ALBEMARLE CORP
Form 10-Q
April 19, 2012


# 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 March 31, 2012**

**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)**

| | |
|---|---|
| **VIRGINIA** | **54-1692118** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **451 FLORIDA STREET** | |
| **BATON ROUGE, LOUISIANA** | **70801** |
| **(Address of principal executive offices)** | **(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

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

Number of shares of common stock, $.01 par value, outstanding as of April 13, 2012: 89,187,407

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**ALBEMARLE CORPORATION**

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements (Unaudited).**

### ALBEMARLE CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

**(In Thousands, Except Per Share Amounts)**

**(Unaudited)**

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Net sales | $ 711,704 | $ 696,530 |
| Cost of goods sold | 463,817 | 463,514 |
| Gross profit | 247,887 | 233,016 |
| Selling, general and administrative expenses (Note 13) | 80,692 | 73,039 |
| Research and development expenses | 19,049 | 17,615 |
| Operating profit | 148,146 | 142,362 |
| Interest and financing expenses | (8,734) | (9,592) |
| Other (expenses) income, net | (118) | 338 |
| Income before income taxes and equity in net income of unconsolidated investments | 139,294 | 133,108 |
| Income tax expense | 35,466 | 32,172 |
| Income before equity in net income of unconsolidated investments | 103,828 | 100,936 |
| Equity in net income of unconsolidated investments (net of tax) | 8,586 | 12,831 |
| Net income | 112,414 | 113,767 |
| Net income attributable to noncontrolling interests | (4,371) | (7,187) |
| Net income attributable to Albemarle Corporation | $ 108,043 | $ 106,580 |
| Basic earnings per share | $ 1.21 | $ 1.16 |
| Diluted earnings per share | $ 1.20 | $ 1.15 |
| Weighted-average common shares outstanding basic | 88,997 | 91,633 |
| Weighted-average common shares outstanding diluted | 89,947 | 92,517 |
| Cash dividends declared per share of common stock | $ 0.20 | $ 0.165 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In Thousands)**

**(Unaudited)**

| | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| Net income | $ 112,414 | $ 113,767 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation, net of tax of $92 2012; $2,631 2011 | 29,012 | 73,977 |
| Pension and postretirement benefits, net of tax of $(3,456) 2012; $(2,453) 2011 | 6,039 | 4,245 |
| Other, net of tax of $(20) 2012; $(21) 2011 | 35 | 34 |
| Other comprehensive income | 35,086 | 78,256 |
| Comprehensive income | 147,500 | 192,023 |
| Comprehensive income attributable to non-controlling interests | (4,516) | (6,887) |
| Comprehensive income attributable to Albemarle Corporation | 142,984 | 185,136 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In Thousands)**

**(Unaudited)**

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 519,359 | $ 469,416 |
| Trade accounts receivable, less allowance for doubtful accounts (2012 $2,715; 2011 $2,709) | 386,788 | 355,372 |
| Other accounts receivable | 39,063 | 36,199 |
| Inventories | 460,810 | 431,495 |
| Other current assets | 63,536 | 63,138 |
| Total current assets | 1,469,556 | 1,355,620 |
| Property, plant and equipment, at cost | 2,681,153 | 2,619,428 |
| Less accumulated depreciation and amortization | 1,513,931 | 1,489,948 |
| Net property, plant and equipment | 1,167,222 | 1,129,480 |
| Investments | 209,406 | 198,427 |
| Other assets | 110,329 | 116,871 |
| Goodwill | 278,915 | 273,145 |
| Other intangibles, net of amortization | 128,071 | 130,281 |
| **Total assets** | $ 3,363,499 | $ 3,203,824 |
| **Liabilities And Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 224,267 | $ 184,472 |
| Accrued expenses | 168,275 | 175,257 |
| Current portion of long-term debt | 14,462 | 14,416 |
| Dividends payable | 17,483 | 15,237 |
| Income taxes payable | 8,875 | 11,796 |
| Total current liabilities | 433,362 | 401,178 |
| Long-term debt | 742,199 | 749,257 |
| Postretirement benefits | 57,293 | 57,588 |
| Pension benefits | 126,895 | 127,964 |
| Other noncurrent liabilities | 114,821 | 111,107 |
| Deferred income taxes | 81,555 | 77,903 |
| Commitments and contingencies (Note 8) | | |
| Equity: | | |
| Albemarle Corporation shareholders equity: | | |
| Common stock, $.01 par value, issued and outstanding 89,169 in 2012 and 88,841 in 2011 | 892 | 888 |
| Additional paid-in capital | 21,690 | 15,194 |
| Accumulated other comprehensive loss | (187,981) | (222,922) |
| Retained earnings | 1,888,336 | 1,798,117 |

