ALBEMARLE CORP
Form 10-Q
May 05, 2008
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 March 31, 2008

OR

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

For 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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

330 SOUTH FOURTH STREET

RICHMOND, VIRGINIA	**23219**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (804) 788-6000

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 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 ¨ (Do not check if a smaller reporting company) 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 May 1, 2008: 91,463,534

Table of Contents

ALBEMARLE CORPORATION

INDEX FORM 10-Q

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)

	Three Months Ended March 31,	
	2008	**2007**
Net sales	$ 668,177	$ 589,238
Cost of goods sold	500,766	429,449
Gross profit	167,411	159,789
Selling, general and administrative expenses	63,519	62,486
Research and development expenses	16,800	15,711
Severance charges	3,278	
Operating profit	83,814	81,592
Interest and financing expenses	(10,216)	(8,910)
Other income, net	2,846	952
Income before income tax expense, minority interests and equity in net income of unconsolidated investments	76,444	73,634
Income tax expense	16,626	16,936
Income before minority interests and equity in net income of unconsolidated investments	59,818	56,698
Minority interests in income of consolidated subsidiaries (net of tax)	(3,585)	(4,951)
Equity in net income of unconsolidated investments (net of tax)	7,028	6,361
Net income	$ 63,261	$ 58,108
Basic earnings per share	$ 0.69	$ 0.61
Diluted earnings per share	$ 0.68	$ 0.60
Cash dividends declared per share of common stock (Note 6)	$ 0.12	$ 0.105
Weighted-average common shares outstanding basic	92,349	95,288
Weighted-average common shares outstanding diluted	93,688	97,504

See accompanying Notes to the Condensed Consolidated Financial Statements.

3

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 135,130	$ 130,551
Trade accounts receivable, less allowance for doubtful accounts (2008 $858; 2007 $847)	420,121	370,676
Other accounts receivable	52,038	54,686
Inventories (Note 8)	501,897	472,826
Deferred income taxes and prepaid expenses	34,261	24,699
Total current assets	1,143,447	1,053,438
Property, plant and equipment, at cost	2,373,532	2,314,509
Less accumulated depreciation and amortization	1,308,764	1,275,966
Net property, plant and equipment	1,064,768	1,038,543
Prepaid pension assets	68,820	67,273
Investments	137,631	128,170
Other assets	100,944	101,487
Goodwill	287,885	270,185
Other intangibles, net of amortization	171,900	171,354
Total assets	$ 2,975,395	$ 2,830,450
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 223,001	$ 198,817
Accrued expenses	145,160	155,365
Current portion of long-term debt	19,285	16,627
Dividends payable	9,443	8,177
Income taxes payable	11,749	23,931
Total current liabilities	408,638	402,917
Long-term debt	861,065	707,311
Postretirement benefits	42,750	43,159
Pension benefits	60,133	57,139
Other noncurrent liabilities	227,771	234,530
Deferred income taxes	125,718	107,089
Commitments and contingencies (Note 12)		
Shareholders equity:		
Common stock, $.01 par value, issued and outstanding 91,446 in 2008 and 94,734 in 2007	914	947
Additional paid-in capital	9,030	154,451
Accumulated other comprehensive income	164,982	99,885
Retained earnings	1,074,394	1,023,022
Total shareholders equity	1,249,320	1,278,305

Total liabilities and shareholders equity	$ 2,975,395	$ 2,830,450

See accompanying Notes to the Condensed Consolidated Financial Statements.

4

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended March 31, 2008	2007
Cash and cash equivalents at beginning of year	$ 130,551	$ 149,499
Cash flows from operating activities:		
Net income	63,261	58,108
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	26,542	27,349
Stock-based compensation expense	4,590	4,139
Excess tax benefits realized from stock-based compensation arrangements	(6,920)	(12,620)
Minority interests in income of consolidated subsidiaries	3,585	4,951
Equity in net income of unconsolidated investments	(7,028)	(6,361)
Severance charges	3,278	
Postretirement plan elimination gain		(2,107)
Working capital changes	(63,541)	(68,774)
Dividends received from unconsolidated investments and nonmarketable securities	1,295	1,851
Net change in pension and postretirement assets and liabilities	(2,500)	2,059
Net change in noncurrent environmental liabilities	413	(1,144)
Withholding taxes paid on stock-based compensation award distributions	(10,156)	(3,406)
Deferred income taxes	10,767	5,934
Other, net	(5,608)	(2,721)
Net cash provided from operating activities	17,978	7,258
Cash flows from investing activities:		
Capital expenditures	(20,139)	(26,241)
Cash transferred and payments related to the Thann facility divestiture	(2,556)	(1,308)
Collection of note receivable from sale of land	6,000	
Investments in marketable securities	(2,238)	(2,731)
Investments in other corporate investments		(84)
Proceeds from sale of marketable securities		414
Net cash used in investing activities	(18,933)	(29,950)
Cash flows from financing activities:		
Repayments of long-term debt	(45,273)	(12,441)
Proceeds from borrowings	199,928	17,824
Dividends paid to shareholders	(9,707)	(8,628)
Purchases of common stock	(151,137)	(18,647)
Proceeds from exercise of stock options	3,398	10,952
Excess tax benefits realized from stock-based compensation arrangements	6,920	12,620
Dividends paid to minority interests	(5,486)	(4,374)
Other	(107)	(979)
Net cash used in financing activities	(1,464)	(3,673)

