

ALBEMARLE CORP
Form 10-Q
April 28, 2011
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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 March 31, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-12658

ALBEMARLE CORPORATION

(Exact name of registrant as specified in its charter)

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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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 April 22, 2011: 91,692,039

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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)**

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 696,530	\$ 580,270
Cost of goods sold	463,514	415,799
Gross profit	233,016	164,471
Selling, general and administrative expenses	73,039	66,530
Research and development expenses	17,615	14,719
Restructuring and other charges		6,958
Operating profit	142,362	76,264
Interest and financing expenses	(9,592)	(5,936)
Other income, net	338	1,010
Income before income taxes and equity in net income of unconsolidated investments	133,108	71,338
Income tax expense	32,172	16,700
Income before equity in net income of unconsolidated investments	100,936	54,638
Equity in net income of unconsolidated investments (net of tax)	12,831	10,276
Net income	113,767	64,914
Net income attributable to noncontrolling interests	(7,187)	(1,606)
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308
Basic earnings per share	\$ 1.16	\$ 0.69
Diluted earnings per share	\$ 1.15	\$ 0.69
Weighted-average common shares outstanding basic	91,633	91,386
Weighted-average common shares outstanding diluted	92,517	92,193
Cash dividends declared per share of common stock	\$ 0.165	\$ 0.14

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 441,013	\$ 529,650
Trade accounts receivable, less allowance for doubtful accounts (2011 \$2,510; 2010 \$2,527)	401,637	340,888
Other accounts receivable	44,866	33,772
Inventories	402,967	389,210
Other current assets	55,891	54,678
 Total current assets	 1,346,374	 1,348,198
 Property, plant and equipment, at cost	 2,506,233	 2,440,178
Less accumulated depreciation and amortization	1,466,228	1,433,865
 Net property, plant and equipment	 1,040,005	 1,006,313
Investments	207,379	180,690
Other assets	123,364	125,878
Goodwill	287,264	272,238
Other intangibles, net of amortization	135,495	134,764
 Total assets	 \$ 3,139,881	 \$ 3,068,081
 Liabilities And Equity		
Current liabilities:		
Accounts payable	\$ 210,573	\$ 175,183
Accrued expenses	131,653	143,684
Current portion of long-term debt	9,097	8,983
Dividends payable	14,814	12,547
Income taxes payable	15,474	23,780
 Total current liabilities	 381,611	 364,177
 Long-term debt	 758,597	 851,927
Postretirement benefits	54,716	55,014
Pension benefits	53,088	102,836
Other noncurrent liabilities	105,616	108,811
Deferred income taxes	123,585	109,570
Commitments and contingencies (Note 9)		
Equity:		
Albemarle Corporation shareholders' equity:		
Common stock, \$.01 par value, issued and outstanding 91,668 in 2011 and 91,594 in 2010	917	916
Additional paid-in capital	28,856	18,835
Accumulated other comprehensive loss	(85,640)	(164,196)
Retained earnings	1,651,976	1,560,519

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Total Albemarle Corporation shareholders' equity	1,596,109	1,416,074
Noncontrolling interests	66,559	59,672
Total equity	1,662,668	1,475,746
Total liabilities and equity	\$ 3,139,881	\$ 3,068,081