| | | |
|---|---|---|
| Total Albemarle Corporation shareholders equity | 1,722,937 | 1,591,277 |
| Noncontrolling interests | 84,437 | 87,550 |
| Total equity | 1,807,374 | 1,678,827 |
| **Total liabilities and equity** | $ 3,363,499 | $ 3,203,824 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**(Unaudited)**

| (In Thousands, Except Share Data) | Common Stock Shares | Common Stock Amounts | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss) Income | Retained Earnings | Total Albemarle Shareholders Equity | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2012** | **88,841,240** | **$ 888** | **$ 15,194** | **$ (222,922)** | **$ 1,798,117** | **$ 1,591,277** | **$ 87,550** | **$ 1,678,827** |
| Net income | | | | | 108,043 | 108,043 | 4,371 | 112,414 |
| Other comprehensive income | | | | 34,941 | | 34,941 | 145 | 35,086 |
| Cash dividends declared | | | | | (17,824) | (17,824) | (7,629) | (25,453) |
| Stock-based compensation and other | | | 6,114 | | | 6,114 | | 6,114 |
| Exercise of stock options | 149,101 | 2 | 2,567 | | | 2,569 | | 2,569 |
| Tax benefit related to stock plans | | | 4,544 | | | 4,544 | | 4,544 |
| Issuance of common stock, net | 280,117 | 3 | (3) | | | | | |
| Shares withheld for withholding taxes associated with common stock issuances | (101,957) | (1) | (6,726) | | | (6,727) | | (6,727) |
| **Balance at March 31, 2012** | **89,168,501** | **$ 892** | **$ 21,690** | **$ (187,981)** | **$ 1,888,336** | **$ 1,722,937** | **$ 84,437** | **$ 1,807,374** |
| **Balance at January 1, 2011** | **91,593,984** | **$ 916** | **$ 18,835** | **$ (164,196)** | **$ 1,560,519** | **$ 1,416,074** | **$ 59,672** | **$ 1,475,746** |
| Net income | | | | | 106,580 | 106,580 | 7,187 | 113,767 |
| Other comprehensive income | | | | 78,556 | | 78,556 | (300) | 78,256 |
| Cash dividends declared | | | | | (15,123) | (15,123) | | (15,123) |
| Stock-based compensation and other | | | 6,501 | | | 6,501 | | 6,501 |
| Exercise of stock options | 17,500 | | 205 | | | 205 | | 205 |
| Tax benefit related to stock plans | | | 3,867 | | | 3,867 | | 3,867 |
| Issuance of common stock, net | 65,667 | 1 | (1) | | | | | |
| Shares withheld for withholding taxes associated with common stock issuances | (9,646) | | (551) | | | (551) | | (551) |
| **Balance at March 31, 2011** | **91,667,505** | **$ 917** | **$ 28,856** | **$ (85,640)** | **$ 1,651,976** | **$ 1,596,109** | **$ 66,559** | **$ 1,662,668** |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In Thousands)**