Net effect of foreign exchange on cash and cash equivalents	6,998	1,882
Increase (decrease) in cash and cash equivalents	4,579	(24,483)
Cash and cash equivalents at end of period	$ 135,130	$ 125,016

See accompanying Notes to the Condensed Consolidated Financial Statements.

5

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net income	$ 63,261	$ 58,108
Other comprehensive income, net of tax:		
Change in unrealized gain on marketable equity securities		21
Reclassification adjustment for realized gain on sale of securities included in net income		(203)
Amortization of realized loss on treasury lock agreements	35	35
Amortization of prior service benefit, net transition asset and net loss included in net periodic benefit cost	(463)	1,231
Foreign currency translation	65,525	6,371
Other comprehensive income	65,097	7,455
Comprehensive income	$ 128,358	$ 65,563

See accompanying Notes to the Condensed Consolidated Financial Statements.

6

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

1. In the opinion of management, the accompanying 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 a fair presentation, in all material respects, of our condensed consolidated financial position as of March 31, 2008 and December 31, 2007, and our condensed consolidated results of operations, comprehensive income and cash flows for the three-month periods ended March 31, 2008 and 2007. 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission, SEC, on February 29, 2008. The December 31, 2007 consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States. The results of operations for the three-month period ended March 31, 2008 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.

2. The three-month period ended March 31, 2008 includes charges amounting to $3.3 million ($2.1 million after income taxes, or $0.02 per share) that relate to personnel reductions at the Company s Richmond headquarters and Singapore sales office.

3. Our consolidated statements of income include foreign exchange transaction gains of $5.0 million and $1.0 million for the three-month periods ended March 31, 2008 and 2007, respectively. These foreign exchange transaction gains (losses) are included in the line items entitled Cost of goods sold and Other income, net in the amounts of $3.7 million and $1.3 million, respectively, for the three-month period ended March 31, 2008 and $1.7 million and ($0.7) million, respectively, for the three-month period ended March 31, 2007.

4. Our effective tax rate fluctuates based on, among other factors, where income is earned and the level of income relative to available tax credits. For the three-month period ended March 31, 2008, our effective income tax rate was 21.8% as compared to 23.0% for the three-month period ended March 31, 2007.

The significant differences between the U.S. federal statutory income tax rate on pretax income and the effective income tax rate for the three-month periods ended March 31, 2008 and 2007, respectively, are as follows:

	% of Income Before Income Taxes Three Months Ended March 31,	
	2008	2007
Federal statutory rate	35.0%	35.0%
State taxes, net of federal tax benefit	0.5	0.3
Impact of foreign operations, net	(13.1)	(12.4)
Depletion	(1.2)	(1.1)
Effect of minority interests in income of consolidated subsidiaries	(0.5)	(0.7)
Other items, net	1.1	1.9
Effective income tax rate	21.8%	23.0%

We adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes on January 1, 2007. As a result of the implementation of FIN 48, we recognized an increase of approximately $4.8 million in the liability for unrecognized tax benefits, which was accounted for as a reduction to retained earnings. Interest and penalties related to income tax liabilities are included in income tax expense.

The liability for unrecognized tax benefits, including interest and penalties, recorded in Other noncurrent liabilities totaled $100.2 million and $107.2 million at March 31, 2008 and December 31, 2007, respectively. Related assets for corresponding offsetting benefits recorded in Other assets totaled $42.6 million and $50.0 million at March 31, 2008 and December 31, 2007, respectively.

