

ALBEMARLE CORP  
Form 10-Q  
August 07, 2009  
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**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 June 30, 2009

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)

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**VIRGINIA**  
(State or other jurisdiction of  
incorporation or organization)

**54-1692118**  
(I.R.S. Employer  
Identification No.)

**451 FLORIDA STREET**  
**BATON ROUGE, LOUISIANA**  
(Address of principal executive offices)

**70801**  
(Zip Code)

Registrant's telephone number, including area code - (225) 388-8011

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Number of shares of common stock, \$.01 par value, outstanding as of August 1, 2009: 91,548,935

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**ALBEMARLE CORPORATION**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales	\$ 445,299	\$ 620,750	\$ 931,890	\$ 1,288,927
Cost of goods sold	335,481	457,769	731,566	958,535
Gross profit	109,818	162,981	200,324	330,392
Selling, general and administrative expenses	51,481	67,598	96,915	131,117
Research and development expenses	14,953	17,593	31,098	34,393
Port de Bouc charges	12,393		12,393	
Restructuring charges				3,278
Operating profit	30,991	77,790	59,918	161,604
Interest and financing expenses	(6,088)	(8,441)	(12,362)	(18,657)
Other income, net	1,276	1,938	145	4,784
Income before income taxes and equity in net income of unconsolidated investments	26,179	71,287	47,701	147,731
Income tax benefit (expense)	7,749	(12,902)	7,224	(29,528)
Income before equity in net income of unconsolidated investments	33,928	58,385	54,925	118,203
Equity in net income of unconsolidated investments (net of tax)	6,204	8,666	12,153	15,694
Net income	40,132	67,051	67,078	133,897
Net income attributable to noncontrolling interests	(1,639)	(5,396)	(3,186)	(8,981)
Net income attributable to Albemarle Corporation	38,493	61,655	63,892	124,916
Basic earnings per share	\$ 0.42	\$ 0.67	\$ 0.70	\$ 1.36
Diluted earnings per share	\$ 0.42	\$ 0.67	\$ 0.70	\$ 1.34
Cash dividends declared per share of common stock	\$ 0.125	\$ 0.12	\$ 0.25	\$ 0.24
Weighted-average common shares outstanding - basic	91,474	91,489	91,427	92,072
Weighted-average common shares outstanding - diluted	92,011	92,564	91,904	93,234

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 172,476	\$ 253,303
Trade accounts receivable, less allowance for doubtful accounts (2009 - \$2,107; 2008 - \$1,899)	273,386	280,601
Other accounts receivable	29,338	47,157
Inventories	385,916	538,857
Other current assets	51,557	59,005
Total current assets	912,673	1,178,923
Property, plant and equipment, at cost	2,379,310	2,322,996
Less accumulated depreciation and amortization	1,348,181	1,310,648
Net property, plant and equipment	1,031,129	1,012,348
Investments	139,000	121,951
Other assets	134,106	113,717
Goodwill	288,207	278,767
Other intangibles, net of amortization	155,793	167,011
<b>Total assets</b>	<b>\$ 2,660,908</b>	<b>\$ 2,872,717</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 126,378	\$ 224,333
Accrued expenses	120,169	170,512
Current portion of long-term debt	26,771	26,202
Dividends payable	10,595	9,675
Income taxes payable	7,979	7,645
Total current liabilities	291,892	438,367
Long-term debt	820,556	906,062
Postretirement benefits	47,905	47,803
Pension benefits	149,250	146,381
Other noncurrent liabilities	120,194	142,783
Deferred income taxes	77,977	74,838
Commitments and contingencies		
Equity:		
Albemarle Corporation shareholders' equity:		
Common stock, \$.01 par value, issued and outstanding 91,539 in 2009 and 90,980 in 2008	915	910
Additional paid-in capital	3,924	
Accumulated other comprehensive loss	(89,691)	(100,642)
Retained earnings	1,196,402	1,165,503

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Total Albemarle Corporation shareholders' equity	1,111,550	1,065,771
Noncontrolling interests	41,584	50,712
Total equity	1,153,134	1,116,483
<b>Total liabilities and equity</b>	<b>\$ 2,660,908</b>	<b>\$ 2,872,717</b>

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash and cash equivalents at beginning of year</b>	\$ 253,303	\$ 130,551
<b>Cash flows from operating activities:</b>		
Net income	67,078	133,897
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	50,404	54,042
Port de Bouc charges	12,393	
Restructuring charges		3,278
Stock-based compensation	(4,279)	10,106
Excess tax benefits realized from stock-based compensation arrangements	(1,120)	(7,688)
Equity in net income of unconsolidated investments	(12,153)	(15,694)
Working capital changes	12,979	(78,900)
Dividends received from unconsolidated investments and nonmarketable securities	5,952	5,308
Pension and postretirement expense	4,693	1,385
Pension and postretirement contributions	(7,341)	(5,876)
Unrealized gain on investments in marketable securities	(1,454)	(78)
Net change in noncurrent income tax payables and receivables	(18,431)	1,220
Net change in noncurrent environmental liabilities	(3,544)	(1,293)
Withholding taxes paid on stock-based compensation award distributions	(4,798)	(10,157)
Deferred income taxes	(6,422)	11,367
Other, net	8,358	(6,437)
<b>Net cash provided from operating activities</b>	<b>102,315</b>	<b>94,480</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(60,459)	(40,237)
Cash payments related to the Thann facility divestiture		(2,556)
Cash payments related to the Port de Bouc facility divestiture	(11,248)	
Cash payments related to acquisitions	(1,793)	(19,965)
Collection of note receivable from sale of land		6,000
Investments in marketable securities	(469)	(2,522)
Investments in other corporate investments	(40)	(49)
<b>Net cash used in investing activities</b>	<b>(74,009)</b>	<b>(59,329)</b>
<b>Cash flows from financing activities:</b>		
Repayments of long-term debt	(117,762)	(50,266)
Proceeds from borrowings	32,748	214,612
Dividends paid to shareholders	(21,948)	(20,476)
Purchases of common stock		(151,137)
Proceeds from exercise of stock options	2,207	3,931
Excess tax benefits realized from stock-based compensation arrangements	1,120	7,688
Dividends paid to noncontrolling interests	(8,911)	(7,337)

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Other		(107)
Net cash used in financing activities	(112,546)	(3,092)
Net effect of foreign exchange on cash and cash equivalents	3,413	5,872
(Decrease) increase in cash and cash equivalents	(80,827)	37,931
Cash and cash equivalents at end of period	\$ 172,476	\$ 168,482

See accompanying Notes to the Condensed Consolidated Financial Statements.