**(Unaudited)**

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Cash and cash equivalents at beginning of year | $ 469,416 | $ 529,650 |
| Cash flows from operating activities: | | |
| Net income | 112,414 | 113,767 |
| Adjustments to reconcile net income to cash flows from operating activities: | | |
| Depreciation and amortization | 24,235 | 23,004 |
| Stock-based compensation | 6,926 | 6,789 |
| Excess tax benefits realized from stock-based compensation arrangements | (4,544) | (3,867) |
| Equity in net income of unconsolidated investments (net of tax) | (8,586) | (12,831) |
| Dividends received from unconsolidated investments and nonmarketable securities | 4,183 | 2,221 |
| Pension and postretirement expense | 10,024 | 6,463 |
| Pension and postretirement contributions | (2,527) | (51,949) |
| Unrealized gain on investments in marketable securities | (1,262) | (1,483) |
| Deferred income taxes | 7,238 | 21,209 |
| Working capital changes | (32,728) | (52,116) |
| Other, net | 8,171 | (4,651) |
| Net cash provided by operating activities | 123,544 | 46,556 |
| Cash flows from investing activities: | | |
| Capital expenditures | (54,784) | (31,894) |
| Cash payments related to acquisitions and other | (134) | (633) |
| (Investments in) sales of marketable securities, net | (1,113) | 1,872 |
| Investments in equity and other corporate investments | | (10,666) |
| Net cash used in investing activities | (56,031) | (41,321) |
| Cash flows from financing activities: | | |
| Repayments of long-term debt | (7,149) | (100,622) |
| Proceeds from borrowings | | 6,694 |
| Dividends paid to shareholders | (15,578) | (12,856) |
| Proceeds from exercise of stock options | 2,569 | 205 |
| Excess tax benefits realized from stock-based compensation arrangements | 4,544 | 3,867 |
| Withholding taxes paid on stock-based compensation award distributions | (6,516) | (551) |
| Net cash used in financing activities | (22,130) | (103,263) |
| Net effect of foreign exchange on cash and cash equivalents | 4,560 | 9,391 |
| Increase (decrease) in cash and cash equivalents | 49,943 | (88,637) |
| Cash and cash equivalents at end of period | $ 519,359 | $ 441,013 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

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**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 March 31, 2012 and December 31, 2011, our consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of changes in equity for the three-month periods ended March 31, 2012 and 2011 and our condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and 2011. 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, 2011, which was filed with the Securities and Exchange Commission, or the SEC, on February 22, 2012. The December 31, 2011 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 period ended March 31, 2012 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 net foreign exchange transaction losses for the three-month periods ended March 31, 2012 and 2011 in the amount of $1.8 million and $0.5 million, respectively.

**NOTE 3 Income Taxes:**

The effective income tax rate for the first quarter of 2012 was 25.5% compared with 24.2% for the first quarter of 2011. 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 2012 and 2011 periods is mainly due to the impact of earnings from outside the U.S.

**NOTE 4 Earnings Per Share:**

Basic and diluted earnings per share for the three-month periods ended March 31, 2012 and 2011 are calculated as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (In thousands, except per share amounts) | |
| **Basic earnings per share** | | |
| Numerator: | | |
| Net income attributable to Albemarle Corporation | $ 108,043 | $ 106,580 |
| Denominator: | | |
| Weighted-average common shares for basic earnings per share | 88,997 | 91,633 |
| Basic earnings per share | $ 1.21 | $ 1.16 |
| **Diluted earnings per share** | | |
| Numerator: | | |

| | | |
|---|---|---|
| Net income attributable to Albemarle Corporation | $ 108,043 | $ 106,580 |
| | | |
| Denominator: | | |
| Weighted-average common shares for basic earnings per share | 88,997 | 91,633 |
| Incremental shares under stock compensation plans | 950 | 884 |
| | | |
| Total shares | 89,947 | 92,517 |
| | | |
| Diluted earnings per share | $ 1.20 | $ 1.15 |

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

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

**(Unaudited)**

On February 15, 2012, the Company increased the regular quarterly dividend by 14% to $0.20 per share and declared a cash dividend of said amount for the first quarter of 2012, which was payable on April 1, 2012 to shareholders of record at the close of business as of March 15, 2012.