During the first quarter of 2008, we recorded a decrease of $10.6 million to the liability for unrecognized tax benefits along with a decrease to the related assets for corresponding offsetting benefits of $10.1 million due to lapses in statutes of limitations. In addition, we recorded an increase of $3.1 million to the liability for unrecognized tax benefits along with an

Table of Contents

increase to the related assets for corresponding offsetting benefits of $2.7 million for unrecognized tax benefits related to current year tax positions as well as additional interest for unrecognized tax benefits related to prior year tax positions.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2000. The Internal Revenue Service, or IRS, has completed a review of our income tax returns through the year 2004. We received tax assessments from the IRS for the years 2000 through 2004. We have taken the issues contested to the appeals process and anticipate a resolution in either 2008 or 2009. We received notification that the IRS intends to begin its examination of our income tax returns for years 2005 and 2006 during the second quarter of 2008.

With respect to jurisdictions outside the U.S., we are no longer subject to income tax audits for years before 2002. The Company received examination notifications from four jurisdictions. United Kingdom tax authorities are examining tax year 2003. The German tax authorities are examining tax years 2002 through 2005. Dutch tax authorities are examining tax years 2004 and 2005. During the first quarter of 2008, Belgian tax authorities began an examination of tax years 2005 and 2006.

While we believe we have adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than our accrued position. Accordingly, additional provisions on federal and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Since the timing of resolutions and/or closure of tax audits is uncertain, it is difficult to predict with certainty the range of reasonably possible significant increases or decreases in the liability for unrecognized tax benefits that may occur within the next twelve months. Our current view is that it is reasonably possible that we could record a decrease in the liability for unrecognized tax benefits, relating to a number of issues, ranging from approximately $9 million to $37 million as a result of settlements with taxing authorities, closure of tax statutes and/or resolution of issues at appeals within the next twelve months.

5. Basic and diluted earnings per share for the three-month periods ended March 31, 2008 and 2007 are calculated as follows:

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands, except per share amounts)	
Basic earnings per share		
Numerator:		
Income available to shareholders, as reported	$ 63,261	$ 58,108
Denominator:		
Average number of shares of common stock outstanding	92,349	95,288
Basic earnings per share	$ 0.69	$ 0.61
Diluted earnings per share		
Numerator:		
Income available to shareholders, as reported	$ 63,261	$ 58,108
Denominator:		
Average number of shares of common stock outstanding	92,349	95,288
Incremental shares under stock compensation plans	1,339	2,216
Total shares	93,688	97,504
Diluted earnings per share	$ 0.68	$ 0.60

6. Cash dividends declared for the three-month period ended March 31, 2008 totaled 12.0 cents per share, paid on April 1, 2008. Cash dividends declared for the three-month period ended March 31, 2007 totaled 10.5 cents per share, paid on April 1, 2007.

7. On February 8, 2008, pursuant to a Stock Purchase Agreement, dated as of February 5, 2008, with each of (i) William M. Gottwald, John D. Gottwald and James T. Gottwald as Trustees of Floyd, Jr. s Trust, or the Trust, under the will of Floyd D. Gottwald, (ii) Floyd D. Gottwald, Jr. and (iii) Westham Partners, L.P., pursuant to which we purchased an aggregate of 3,000,000 shares of common stock from the Trust, an aggregate of 300,000 shares of common stock from Floyd D. Gottwald, Jr., and an aggregate of 700,000 shares of common stock from Westham Partners, L.P., each at a purchase price

8

Table of Contents

of $37.2174 per share of common stock. We utilized availability under our March 2007 credit agreement for payment of the total purchase price of approximately $148.9 million for the 4,000,000 shares.

8. The following table provides a breakdown of inventories at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
	(In thousands)	
Finished goods	$ 360,527	$ 348,274
Raw materials	88,969	73,581
Stores, supplies and other	52,401	50,971
Total inventories	$ 501,897	$ 472,826

9. Long-term debt consists of the following:

	March 31, 2008	December 31, 2007
	(In thousands)	
Variable-rate domestic bank loans	$ 435,538	$ 308,825
Senior notes	324,772	324,764
Fixed rate foreign borrowings	66,420	53,804
Variable-rate foreign bank loans	35,547	19,092
Capital lease obligation	17,373	16,695
Miscellaneous	700	758
Total	880,350	723,938
Less amounts due within one year	19,285	16,627
Total long-term debt	$ 861,065	$ 707,311

Maturities of long-term debt are as follows: 2008 $19.2 million; 2009 $9.7 million; 2010 $8.8 million; 2011 $9.3 million; 2012 $7.6 million; 2013 $486.8 million and 2014 through 2017 $339.0 million.