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## ALBEMARLE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$ 40,132	\$ 67,051	\$ 67,078	\$ 133,897
Other comprehensive (loss) income, net of tax:				
Unrealized gain on marketable securities			1	
Amortization of realized loss on treasury lock agreements	35	35	72	70
Changes in net loss and prior service cost	(3,040)	(235)	(6,230)	(698)
Foreign currency translation	70,195	3,151	17,108	68,676
Total other comprehensive income, net of tax	67,190	2,951	10,951	68,048
Comprehensive income	107,322	70,002	78,029	201,945
Comprehensive income attributable to noncontrolling interests	(1,639)	(5,396)	(3,186)	(8,981)
<b>Comprehensive income attributable to Albemarle Corporation</b>	<b>\$ 105,683</b>	<b>\$ 64,606</b>	<b>\$ 74,843</b>	<b>\$ 192,964</b>

See accompanying Notes to the Condensed Consolidated Financial Statements.

**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 June 30, 2009 and December 31, 2008, and our condensed consolidated results of operations and comprehensive income for the three-month and six-month periods ended June 30, 2009 and 2008, and our condensed consolidated cash flows for the six-month periods ended June 30, 2009 and 2008. 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, 2008, which was filed with the Securities and Exchange Commission, or the SEC, on February 27, 2009. The December 31, 2008 consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles, or GAAP, in the United States, or the U.S. The results of operations for the three-month and six-month periods ended June 30, 2009 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. We have evaluated subsequent events through August 7, 2009, which is the date we issued the financial statements.

2. On January 1, 2009, we adopted Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards, or SFAS, No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This standard changed the accounting for and reporting of minority interests (now referred to as noncontrolling interests). Noncontrolling interests are now classified as equity in our consolidated financial statements. SFAS No. 160 also changed the consolidated statement of income presentation format by requiring net income to include the net income for both the parent and the noncontrolling interests, with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share continues to be based on net income amounts attributable to the parent. As a result of the adoption of SFAS No. 160, prior period amounts related to noncontrolling interests have been reclassified to conform to the current period presentation.

3. The three-month and six-month periods ended June 30, 2009 include charges amounting to \$12.4 million (\$8.2 million after income taxes, or \$0.09 per share) that relate to the costs of a final contract settlement arising from our 2008 divestiture of the Port de Bouc, France facility. Future cash payments associated with the settlement should be complete by the end of 2009.

The six-month period ended June 30, 2008 includes charges amounting to \$3.3 million (\$2.1 million after income taxes, or \$0.02 per share) that relate to severance costs in conjunction with personnel reductions at our former Richmond, Virginia headquarters and our Singapore sales office.

4. Our consolidated statements of income include the following foreign exchange transaction (losses) gains for the three-month and six-month periods ended June 30, 2009 and 2008:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
Cost of goods sold	\$ (1,100)	\$ (1,448)	\$ (2,067)	\$ 2,175
Other income, net	954	428	(720)	1,758
<b>Total foreign exchange transaction (losses) gains</b>	<b>\$ (146)</b>	<b>\$ (1,020)</b>	<b>\$ (2,787)</b>	<b>\$ 3,933</b>

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5. Our effective tax rate fluctuates based on, among other factors, where income is earned and the level of income relative to available tax credits. 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 and six-month periods ended June 30, 2009 and 2008, respectively, are as follows:

	% of Income Before Income Taxes			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Federal statutory rate	35.0%	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	0.2	0.3	0.2	0.4
Impact of foreign operations, net	(21.4)	(15.4)	(20.8)	(14.2)
Increase in valuation allowance	0.3	0.2	0.3	0.1
Depletion	(1.4)	(1.7)	(1.5)	(1.4)
Effect of net income attributable to noncontrolling interests	(0.8)	(0.6)	(0.6)	(0.6)
Revaluation of unrecognized tax benefits/reserve requirements	0.6	0.9	0.6	1.0
Other items, net	2.1	(0.6)	1.2	(0.3)
Effective income tax rate excluding non-recurring items	14.6%	18.1%	14.4%	20.0%
Non-recurring items	(44.2)		(29.5)	
Effective income tax rate	(29.6)%	18.1%	(15.1)%	20.0%

Included in the three-month and six-month periods ended June 30, 2009 are various non-recurring items totaling a net \$13.4 million benefit and a net \$15.9 million benefit, respectively. The three-month period ended June 30, 2009 includes \$9.2 million in one time net benefits due mainly to decreases in unrecognized tax benefit liabilities and deferred tax assets related to an issue settled in the current U.S. Internal Revenue Service, or IRS, examination of years 2005 through 2007, and a net \$4.2 million benefit related to the charges arising out of our divestiture of the Port de Bouc, France facility. The six-month period ended June 30, 2009 also included \$3.7 million of one time benefits due mainly from unrecognized tax benefits, partially offset by a \$1.2 million increase in a valuation allowance for losses at our Brazilian entity.

During the six-month period ended June 30, 2009, we decreased our unrecognized tax benefit liabilities (which are included in Other noncurrent liabilities) to \$55.2 million from \$77.5 million at December 31, 2008. This decrease of \$22.3 million resulted from a \$12.6 million reduction related to an issue settled in the current U.S. IRS examination of 2005 through 2007 as well as a \$9.7 million reduction mainly for prior year tax positions on transfer pricing (which resulted in reducing the related assets for corresponding benefits included in Other assets from \$39.9 million at December 31, 2008 to \$32.3 million at June 30, 2009).

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 preceding 2005. The IRS has completed a review of our income tax returns through year 2004. During 2008, we received examination notifications from the IRS on tax years 2005 through 2007. We anticipate tax resolutions related to these years in either 2009 or 2010.

With respect to jurisdictions outside the U.S., we are no longer subject to income tax audits for years preceding 2002.