**NOTE 5 Inventories:**

The following table provides a breakdown of inventories at March 31, 2012 and December 31, 2011:

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| Finished goods | $ 332,085 | $ 311,869 |
| Raw materials | 82,301 | 74,809 |
| Stores, supplies and other | 46,424 | 44,817 |
| Total inventories | $ 460,810 | $ 431,495 |

**NOTE 6 Investments:**

The carrying value of our unconsolidated investment in Stannica LLC, a variable interest entity for which we are not the primary beneficiary, was $6.6 million and $7.3 million at March 31, 2012 and December 31, 2011, respectively. Our maximum exposure to loss in connection with our continuing involvement with Stannica LLC is limited to our investment carrying value.

In the first quarter of 2011, we made approximately $10.7 million in capital contributions to our 50% owned joint venture Saudi Organometallic Chemicals Company (SOCC).

**NOTE 7 Long-Term Debt:**

Long-term debt at March 31, 2012 and December 31, 2011 consisted of the following:

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| | (In thousands) | |
| Variable-rate domestic bank loans | $ | $ |
| 5.10% Senior notes, net of unamortized discount of $95 at March 31, 2012 and $103 at December 31, 2011 | 324,905 | 324,897 |
| 4.50% Senior notes, net of unamortized discount of $2,735 at March 31, 2012 and $2,814 at December 31, 2011 | 347,265 | 347,186 |
| Fixed rate foreign borrowings | 24,805 | 24,778 |
| Capital lease obligation | 2,027 | 2,006 |
| Variable-rate foreign bank loans | 57,259 | 64,326 |
| Miscellaneous | 400 | 480 |
| Total long-term debt | 756,661 | 763,673 |

| | | |
|---|---|---|
| Less amounts due within one year | 14,462 | 14,416 |
| Long-term debt, less current portion | $ 742,199 | $ 749,257 |

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**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 three months ended March 31, 2012, as follows (in thousands):

| | |
|---|---|
| Beginning balance at December 31, 2011 | $ 12,359 |
| Expenditures | (306) |
| Changes in estimates recorded to earnings and other | 50 |
| Foreign currency translation | 279 |
| Ending balance at March 31, 2012 | 12,382 |
| Less amounts reported in Accrued expenses | 1,277 |
| Amounts reported in Other noncurrent liabilities | $ 11,105 |

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 $16.7 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 $5.9 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 (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 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 the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or 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. Costs for legal services are generally expensed as incurred.

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.

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 March 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (In thousands) | |
| **Net sales:** | | |
| Polymer Solutions | $ 228,131 | $ 258,223 |
| Catalysts | 293,522 | 260,957 |
| Fine Chemistry | 190,051 | 177,350 |
| Total net sales | $ 711,704 | $ 696,530 |
| **Segment operating profit:** | | |
| Polymer Solutions | $ 52,712 | $ 69,831 |
| Catalysts | 75,415 | 62,131 |
| Fine Chemistry | 41,924 | 33,959 |
| Total segment operating profit | 170,051 | 165,921 |
| **Equity in net income of unconsolidated investments:** | | |
| Polymer Solutions | 1,845 | 2,489 |
| Catalysts | 6,741 | 10,461 |
| Fine Chemistry | | |
| Corporate & Other | | (119) |
| Total equity in net income of unconsolidated investments | 8,586 | 12,831 |
| **Net income attributable to noncontrolling interests:** | | |
| Polymer Solutions | (1,002) | (2,846) |
| Catalysts | | |
| Fine Chemistry | (3,372) | (4,425) |
| Corporate & Other | 3 | 84 |
| Total net income attributable to noncontrolling interests | (4,371) | (7,187) |

| | | |
|---|---|---|
| **Segment income:** | | |
| Polymer Solutions | 53,555 | 69,474 |
| Catalysts | 82,156 | 72,592 |
| Fine Chemistry | 38,552 | 29,534 |
| Total segment income | 174,263 | 171,600 |
| Corporate & other | (21,902) | (23,594) |
| Interest and financing expenses | (8,734) | (9,592) |
| Other (expenses) income, net | (118) | 338 |
| Income tax expense | (35,466) | (32,172) |
| **Net income attributable to Albemarle Corporation** | $ 108,043 | $ 106,580 |