In March 2008, we exercised an option under the March 2007 credit agreement to extend the maturity date from March 2012 to March 2013. Lenders representing 87.4% of the commitments, or $590 million out of $675 million, approved the extension. No other changes to the agreement were part of the extension and no fees, other than attorney fees, were paid. As a result of the extension, $85 million and $590 million in commitments now have a maturity/expiration date of March 2012 and March 2013, respectively.

10. The Company has the following recorded environmental liabilities primarily included in Other noncurrent liabilities at March 31, 2008 (in thousands):

Beginning balance at December 31, 2007	$ 23,116
Additions	50
Changes in estimates	(774)
Payments	(180)
Foreign exchange	1,529
Ending balance at March 31, 2008	$ 23,741

The amounts recorded represent our future remediation and other anticipated environmental liabilities. Although it is difficult to quantify the potential financial impact of compliance with environmental protection laws, 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 $17 million before income taxes.

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 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

Table of Contents

plant in Orangeburg, SC. 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. We are currently engaged in discussions with the EPA seeking to resolve these allegations, but no assurances can be given that we will be able to reach a resolution that is acceptable to both parties. 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 our discussions with the EPA or the financial impact, which may result therefrom. However, we do not expect any financial impact to have a material adverse effect on the results of operations or the financial position of the Company.

11. Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by minority interests in income of our consolidated subsidiaries, Stannica LLC, Jordan Bromine Company Limited, or JBC, Ningbo Jinhai Albemarle Chemical and Industry Company Limited, and Shanghai Jinhai Albemarle Fine Chemicals Company Limited. Segment data includes intersegment transfers of raw materials at cost, foreign exchange transaction gains and losses 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,	
	2008	**2007**
	(In thousands)	
Net sales:		
Polymer Additives	$ 244,590	$ 214,319
Catalysts	276,097	235,827
Fine Chemicals	147,490	139,092
Total net sales	$ 668,177	$ 589,238
Segment operating profit:		
Polymer Additives	$ 30,269	$ 36,460
Catalysts	46,156	34,581
Fine Chemicals	23,480	25,247
Subtotal	$ 99,905	$ 96,288
Minority interests in income of consolidated subsidiaries:		
Polymer Additives	$ (1,989)	$ (2,252)
Catalysts		
Fine Chemicals	(1,935)	(2,735)
Corporate & other	339	36
Total minority interests in income of consolidated subsidiaries	$ (3,585)	$ (4,951)
Equity in net income of unconsolidated investments:		
Polymer Additives	$ 1,472	$ 1,515
Catalysts	5,566	4,824
Fine Chemicals		
Corporate & other	(10)	22
Total equity in net income of unconsolidated investments	$ 7,028	$ 6,361

10

Table of Contents

	Three Months Ended March 31, 2008	2007
	(In thousands)	
Segment income:		
Polymer Additives	$ 29,752	$ 35,723
Catalysts	51,722	39,405
Fine Chemicals	21,545	22,512
Total segment income	103,019	97,640
Corporate & other	(12,484)	(14,638)
Severance charges	(3,278)	
Interest and financing expenses	(10,216)	(8,910)
Other income, net	2,846	952
Income tax expense	(16,626)	(16,936)
Net income	$ 63,261	$ 58,108

12. Commitments and Contingencies

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.

In connection with the remediation of a local landfill site as required by the German environmental authorities, we have pledged certain of our land and housing facilities at our Bergheim, Germany plant site with a recorded value of $7.0 million.

In addition, we are involved from time to time in legal proceedings of types regarded as common in our businesses, particularly administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability and premises liability litigation. We maintain a financial accrual for these proceedings that includes defense costs and potential damages, as estimated by our general counsel. We also maintain insurance to mitigate certain of such risks. See Note 10 above.

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

	Three Months Ended March 31, 2008	2007
	(In thousands)	
Net Periodic Pension Benefit Cost:		
Service cost	$ 2,867	$ 2,932
Interest cost	7,934	7,213
Expected return of assets	(10,562)	(9,728)
Net transition asset	(2)	(2)
Prior service benefit	(256)	(254)
Net loss	1,857	2,922
Total net periodic pension benefit cost	$ 1,838	$ 3,083

We have determined that the expected 2008 pension funding for one of our foreign pension plans will be nominal. We made a portion of our expected nominal contributions to the foreign plan and made no contributions to our other plans during the three-month period ended March 31, 2008. There are no other required minimum contributions to the plans.