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, up to approximately \$16 million as a result of settlements with taxing authorities and closure of tax statutes.

6. On January 1, 2009, we adopted FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, or FSP EITF 03-6-1. FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends, such as certain of our restricted stock



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awards, are participating securities and therefore shall be included in the earnings per share calculation pursuant to the two class method described in SFAS No. 128, Earnings Per Share. FSP EITF 03-6-1 requires all prior-period earnings per share data to be adjusted retrospectively, and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. Basic earnings per share decreased \$0.01 for the three-month period ended June 30, 2008 as a result of an increase in our basic weighted-average common shares outstanding of approximately 307,000 shares. Diluted weighted-average common shares outstanding increased by approximately 197,000 shares for the three-month period ended June 30, 2008. Basic and diluted weighted-average common shares outstanding increased by approximately 306,000 and 206,000 shares, respectively, for the six-month period ended June 30, 2008. Adoption of FSP EITF 03-6-1 did not impact our reported basic or diluted earnings per share for the three-month and six-month periods ended June 30, 2009. Our basic and diluted weighted-average common shares outstanding increased by approximately 327,000 and 120,000 shares, respectively, for the three-month period ended June 30, 2009. For the six-month period ended June 30, 2009, our basic and diluted weighted-average common shares outstanding increased by approximately 335,000 and 160,000 shares, respectively.

Basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2009 and 2008 are calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Basic earnings per share</b>				
Numerator:				
Net income attributable to Albemarle Corporation	\$ 38,493	\$ 61,655	\$ 63,892	\$ 124,916
Denominator:				
Weighted-average common shares for basic earnings per share	91,474	91,489	91,427	92,072
Basic earnings per share	\$ 0.42	\$ 0.67	\$ 0.70	\$ 1.36
<b>Diluted earnings per share</b>				
Numerator:				
Net income attributable to Albemarle Corporation	\$ 38,493	\$ 61,655	\$ 63,892	\$ 124,916
Denominator:				
Weighted-average common shares for basic earnings per share	91,474	91,489	91,427	92,072
Incremental shares under stock compensation plans	537	1,075	477	1,162
Total shares	92,011	92,564	91,904	93,234
Diluted earnings per share	\$ 0.42	\$ 0.67	\$ 0.70	\$ 1.34

7. Cash dividends declared for the three-month period ended June 30, 2009 totaled 12.5 cents per share, and included a dividend of 12.5 cents declared on May 13, 2009 and paid on July 1, 2009. Cash dividends declared for the six-month period ended June 30, 2009 totaled 25.0 cents per share. Cash dividends declared for the three-month period ended June 30, 2008 totaled 12.0 cents per share, and included a dividend of 12.0 cents declared on May 29, 2008 and paid July 1, 2008. Cash dividends declared for the six-month period ended June 30, 2008 totaled 24.0 cents per share.

8. The following table provides a breakdown of inventories at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
(In thousands)		
Finished goods	\$ 277,708	\$ 395,919

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Raw materials	60,430	95,617
Stores, supplies and other	47,778	47,321
Total inventories	\$ 385,916	\$ 538,857

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9. Long-term debt at June 30, 2009 and December 31, 2008 consists of the following:

	June 30, 2009	December 31, 2008
	(In thousands)	
Variable-rate domestic bank loans	\$ 424,420	\$ 522,835
Senior notes	324,813	324,796
Fixed rate foreign borrowings	46,638	47,640
Variable-rate foreign bank loans	39,435	23,320
Capital lease obligation	11,386	12,975
Miscellaneous	635	698
<b>Total</b>	<b>847,327</b>	<b>932,264</b>
Less amounts due within one year	26,771	26,202
<b>Total long-term debt</b>	<b>\$ 820,556</b>	<b>\$ 906,062</b>

Maturities of long-term debt are as follows: 2009 \$20.4 million; 2010 \$12.2 million; 2011 \$9.0 million; 2012 \$7.4 million; 2013 \$459.3 million and 2014 through 2017 \$339.0 million.

10. We have the following recorded environmental liabilities primarily included in Other noncurrent liabilities at June 30, 2009 (in thousands):

Beginning balance at December 31, 2008	\$ 18,970
Changes in estimates	(2,302)
Payments	(913)
Foreign exchange	(6)
<b>Ending balance at June 30, 2009</b>	<b>\$ 15,749</b>

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 \$18 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 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 our results of operations or financial position.

11. 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, foreign exchange transaction gains and losses and allocations for certain corporate costs.

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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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In thousands)				
<b>Net sales:</b>				
Polymer Additives	\$ 172,720	\$ 260,508	\$ 295,920	\$ 505,098
Catalysts	168,603	208,386	411,190	484,483
Fine Chemicals	103,976	151,856	224,780	299,346
Total net sales	\$ 445,299	\$ 620,750	\$ 931,890	\$ 1,288,927
<b>Segment operating profit:</b>				
Polymer Additives	\$ 15,882	\$ 27,363	\$ 4,319	\$ 57,632
Catalysts	31,708	35,520	61,469	81,676
Fine Chemicals	5,760	27,673	16,043	51,153
Subtotal	\$ 53,350	\$ 90,556	\$ 81,831	\$ 190,461
<b>Equity in net income (loss) of unconsolidated investments:</b>				
Polymer Additives	\$ 222	\$ 1,205	\$ 270	\$ 2,677
Catalysts	6,009	7,488	11,937	13,054
Fine Chemicals				
Corporate & other	(27)	(27)	(54)	(37)
Total equity in net income of unconsolidated investments	\$ 6,204	\$ 8,666	\$ 12,153	\$ 15,694
<b>Net (income) loss attributable to noncontrolling interests:</b>				
Polymer Additives	\$ (1,440)	\$ (2,116)	\$ (1,655)	\$ (4,105)
Catalysts				
Fine Chemicals	(605)	(3,223)	(2,158)	(5,158)
Corporate & other	406	(57)	627	282
Total net income attributable to noncontrolling interests	\$ (1,639)	\$ (5,396)	\$ (3,186)	\$ (8,981)
<b>Segment income:</b>				
Polymer Additives	\$ 14,664	\$ 26,452	\$ 2,934	\$ 56,204
Catalysts	37,717	43,008	73,406	94,730
Fine Chemicals	5,155	24,450	13,885	45,995
Total segment income	57,536	93,910	90,225	196,929
Corporate & other <sup>(1)</sup>	(9,587)	(12,850)	(8,947)	(25,334)
Port de Bouc charges	(12,393)		(12,393)	
Restructuring charges				(3,278)
Interest and financing expenses	(6,088)	(8,441)	(12,362)	(18,657)
Other income, net	1,276	1,938	145	4,784
Income tax benefit (expense)	7,749	(12,902)	7,224	(29,528)
<b>Net income attributable to Albemarle Corporation</b>	<b>\$ 38,493</b>	<b>\$ 61,655</b>	<b>\$ 63,892</b>	<b>\$ 124,916</b>