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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 March 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (In thousands) | |
| **Net Periodic Pension Benefit Cost (Credit):** | | |
| Service cost | $ 3,173 | $ 2,932 |
| Interest cost | 8,213 | 8,076 |
| Expected return on assets | (11,630) | (12,119) |
| Amortization of prior service benefit | (261) | (245) |
| Amortization of net loss | 9,104 | 6,493 |
| Total net periodic pension benefit cost | $ 8,599 | $ 5,137 |
| **Net Periodic Postretirement Benefit Cost (Credit):** | | |
| Service cost | $ 50 | $ 125 |
| Interest cost | 850 | 845 |
| Expected return on assets | (125) | (111) |
| Amortization of prior service benefit | (25) | (99) |
| Amortization of net loss | 675 | 566 |
| Total net periodic postretirement benefit cost | $ 1,425 | $ 1,326 |
| Total net periodic pension and postretirement benefit cost | $ 10,024 | $ 6,463 |

We have made contributions of $1.4 million and $50.8 million to our qualified and nonqualified pension plans during the three-month periods ended March 31, 2012 and 2011, respectively.

We paid $1.1 million in premiums to the U.S. postretirement benefit plan during each of the three-month periods ended March 31, 2012 and 2011.

**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:

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. The fair values of the 4.50% and 5.10% senior notes are estimated using Level 1 inputs and account for the majority of the difference between the recorded amount and fair value of our long-term debt.

| | March 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Recorded Amount | Fair Value | Recorded Amount | Fair Value |
| | (In thousands) | | | |
| Long-term debt | $ 756,661 | $ 818,102 | $ 763,673 | $ 819,854 |

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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 March 31, 2012 and December 31, 2011, we had outstanding foreign currency forward contracts with notional values totaling $194.6 million and $148.7 million, respectively. At March 31, 2012, $0.2 million was included in Other accounts receivable and $0.2 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts. At December 31, 2011, $0.9 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts.

Gains and losses on foreign currency forward contracts are recognized currently in Other (expenses) income, net; 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-month periods ended March 31, 2012 and 2011, we recognized gains of $1.3 million and $5.8 million, respectively, in Other (expenses) 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 (expenses) income, net. Also, for the three-month periods ended March 31, 2012 and 2011, we recorded $(1.3) million and $(5.8) million, respectively, related to the change in the fair value of our foreign currency forward contracts, and cash settlements of $0.4 million and $0.9 million, respectively, in Other, net in our condensed consolidated statements 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

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 March 31, 2012 and December 31, 2011 (in thousands):

| | $00,000 | $00,000 | $00,000 |
|---|---|---|---|
| | **March 31, 2012** | **Quoted Prices in Active Markets for Identical Items (Level 1)** | **Quoted Prices in Active Markets for Similar Items (Level 2)** |
| Assets: | | | |
| Investments under executive deferred compensation plan [a] | $ 19,147 | $ 19,147 | $ |
| Equity securities [b] | $ 31 | $ 31 | $ |

| | | | | | | |
|---|---|---|---|---|---|---|
| Foreign currency forward contracts [c] | $ | 226 | $ | | $ | 226 |
| Liabilities: | | | | | | |
| Obligations under executive deferred compensation plan [a] | $ | 19,147 | $ | 19,147 | $ | |
| Foreign currency forward contracts [c] | $ | 191 | $ | | $ | 191 |

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

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

**(Unaudited)**

| | $00,000 December 31, 2011 | $00,000 Quoted Prices in Active Markets for Identical Items (Level 1) | $00,000 Quoted Prices in Active Markets for Similar Items (Level 2) |
|---|---|---|---|
| Assets: | | | |
| Investments under executive deferred compensation plan [a] | $ 16,786 | $ 16,786 | $ |
| Equity securities [b] | $ 17 | $ 17 | $ |
| Liabilities: | | | |
| Obligations under executive deferred compensation plan [a] | $ 16,786 | $ 16,786 | $ |
| Foreign currency forward contracts [c] | $ 869 | $ | $ 869 |

(a) 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.

