchase under the plan up to a maximum of five million shares. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless the repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

**Item 6. Exhibits.**

(a) Exhibits

10.1 Amended and Restated Credit Agreement, dated as of September 22, 2011, among Albemarle Corporation and Albemarle Global Finance Company SCA, as borrowers, and certain of the Company's subsidiaries that from time to time become parties thereto, the several banks and other financial institutions as may from time to time become parties thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer [filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-12658) filed on September 22, 2011, and incorporated herein by reference].

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

101 Interactive Data Files (Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2011, furnished in XBRL (eXtensible Business Reporting Language)).

Attached as Exhibit 101 to this report are the following documents formatted in XBRL: (i) the Consolidated Statements of Income for the three months and nine months ended September 30, 2011 and 2010, (ii) the Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (iii) the Consolidated Statements of Changes in Equity for the nine months ended September 30, 2011 and 2010, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 and (v) the Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is

## Edgar Filing: ALBEMARLE CORP - Form 10-Q

deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements 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.

ALBEMARLE CORPORATION  
(Registrant)

Date: October 25, 2011

By: */s/* SCOTT A. TOZIER  
Scott A. Tozier

**Senior Vice President, Chief Financial Officer and Chief Risk Officer**

**(principal financial officer)**