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<sup>(1)</sup> Corporate and other charges for the six-month period ended June 30, 2009 includes \$7.8 million in adjustments associated with the reversal of certain long-term employee benefit accruals. This adjustment is primarily included in Selling, general and administrative expenses in our consolidated statements of income.

### 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.

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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 \$6.3 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 legal counsel. We also maintain insurance to mitigate certain of these risks. See Note 10 above.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In thousands)				
<b>Net Periodic Pension Benefit Cost (Credit):</b>				
Service cost	\$ 2,305	\$ 3,435	\$ 5,147	\$ 6,302
Interest cost	8,258	7,941	16,318	15,875
Expected return of assets	(10,540)	(10,430)	(21,166)	(20,992)
Plan curtailment		(172)		(172)
Net transition asset	(2)	(3)	(5)	(5)
Prior service benefit	(246)	(250)	(493)	(506)
Net loss	3,206	2,057	6,312	3,914
<b>Total net periodic pension benefit cost</b>	<b>\$ 2,981</b>	<b>\$ 2,578</b>	<b>\$ 6,113</b>	<b>\$ 4,416</b>

We have made \$4.2 and \$5.7 million in contributions to our qualified and nonqualified pension plans during the three-month and six-month periods ended June 30, 2009, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In thousands)				
<b>Net Periodic Postretirement Benefit Cost (Credit):</b>				
Service cost	\$ 126	\$ 102	\$ 219	\$ 223
Interest cost	937	792	1,884	1,655
Expected return of assets	(142)	(143)	(286)	(286)
Prior service benefit	(1,892)	(2,400)	(3,785)	(4,799)
Net loss	287	62	548	176
<b>Total net periodic postretirement benefit credit</b>	<b>\$ (684)</b>	<b>\$ (1,587)</b>	<b>\$ (1,420)</b>	<b>\$ (3,031)</b>

We paid approximately \$0.6 and \$1.6 million in premiums to the U.S. postretirement benefit plan during the three-month and six-month periods ended June 30, 2009, respectively.

14. We have the following recorded workforce reduction liabilities included in Accrued expenses at June 30, 2009 (in thousands):

Beginning balance at December 31, 2008	\$ 20,276
Payments	(16,630)
Foreign exchange and other	(277)

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Ending balance at June 30, 2009

\$ 3,369

During the three-month and six-month periods ended June 30, 2009, we made payments as a result of restructuring charges recorded during the year ended December 31, 2008. The majority of the payments under this restructuring plan are expected to occur in 2009.

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## 15. 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:

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

Long-Term Debt The carrying value of long-term debt reported in the accompanying consolidated balance sheets, with the exceptions of the senior notes which we sold on January 20, 2005 and foreign currency denominated debt at Jordan Bromine Company, 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.

	June 30, 2009		December 31, 2008	
	Recorded Amount	Fair value	Recorded Amount	Fair Value
	(In thousands)			
Current portion of long-term debt	\$ 26,771	\$ 26,690	\$ 26,202	\$ 26,377
Long-term debt	\$ 820,556	\$ 781,379	\$ 906,062	\$ 856,520

Foreign Currency Exchange Contracts The fair values of our forward currency exchange contracts are estimated based on current settlement values. At June 30, 2009 and December 31, 2008, the fair value of the forward contracts represented minimal net positions on our consolidated balance sheets.

## 16. Recently Issued Accounting Pronouncements

In December 2008, FASB issued FASB Staff Position No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, or FSP No. FAS 132(R)-1. FSP No. FAS 132(R)-1 applies to employers subject to SFAS No. 132(R) and is effective for fiscal years ending after December 15, 2009. FSP No. FAS 132(R)-1 requires additional disclosures regarding benefit plan assets including (a) the investment allocation decision process, (b) the fair value of each major category of plan assets and (c) the inputs and valuation techniques used to measure the fair value of plan assets. We are currently evaluating the additional disclosures required upon adoption of FSP No. FAS 132(R)-1.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, or SFAS No. 167. SFAS No. 167 amends the consolidation guidance applicable to variable interest entities. The provisions of SFAS No. 167 significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009, rendering it effective for us beginning in 2010. We do not expect the provisions of SFAS No. 167 to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, or SFAS No. 168, which establishes the FASB Accounting Standards Codification or Codification, which supersedes all existing accounting standard documents and will become the single source of authoritative GAAP (other than guidance issued by the SEC) for all non-governmental entities. The Codification was implemented on July 1, 2009 and will be effective for interim and annual periods ending after September 15, 2009. The Codification is not intended to change or alter existing GAAP and it is not expected to result in a change in our accounting practice. We expect to conform our consolidated financial statements and related notes thereto to the new Codification for the quarter ended September 30, 2009.

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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, 2008. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading "Financial Condition and Liquidity" on page 26.

### **Forward-looking Statements**

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

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. 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:

deterioration in economic and business conditions;

future financial and operating performance of our major customers and industries 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;

performance of acquired companies;

changes in our markets in general;

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fluctuations in foreign currencies;

changes in laws and increased 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;

changes in accounting standards;

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

changes in interest rates, to the extent such rates (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;

volatility and substantial uncertainties in the debt and equity markets; 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.

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### **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 petroleum refiners, utilities providers, and manufacturers of consumer electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals. 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.