(b) 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.

(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.

**NOTE 13 Restructuring and Other**

We had the following activity in our recorded workforce reduction liabilities for the three months ended March 31, 2012 (in thousands):

| | |
|---|---|
| Beginning balance at December 31, 2011 | $ 4,780 |
| Workforce reduction charges | |
| Payments | (453) |
| Amount reversed to income | (19) |
| Foreign currency translation | 100 |
| Ending balance at March 31, 2012 | 4,408 |
| Less amounts reported in Accrued expenses | 2,415 |

| | |
|---|---|
| Amounts reported in Other noncurrent liabilities | $ 1,993 |

Also, the quarter ended March 31, 2012 includes a gain of $8.1 million ($5.1 million after income taxes) resulting from proceeds received in connection with the settlement of certain commercial litigation (net of estimated reimbursement of related legal fees of approximately $0.9 million). The litigation involved claims and cross-claims relating to alleged breaches of a purchase and sale agreement. The settlement resolves all outstanding issues and claims between the parties and they agreed to dismiss all outstanding litigation between them and release all existing and potential claims against each other that were or could have been asserted in the litigation. The quarter ended March 31, 2012 also includes an $8 million ($5.1 million after income taxes) charitable contribution to the Albemarle Foundation, a non-profit organization which sponsors grants, health and social projects, educational initiatives, disaster relief, matching gift programs, scholarships and other charitable initiatives in locations where our employees live and operate. These items are included in our consolidated Selling, general and administrative expenses for the three months ended March 31, 2012.

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

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

**(Unaudited)**

**NOTE 14 Recently Issued Accounting Pronouncements:**

In October 2009, the Financial Accounting Standards Board, or 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 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.

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 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. These amendments became effective for us on January 1, 2012 and did not have a material impact on our consolidated 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. The Company adopted these new financial statement presentation requirements effective January 1, 2012 with retrospective application to all prior periods presented.

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

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**ALBEMARLE CORPORATION AND SUBSIDIARIES**

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

**(Unaudited)**

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. The adoption of this new guidance did not have a material effect on our consolidated financial statements.

In December 2011, the FASB issued new accounting guidance that will require entities to disclose information about instruments (including derivatives) and transactions eligible for offset in the statement of financial position or subject to an agreement similar to a master netting arrangement. These new provisions are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively for all comparative periods presented. We are assessing the impact of these new requirements on our financial statements.

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**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, 2011. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading Financial Condition and Liquidity on page 25.

***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 v such words 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, 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;

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;

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

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 that meet customer needs across an exceptionally diverse range of end markets including the petroleum refining, consumer electronics, plastics/packaging, construction, automotive, lubricants, pharmaceuticals, crop protection, food-safety and custom chemistry services markets. 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, innovative capability, flexible, low-cost global manufacturing base, experienced management team, and strategic focus on our core base technologies will enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

Our diverse product portfolio, broad geographic presence and customer-focused solutions will continue to be key drivers to our future earnings growth. We continue to build upon our existing green solutions portfolio and our ongoing mission to provide innovative, yet commercially viable, clean energy products and services to the marketplace. We believe our disciplined cost reduction efforts, on-going productivity improvements and strong balance sheet position us well to take advantage of strengthening economic conditions while softening the negative impact of any temporary disruption in the economy.

***First Quarter 2012***

During the first quarter of 2012:

We achieved quarterly earnings of $1.20 per share (on a diluted basis), up 4 percent over first quarter 2011 results.

Our net sales for the quarter were $711.7 million, up 2% from net sales of $696.5 million in the first quarter of 2011.

On January 18, 2012, we announced the formation of our Electronic Materials business unit. This new business unit, which is a subgroup of Albemarle s newly renamed Performance Catalyst Solutions (PCS) division, provides electronic-grade metal organics to the rapidly expanding Light Emitting Diode (LED), compound semiconductor, and solar panel markets.

On January 25, 2012, we announced the successful completion of finished polyolefin catalysts production expansion activities at our Process Development Center in Baton Rouge, Louisiana in response to the growing demand for finished single site catalysts used in the polyolefin industry, including Albemarle s ActivCat® technology.