11

Table of Contents

	Three Months Ended March 31, 2008	2007
	(In thousands)	
Net Periodic Postretirement Benefit Cost:		
Service cost	$ 121	$ 192
Interest cost	863	979
Expected return of assets	(143)	(139)
Plan elimination gain*		(2,107)
Prior service benefit	(2,399)	(977)
Net loss	114	119
Total net periodic postretirement benefit (credit)	$ (1,444)	$ (1,933)

* During the three-month period ended March 31, 2007, a postretirement medical plan in the Netherlands was eliminated resulting in a gain of $2.1 million (pre-tax). This plan elimination was consistent with the change in the Netherlands law and follows the process of collective bargaining. We assumed the obligation of this postretirement medical plan in connection with the 2004 acquisition of the refinery catalysts business, which would have been effective for certain employees in the Netherlands who retired after August 2009.

14. Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 157, Fair Value Measurements. SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. The Statement applies to other accounting pronouncements that require or permit fair value measurements and was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2, Partial Deferral of the Effective Date of Statement 157 which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statement on a recurring basis, to fiscal years beginning after November 15, 2008. The adoption of the deferred portion of the Statement on January 1, 2009 is not expected to have a material impact on our consolidated financial statements. On January 1, 2008, we adopted the portion of SFAS No. 157 that was not delayed, and since our existing fair value measurements are consistent with the guidance of the Statement, the partial adoption of the Statement did not have a material impact on our consolidated financial statements.

SFAS No. 157 defines fair value 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). SFAS No. 157 classifies the inputs used to measure fair value 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

The Company endeavors 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 table sets forth the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2008:

	March 31, 2008	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
		(In thousands)	
Assets:			
Investments under executive deferred compensation plan [(1)]	$ 16,960	$ 16,960	$
Liabilities:			
Obligations under executive deferred compensation plan [(1)]	$ 16,960	$ 16,960	$
Foreign currency exchange contracts [(2)]	$ 226	$	$ 226

(1) 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 employees of Albemarle. 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 set up 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 Emerging Issues Task Force, or EITF, Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading equities and are marked-to-market on a monthly basis through the consolidated statement of income) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.

(2) As a result of our global operating and financing activities, the Company is 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. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes and we do not use leveraged derivative financial instruments. The forward foreign currency exchange 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.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits us to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value, or the Fair Value Option. Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If we were to elect the Fair Value Option for certain financial assets and liabilities, we would report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of January 1, 2008; however, we did not elect to adopt the Fair Value Option for any of our financial assets or liabilities.

15. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS No. 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces the cost-allocation process in accordance SFAS No 141, Business Combinations, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS No. 141R will impact the manner in which we account for future business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the

Table of Contents

amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation. It also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS No. 160 requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent s owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and the related presentation and disclosure requirements are to be applied retrospectively for all periods presented. We have not yet determined what impact the adoption of SFAS No. 160 will have on our consolidated financial statements.

In December 2007, the FASB ratified the consensuses of EITF Issue No. 07-1, Accounting for Collaborative Arrangements. The objective of EITF 07-1 is to define collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. We have not yet determined what impact the adoption of EITF 07-1 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We have not yet determined what impact the adoption of SFAS No. 161 will have on our consolidated financial statements.

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, 2007. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading Financial Condition and Liquidity on page 21.

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. There can be no assurance, therefore, 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:

- 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;

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

changes in our markets in general;

fluctuations in foreign currencies;

changes in laws and regulations;

- the occurrence of claims or litigation;
- 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;
- 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 interest rates, to the extent they (1) affect our ability to raise capital or increase our cost of funds, (2) have an impact on the overall performance of our pension fund investments and (3) increase our pension expense and funding obligations; 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. Our products and services enhance the value of our customers end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of consumer electronics, building and construction materials, automotive parts, packaging, pharmachemicals and agrichemicals, and petroleum refiners. 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.

First Quarter 2008

During the first quarter of 2008:

- quarterly net sales increased to a record $668.2 million;
- quarterly Catalysts segment income increased to a record $51.7 million;
- we recorded a pre-tax charge of $3.3 million ($2.1 million after income taxes, or $0.02 per share) related to severance in conjunction with personnel reductions at the Company s Richmond headquarters and Singapore sales office;
- we increased our quarterly dividend to $0.12 per share of common stock ($0.48 annually);

we repurchased an aggregate of 4,062,700 shares of our common stock in open market or privately negotiated transactions at an average price of $37.20 per share;

in April 2008 we signed a non-binding letter of intent to acquire Sorbent Technologies Corporation, a full-service mercury control provider for coal fired power plants; and

on April 30, 2008 we announced the relocation of our corporate headquarters to Baton Rouge, LA from Richmond, VA.

Outlook