### **Second Quarter 2009**

During the second quarter of 2009:

quarterly net sales of \$445.3 million and earnings (net income attributable to Albemarle Corporation) of \$38.5 million, or \$0.42 per share

pre-tax charge of \$12.4 million (\$8.2 million after income taxes, or \$0.09 per share) related to the costs of a final contract settlement arising from the 2008 divestiture of the Port de Bouc, France facility

one time benefit of \$9.2 million, or \$0.10 per share, due mainly from a tax issue settlement for the years 2005 through 2007 with the United States Internal Revenue Service

sequential improvement from first quarter 2009 in Polymer Additives segment income

record Catalysts segment income margin of 22%

solid progress on cost reduction initiatives

net repayments of long-term debt of over \$70 million

### **Outlook**

While it is difficult to see signs of a significant end-market recovery, we are experiencing positive trends in several market segments. Our initiatives to improve productivity and to reduce operating costs along with the potential for a slowly improving business climate and some further raw material and energy price declines should result in improving performance in the second half of 2009 with a stronger balance sheet at year end versus the beginning of this year.

**Polymer Additives:** While early signs of end-market recovery are evident, we expect continued demand softness in the consumer electronics, automotive and construction sectors to impact volumes and profitability of our Polymer Additives segment. Although we are taking steps to restructure our operations and reduce costs, we expect challenges in this business to continue until historical demand levels return and our production rates improve. In the longer term, the increasing standard of living around the globe should drive higher demand for electrical and electronic equipment and new construction, and the potential for increasingly stringent fire-safety regulations and global climate initiatives should increase the need for insulation materials.

We are continuing to increase our presence in China as we build a foundation for expanding our business in Asia. Expansion of our now wholly owned antioxidants facility in Shanghai is expected to come on-line in 2010.

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New product development momentum continues in our Polymer Additives segment. The trend in some electronic components toward halogen-free flame retardants, while challenging our legacy products, also creates numerous development opportunities with our diverse customer base. We plan to begin commercializing sales of a new halogen-free product in one of our key-growth markets and have several others in various stages of development. We also plan to commercialize a new polyurea curative, which offers greater cure speed flexibility and therefore we believe will expand and increase performance and use.

**Catalysts:** We expect revenue growth in our Catalysts segment to be driven by global demand for petroleum products, generally deteriorating quality of crude oil feedstock and implementation of more stringent fuel quality requirements as a part of clean air initiatives. While we continue to monitor developments in the global economy, we expect our Catalysts segment profit growth in 2009 to come primarily from new product introductions, new markets that we penetrate, FCC pricing improvements, and the continued growth in our polyolefin catalysts business.

With continuing global demand for oil and consumer fuel and tightening fuel quality regulations, we believe refiners in the longer term will process more sour crudes, which should require additional HPC catalysts to remove the metals and impurities, further driving demand for these catalysts. We must also continue to successfully pass through metals costs and ensure optimal inventory levels in periods of declining metals prices.

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Our focus in FCC catalysts is on improving margins to support the value these products bring to the market. We believe there remains room for further margin improvement, and that in order to be successful we must continue to deliver high-performing, superior quality products to meet the growing demands of refiners processing increasingly heavy crudes. We have seen incremental margin increases, although we continue to face raw material cost pressures related to imported rare earths and transportation costs. We believe, however, that our price increases should offset increasing raw material costs, but there is no guarantee that will occur.

We are focused on new product development in Catalysts and have introduced high-throughput experimentation to more rapidly test and develop new technologies. Our marketing and research groups are tightly aligned so we can continue to bring innovative technologies to the market. We will continue to explore new opportunities for our catalysts in the alternative fuels business, which includes biodiesel, Canadian oil sands, gas to liquids (GTL), and coal to liquids (CTL) markets. These opportunities become increasingly viable with sustained price increases.

**Fine Chemicals:** In our performance chemicals sector, the continuing economic challenges have impacted our bromine franchise in oil completion fluids and bromine consumption. While we expect to increase production in the second half of the year, the rates are still below normal and therefore we expect continued negative impacts from unabsorbed fixed costs. Our fine chemistry services business continues to benefit from the continued rapid pace of innovation and the introduction of new products, coupled with the movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions. Our long-term strategic areas of focus in our Fine Chemicals segment are to maximize our bromine franchise value in the performance chemicals sector and to continue the growth of our fine chemistry services business.

We are focused on profitably growing our globally competitive bromine and derivatives production network to serve all major bromine consuming products and markets. As we supply bromine feed stocks to our Polymer Additives segment, our profitability is generally impacted as market conditions change in that sector. In fine chemistry services, our new products pipeline continues to be robust, allowing us to develop preferred outsourcing positions serving leading chemical and pharmaceutical companies in diverse industries. We remain confident in continuing to generate growth in profitable niche products leveraged from this service business.

**Corporate and Other:** We are continuing our focus on reducing working capital and maximizing cash generation. In addition, we will continue to focus on tax efficiency; however, incremental income is more likely to be earned in locales with higher incremental rates. We believe our global effective tax rate will approximate 14% this year, but will vary based on the locales in which incremental income is actually earned. We increased our quarterly dividend by 4% in 2009 to \$0.125 per share. Under our existing share repurchase program, we have the ability to periodically repurchase shares in 2009. In addition, we remain committed to evaluating the merits of any opportunities that may arise for acquisitions that complement our business footprint.

Additional information regarding our products, markets and financial performance is provided at our web site, [www.albemarle.com](http://www.albemarle.com). Our web site is not a part of this document nor is it incorporated herein by reference.