Our quarterly dividend increased to $0.20 per share of common stock ($0.80 annually).

***Outlook***

During the first quarter of 2012, we have seen overall improvement in our net sales and operating results compared to first quarter 2011 based on the favorable impacts of our pricing programs as well as our continuing focus on operating cost discipline. We have seen year over year performance growth trends overall in our businesses for the quarter, although we continue to see the year over year effects of volume softness resulting from customer order patterns (mainly in Polymer Solutions) which began in the second half of 2011 and which we attribute to end-market response to continuing global economic challenges. However, although uncertainty persists regarding the strength and duration of a global economic recovery, the full year outlook for our Catalysts and Fine Chemistry businesses remains favorable based on positive industry trends and new business opportunities. Further, end-market patterns appear to suggest a continuation of the recent gradual demand build through the second half of 2012 in Polymer Solutions. We continue to closely monitor customer order patterns and other performance trends in our businesses overall and the markets which they serve in light of these current

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uncertainties, while working to manage potential headwinds such as increased raw material and energy costs, pension and other personnel costs. Overall, our businesses remain fundamentally healthy and strategically well-positioned, and we believe that if the end markets we serve begin to stabilize and accelerate over the course of 2012, we should continue to make progress towards our long-term growth objectives.

**Polymer Solutions:** We have seen year over year volume softness affect our net sales and profitability during first quarter 2012 despite partially offsetting impacts from favorable pricing. We believe these volume trends are attributable to end-market response to continuing global economic challenges, and we are closely monitoring customer order patterns in our business. We are encouraged by overall sequential improvement in our segment operating results from fourth quarter 2011 stemming from the gradual improvement in demand throughout the first quarter of 2012, and we believe that these recent trends may signal the early stages of recovering business conditions. We continue to believe our business fundamentals in this sector remain strong, and combined with our competitive position, product innovations, pricing initiatives to offset raw material inflation and overall operating discipline, we believe Polymer Solutions continues to be well positioned to manage through any slow growth trends in the markets served by this business.

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 demand for fire safety products. Further, we continue to focus on globalization in this segment, with our antioxidants facilities in China positioning us well for growth in the Asia region. Additionally, we have commenced an expansion of our flame retardant production capacity at our JBC joint venture in Safi, Jordan which is expected to come on-line in 2013.

Greenarmor™, the first Earthwise™ product from our Polymer Solutions segment, has reached the commercialization stage and we are currently negotiating potential supply contracts with key customers for this product. The Earthwise™ portfolio, comprised of products that serve the polymers industry and which are significantly enhanced in both environmental responsibility and end market performance, is expected to grow to include products from other business units and segments of Albemarle.

**Catalysts:** Overall improved pricing and stable volumes have driven net sales and earnings growth in our Catalysts segment during the first quarter of 2012. We believe 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 catalysts business. We expect growth in our PCS division to come from growing global demand for plastics, particularly in Asia and the Middle East. During most of 2011, our fluidized catalytic cracking, or FCC, refinery catalysts business saw significant price increases in rare earth materials due to tightening Chinese export quotas. However, pricing for these materials began to decline during the current quarter. Our steps to maintain sufficient security of supply as well our continued focus on operating discipline in this business should help to counter potential operating headwinds from these developments over the course of the current year.

New market penetrations and introduction of innovative cost-effective products for the refining and polyolefins industries contributed to the segment s performance in 2011 and continued to provide momentum in the first quarter of 2012. 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 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 late 2012, positions us to lead in the fast-growing Middle East polyolefins market. Construction at our 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 the current year to meet regional growth in metallocene polyolefins and trimethyl gallium (TMG) markets for high brightness LED. Additionally, we are working on project scope and design elements for a future Brazilian hydroprocessing catalysts investment with Petrobras.

**Fine Chemistry:** In our Fine Chemistry segment, we saw positive year over year net sales and income growth during the first quarter of 2012. This 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.

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In our performance chemicals sector