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

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

**Second Quarter 2009 Compared with Second Quarter 2008****Selected Financial Data (Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Percentage Change</b>
	<b>2009</b>	<b>2008</b>	<b>2009 vs. 2008</b>
	<b>(In millions, except percentages and per share amounts)</b>		
<b>NET SALES</b>	\$ 445.3	\$ 620.8	(28)%
Cost of goods sold	335.5	457.8	(27)%
<b>GROSS PROFIT</b>	109.8	163.0	(33)%
<b>GROSS PROFIT MARGIN</b>	24.7%	26.3%	
Selling, general and administrative expenses	51.5	67.6	(24)%
Research and development expenses	14.9	17.6	(15)%
Port de Bouc charges	12.4		*
<b>OPERATING PROFIT</b>	31.0	77.8	(60)%
<b>OPERATING PROFIT MARGIN</b>	7.0%	12.5%	
Interest and financing expenses	(6.1)	(8.4)	(27)%
Other income, net	1.3	1.9	*
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	26.2	71.3	(63)%
Income tax benefit (expense)	7.7	(12.9)	*
Effective tax rate	(29.6)%	18.1%	
<b>INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	33.9	58.4	(42)%
Equity in net income of unconsolidated investments (net of tax)	6.2	8.7	(29)%
<b>NET INCOME</b>	40.1	67.1	(40)%
Net income attributable to noncontrolling interests	(1.6)	(5.4)	(70)%
<b>NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION</b>	\$ 38.5	\$ 61.7	(38)%
<b>PERCENTAGE OF NET SALES</b>	8.6%	9.9%	
Basic earnings per share	\$ 0.42	\$ 0.67	(37)%
Diluted earnings per share	\$ 0.42	\$ 0.67	(37)%

\* Calculation is not meaningful.  
Net Sales

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For the three-month period ended June 30, 2009, we recorded net sales of \$445.3 million, a 28% decrease compared to net sales of \$620.8 million for the three-month period ended June 30, 2008. This decrease was due primarily to a decline in volumes in all segments. Volumes had a negative impact on sales of 22%, while price and product mix and foreign currency changes caused a combined 6% decrease compared to the same period last year.

Polymer Additives net sales decreased \$87.8 million, or 34%, for the three-month period ended June 30, 2009 compared to the same period in 2008, with volumes contributing 28% of the decrease, foreign currency impacts of 4% and price and product mix impacts of 2%. Catalysts net sales decreased \$39.8 million, or 19%, compared to the same period last year due mainly to a decrease in volumes contributing 10%, price and mix impacts of 6% and foreign currency impacts of 3%. Fine Chemicals net sales decreased \$47.9 million, or 32%, compared to the same period last year primarily due to volumes contributing 28% of the decrease, foreign currency impacts of 3% and price and product mix impacts of 1%. For a detailed discussion of revenues and segment income before taxes for each segment see [Segment Information Overview](#) below.

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*Gross Profit*

For the three-month period ended June 30, 2009, our gross profit decreased \$53.2 million, or 33%, to \$109.8 million from the corresponding 2008 period due mainly to volume declines, unfavorable production rate impacts on cost in our bromine franchise and high cost metals impacts on HPC refinery catalysts. During the three-month period ended June 30, 2009, we continued to operate our manufacturing facilities at reduced production rates to control inventory levels, contributing to unfavorable profit effects from lower fixed cost absorption. Overall, these factors contributed to our decline in gross profit margin for the three-month period ended June 30, 2009 to 24.7% from 26.3% for the corresponding period in 2008.

*Selling, General and Administrative Expenses*

For the three-month period ended June 30, 2009, our selling, general and administrative, or SG&A, expenses decreased \$16.1 million, or 24%, from the three-month period ended June 30, 2008. This decrease was primarily due to a reduction in personnel costs and discretionary spending as a result of our recent cost saving actions. As a percentage of net sales, SG&A expenses were 11.6% for the three-month period ended June 30, 2009 compared to 10.9% for the corresponding period in 2008.

*Research and Development Expenses*

For the three-month period ended June 30, 2009, our research and development, or R&D, expenses decreased \$2.7 million, or 15%, from the three-month period ended June 30, 2008. This decrease was primarily due to a reduction in personnel costs. As a percentage of net sales, R&D expenses were 3.3% for the three-month period ended June 30, 2009 compared to 2.8% for the corresponding period in 2008.

*Port de Bouc Charges*

The three-month period ended June 30, 2009 includes charges amounting to \$12.4 million (\$8.2 million after income taxes) that related to the costs of a final contract settlement arising from the 2008 divestiture of the Port de Bouc, France facility.

*Interest and Financing Expenses*

Interest and financing expenses for the three-month period ended June 30, 2009 decreased \$2.3 million to \$6.1 million from the corresponding 2008 period due to lower average interest rates.

*Other Income, Net*

Other income, net for the three-month period ended June 30, 2009 decreased \$0.6 million from the corresponding 2008 period due primarily to a decrease in interest income as a result of lower average interest rates.

*Income Tax Benefit (Expense)*

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 June 30, 2009, our effective income tax rate was (29.6)% as compared to 18.1% for the three-month period ended June 30, 2008. The effective income tax rate for the three-month period ended June 30, 2009 was impacted by various non-recurring items totaling a net benefit of \$13.4 million. Included in this amount is a net \$9.2 million benefit due mainly to decreases in unrecognized tax benefit liabilities and deferred tax assets related to an issue settled in the current United States, or U.S., Internal Revenue Service, or IRS, examination of years 2005 through 2007, and a net \$4.2 million benefit related to the charges arising out of our divestiture of the Port de Bouc, France facility. Based on our current level and location of income, we anticipate that our effective tax rate for 2009 will approximate 14%.

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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 June 30, 2009 and 2008 are as follows:

	% of Income Before Income Taxes Three Months Ended June 30,	
	2009	2008
Federal statutory rate	35.0%	35.0%
State taxes, net of federal tax benefit	0.2	0.3
Impact of foreign operations, net	(21.4)	(15.4)
Increase in valuation allowance	0.3	0.2
Depletion	(1.4)	(1.7)
Effect of net income attributable to noncontrolling interests	(0.8)	(0.6)
Revaluation of unrecognized tax benefits/reserve requirements	0.6	0.9
Other items, net	2.1	(0.6)
Effective income tax rate excluding non-recurring items	14.6%	18.1%
Non-recurring items	(44.2)	
Effective income tax rate	(29.6)%	18.1%

*Equity in Net Income of Unconsolidated Investments*

Equity in net income of unconsolidated investments was \$6.2 million for the three-month period ended June 30, 2009 compared to \$8.7 million in the same period last year. This decrease of \$2.5 million is due primarily to lower equity earnings from our Catalysts segment joint venture, Nippon Ketjen Company Limited, as a result of unfavorable material input costs as well lower equity earnings from our Magnifin joint venture in our Polymer Additives segment due to decreased volumes in the automotive sector. These earnings declines are partially offset by increased equity earnings from our Catalysts segment joint venture, Fábrica Carioca de Catalisadores S.A, or FCC SA, as a result of improved pricing.

*Net Income Attributable to Noncontrolling Interests*

For the three-month period ended June 30, 2009, net income attributable to noncontrolling interests was \$1.6 million compared to \$5.4 million in the same period last year. This decrease of \$3.8 million is due primarily to lower earnings of Jordan Bromine Company Limited as a result of a decline in bromine volumes.

*Net Income Attributable to Albemarle Corporation*

Net income attributable to Albemarle Corporation decreased to \$38.5 million in the three-month period ended June 30, 2009, from \$61.7 million in the three-month period ended June 30, 2008, primarily due to volume declines and unfavorable fixed cost absorption across our businesses, high cost metals impacts on HPC refinery catalysts, and Port de Bouc related charges of \$12.4 million. These impacts were partially offset by SG&A reductions as a result of our recent cost saving actions and various non-recurring tax items.

**Segment Information Overview.** We have identified three reportable segments as required by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Our Polymer Additives segment is comprised of the flame retardants and stabilizers and curatives product areas. Our Catalysts segment is comprised of the refinery catalysts and polyolefin catalysts product areas. Our Fine Chemicals segment is comprised of the performance chemicals and fine chemistry services and intermediates product areas. Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost, foreign exchange transaction gains and losses and allocations for certain corporate costs.

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	Three Months Ended June 30,				Percentage Change 2009 vs 2008
	2009	% of net sales	2008	% of net sales	
(In millions, except percentages)					
<b>Net sales:</b>					
Polymer Additives	\$ 172.7	38.8%	\$ 260.5	41.9%	(34)%
Catalysts	168.6	37.9%	208.4	33.6%	(19)%
Fine Chemicals	104.0	23.3%	151.9	24.5%	(32)%
<b>Total net sales</b>	<b>\$ 445.3</b>	<b>100.0%</b>	<b>\$ 620.8</b>	<b>100.0%</b>	<b>(28)%</b>
<b>Segment operating profit:</b>					
Polymer Additives	\$ 15.9	9.2%	\$ 27.4	10.5%	(42)%
Catalysts	31.7	18.8%	35.5	17.0%	(11)%
Fine Chemicals	5.7	5.5%	27.7	18.2%	(79)%
Subtotal	\$ 53.3		\$ 90.6		(41)%
<b>Equity in net income of unconsolidated investments:</b>					
Polymer Additives	\$ 0.2		\$ 1.2		(83)%
Catalysts	6.0		7.5		(20)%
Fine Chemicals					%
Corporate & other					%
<b>Total equity in net income of unconsolidated investments</b>	<b>\$ 6.2</b>		<b>\$ 8.7</b>		<b>(29)%</b>
<b>Net (income) loss attributable to noncontrolling interests:</b>					
Polymer Additives	\$ (1.4)		\$ (2.1)		(33)%
Catalysts					%
Fine Chemicals	(0.6)		(3.3)		(82)%
Corporate & other	0.4				*
<b>Total net income attributable to noncontrolling interests</b>	<b>\$ (1.6)</b>		<b>\$ (5.4)</b>		<b>(70)%</b>
<b>Segment income:</b>					
Polymer Additives	\$ 14.7	8.5%	\$ 26.5	10.2%	(45)%
Catalysts	37.7	22.4%	43.0	20.6%	(12)%
Fine Chemicals	5.1	4.9%	24.4	16.1%	(79)%
<b>Total segment income</b>	<b>57.5</b>		<b>93.9</b>		<b>(39)%</b>
Corporate & other	(9.5)		(12.8)		(26)%
Port de Bouc charges	(12.4)				*
Interest and financing expenses	(6.1)		(8.4)		(27)%
Other income, net	1.3		1.9		*
Income tax benefit (expense)	7.7		(12.9)		*
<b>Net income attributable to Albemarle Corporation</b>	<b>\$ 38.5</b>		<b>\$ 61.7</b>		<b>(38)%</b>

\* Calculation is not meaningful.

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*Polymer Additives*

Polymer Additives segment net sales for the three-month period ended June 30, 2009 were \$172.7 million, down \$87.8 million, or 34%, versus the three-month period ended June 30, 2008. This decline is a result of a decrease in volumes primarily in our flame retardants portfolio as a result of the continued softness in the consumer electronics, automotive and construction sectors. Net sales also declined in our stabilizers and curatives product lines primarily due to reduced volumes in antioxidants. Segment income was down 45%, or \$11.8 million, to \$14.7 million due mainly to lower sales volumes as well as lower production volumes which contributed to unfavorable fixed cost absorption for the three-month period ended June 30, 2009, as compared to the same period in 2008.

*Catalysts*

Catalysts segment net sales for the three-month period ended June 30, 2009 were \$168.6 million, a decrease of \$39.8 million, or 19%, versus the three-month period ended June 30, 2008. This decrease was due primarily to unfavorable metals impacts on HPC refinery catalysts revenues, foreign currency exchange rates and lower FCC refinery catalysts volumes, partially offset by improved pricing in FCC refinery catalysts and polyolefin catalysts. Segment income decreased 12%, or \$5.3 million, to \$37.7 million for the three-month period ended June 30, 2009 compared to the same period in 2008, due mainly to unfavorable metals impacts on HPC refinery catalysts, which were partially offset by strong profits from our polyolefin catalysts business.

*Fine Chemicals*

Fine Chemicals segment net sales for the three-month period ended June 30, 2009 were \$104.0 million, a decrease of \$47.9 million, or 32%, versus the three-month period ended June 30, 2008. Segment income for the three-month period ended June 30, 2009 was \$5.1 million, down \$19.3 million, or 79%, from the three-month period ended June 30, 2008. These declines were due mainly to reduced sales and production volumes in the segment as well as product mix in fine chemistry services.

*Corporate and other*

For the three-month period ended June 30, 2009, our Corporate and other expenses decreased \$3.3 million, or 26%, to \$9.5 million from the three-month period ended June 30, 2008. This decrease was primarily due to reductions in certain employee benefit expenses.

**Table of Contents***Six-Months 2009 Compared with Six-Months 2008***Selected Financial Data (Unaudited)**

	Six Months Ended June 30,		Percentage Change 2009 vs. 2008
	2009	2008	
(In millions, except percentages and per share amounts)			
<b>NET SALES</b>	\$ 931.9	\$ 1,288.9	(28)%
Cost of goods sold	731.6	958.5	(24)%
<b>GROSS PROFIT</b>	200.3	330.4	(39)%
<b>GROSS PROFIT MARGIN</b>	21.5%	25.6%	
Selling, general and administrative expenses	96.9	131.1	(26)%
Research and development expenses	31.1	34.4	(10)%
Port de Bouc charges	12.4		*
Restructuring charges		3.3	*
<b>OPERATING PROFIT</b>	59.9	161.6	(63)%
<b>OPERATING PROFIT MARGIN</b>	6.4%	12.5%	
Interest and financing expenses	(12.4)	(18.7)	(34)%
Other income, net	0.2	4.8	*
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	47.7	147.7	(68)%
Income tax benefit (expense)	7.2	(29.5)	*
Effective tax rate	(15.1)%	20.0%	
<b>INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS</b>	54.9	118.2	(54)%
Equity in net income of unconsolidated investments (net of tax)	12.2	15.7	(22)%
<b>NET INCOME</b>	67.1	133.9	(50)%
Net income attributable to noncontrolling interests	(3.2)	(9.0)	(64)%
<b>NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION</b>	\$ 63.9	\$ 124.9	(49)%
<b>PERCENTAGE OF NET SALES</b>	6.9%	9.7%	
Basic earnings per share	\$ 0.70	\$ 1.36	(49)%
Diluted earnings per share	\$ 0.70	\$ 1.34	(48)%

\* Calculation is not meaningful.

*Net Sales*

For the six-month period ended June 30, 2009, we recorded net sales of \$931.9 million, a 28% decrease compared to net sales of \$1,288.9 million for the six-month period ended June 30, 2008. This decrease was due primarily to a decline in volumes in all segments. Volumes had a negative impact on sales of 25% and foreign currency changes caused a 3% decrease compared to the same period last year.

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Polymer Additives net sales decreased \$209.2 million, or 41%, for the six-month period ended June 30, 2009, compared to the same period in 2008, as a result of volumes contributing 38% of the decrease and foreign currency impacts of 3%. Catalysts net sales decreased \$73.3 million, or 15%, compared to the same period last year due mainly to a decrease in volumes contributing 11%, foreign currency impacts of 3% and price and product mix impacts of 1%. Fine Chemicals net sales decreased \$74.5 million, or 25%, compared to the same period last year as a result of a decrease in volumes. For a detailed discussion of revenues and segment income before taxes for each segment see [Segment Information Overview](#) below.

### *Gross Profit*

For the six-month period ended June 30, 2009, our gross profit decreased \$130.1 million, or 39%, to \$200.3 million from the corresponding 2008 period, due mainly to volume declines, unfavorable production rate impacts on cost in our

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bromine franchise and high cost metals impacts on HPC refinery catalysts. During the six-month period ended June 30, 2009, we operated our manufacturing facilities at reduced rates to control inventory levels, contributing to unfavorable profit effects from lower fixed cost absorption. These factors contributed to our decline in gross profit margin for the six-month period ended June 30, 2009 to 21.5% from 25.6% for the corresponding period in 2008.

*Selling, General and Administrative Expenses*

For the six-month period ended June 30, 2009, our SG&A expenses decreased \$34.2 million, or 26%, from the six-month period ended June 30, 2008. This decrease was primarily due to first quarter 2009 adjustments of \$7.0 million associated with the reversal of certain long-term employee benefit accruals and a reduction in personnel costs and discretionary spending resulting from our recent cost saving actions. As a percentage of net sales, SG&A expenses were 10.4% for the six-month period ended June 30, 2009 compared to 10.2% for the corresponding period in 2008.

*Research and Development Expenses*

For the six-month period ended June 30, 2009, our R&D expenses decreased \$3.3 million, or 10%, from the six-month period ended June 30, 2008. As a percentage of net sales, R&D expenses were 3.3% for the six-month period ended June 30, 2009 compared to 2.7% for the corresponding period in 2008.

*Port de Bouc Charges*

The six-month period ended June 30, 2009 includes charges amounting to \$12.4 million (\$8.2 million after income taxes) that related to the costs of a final contract settlement arising from the 2008 divestiture of the Port de Bouc, France facility.

*Restructuring Charges*

The six-month period ended June 30, 2008 includes charges amounting to \$3.3 million (\$2.1 million after income taxes) that related to severance costs in conjunction with personnel reductions at our former Richmond, Virginia headquarters and our Singapore sales office.

*Interest and Financing Expenses*

Interest and financing expenses for the six-month period ended June 30, 2009 decreased \$6.3 million to \$12.4 million from the corresponding 2008 period primarily due to lower average interest rates.

*Other Income, Net*

Other income, net for the six-month period ended June 30, 2009 decreased \$4.6 million from the corresponding 2008 period due primarily to an increase in foreign currency exchange losses and a decrease in interest income as a result of lower average interest rates.

*Income Tax Benefit (Expense)*

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 six-month period ended June 30, 2009, our effective income tax rate was (15.1)% as compared to 20.0% for the six-month period ended June 30, 2008. The effective income tax rate for the six-month period ended June 30, 2009 was impacted by various non-recurring items totaling a net benefit of \$15.9 million. Included in this amount is a net \$9.2 million benefit due mainly to decreases in unrecognized tax benefit liabilities and deferred tax assets related to an issue settled in the current U.S. IRS examination of years 2005 through 2007 and a net \$4.2 million benefit related to the charges arising out of our divestiture of the Port de Bouc, France facility. Also included is a \$3.7 million benefit due mainly from unrecognized tax benefits, partially offset by a \$1.2 million increase in a valuation allowance for losses at our Brazilian entity. Based on our current level and location of income, we anticipate that our effective tax rate for 2009 will approximate 14%.

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The significant differences between the U.S. federal statutory income tax rate on pretax income and the effective income tax rate for the six-month periods ended June 30, 2009 and 2008 are as follows:

	<b>% of Income Before Income Taxes Six Months Ended June 30,</b>