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	Common Stock		Additional	Accumulated Other Comprehensive	Retained	Total Albemarle	Non-controlling	Total
(In Thousands, Except Share Data)	Shares	Amounts	Paid-in Capital	(Loss) Income	Earnings	Shareholders Equity	Interests	Equity
Balance at January 1, 2011	91,593,984	\$ 916	\$ 18,835	\$ (164,196)	\$ 1,560,519	\$ 1,416,074	\$ 59,672	\$ 1,475,746
Comprehensive income (loss):								
Net income					106,580	106,580	7,187	113,767
Foreign currency translation, net of tax of \$2,631				74,277		74,277	(300)	73,977
Pension and postretirement benefits, net of tax of \$(2,453)				4,245		4,245		4,245
Other, net of tax of \$(21)				34		34		34
Total comprehensive income				78,556	106,580	185,136	6,887	192,023
Cash dividends declared					(15,123)	(15,123)		(15,123)
Stock-based compensation and other			6,501			6,501		6,501
Exercise of stock options	17,500		205			205		205
Tax benefit related to stock plans			3,867			3,867		3,867
Issuance of common stock, net	65,667	1	(1)					
Shares withheld for withholding taxes associated with common stock issuances	(9,646)		(551)			(551)		(551)
Balance at March 31, 2011	91,667,505	\$ 917	\$ 28,856	\$ (85,640)	\$ 1,651,976	\$ 1,596,109	\$ 66,559	\$ 1,662,668
Balance at January 1, 2010	91,509,099	\$ 915	\$ 8,658	\$ (91,860)	\$ 1,287,983	\$ 1,205,696	\$ 47,622	\$ 1,253,318
Comprehensive income (loss):								
Net income					63,308	63,308	1,606	64,914
Foreign currency translation, net of tax of \$(355)				(57,582)		(57,582)		(57,582)
Pension and postretirement benefits, net of tax of \$(1,443)				2,537		2,537		2,537
Other, net of tax of \$2				3		3		3
Total comprehensive (loss) income				(55,042)	63,308	8,266	1,606	9,872
Deconsolidation of Stannica LLC							(8,121)	(8,121)
Cash dividends declared					(12,788)	(12,788)		(12,788)
Stock-based compensation and other			6,122			6,122		6,122
Exercise of stock options	63,000		978			978		978
Shares repurchased and retired	(240,000)	(2)	(8,632)			(8,634)		(8,634)
Tax benefit related to stock plans			480			480		480
Issuance of common stock, net	14,000							
Shares withheld for withholding taxes associated with common stock issuances	(2,091)		(74)			(74)		(74)

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Balance at March 31, 2010	91,344,008	\$ 913	\$ 7,532	\$ (146,902)	\$ 1,338,503	\$ 1,200,046	\$ 41,107	\$ 1,241,153
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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)**

	Three Months Ended March 31,	
	2011	2010
Cash and cash equivalents at beginning of year	\$ 529,650	\$ 308,791
Cash flows from operating activities:		
Net income	113,767	64,914
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	23,004	24,701
Restructuring and other charges		6,958
Stock-based compensation	6,789	4,347
Excess tax benefits realized from stock-based compensation arrangements	(3,867)	(480)
Equity in net income of unconsolidated investments (net of tax)	(12,831)	(10,276)
Working capital changes	(52,116)	(74,296)
Dividends received from unconsolidated investments and nonmarketable securities	2,221	5,176
Pension and postretirement expense	6,463	5,395
Pension and postretirement contributions	(51,949)	(22,209)
Unrealized gain on investments in marketable securities	(1,483)	(368)
Net change in noncurrent income tax payables and receivables	(684)	2,222
Net change in noncurrent environmental liabilities	733	(527)
Deferred income taxes	21,209	9,914
Other, net	(4,700)	2,613
Net cash provided by operating activities	46,556	18,084
Cash flows from investing activities:		
Capital expenditures	(31,894)	(16,141)
Cash impact from deconsolidation of Stannica LLC, net		(13,074)
Cash payments related to acquisitions and other	(633)	(92)
Sales of marketable securities, net	1,872	1,386
Investments in equity and other corporate investments	(10,666)	
Net cash used in investing activities	(41,321)	(27,921)
Cash flows from financing activities:		
Repayments of long-term debt	(100,622)	(14,445)
Proceeds from borrowings	6,694	6,654
Dividends paid to shareholders	(12,856)	(11,401)
Repurchases of common stock		(8,634)
Proceeds from exercise of stock options	205	978
Excess tax benefits realized from stock-based compensation arrangements	3,867	480
Withholding taxes paid on stock-based compensation award distributions	(551)	(74)
Net cash used in financing activities	(103,263)	(26,442)
Net effect of foreign exchange on cash and cash equivalents	9,391	(5,195)

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Decrease in cash and cash equivalents	(88,637)	(41,474)
Cash and cash equivalents at end of period	\$ 441,013	\$ 267,317

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

NOTE 2 Foreign Exchange:

Our consolidated statements of income include foreign exchange transaction (losses) gains for the three-month periods ended March 31, 2011 and 2010 in the amount of \$(0.5) million and \$0.8 million, respectively.

NOTE 3 Income Taxes:

The effective income tax rate for the first quarter of 2011 was 24.2 percent compared with 23.4 percent for the first quarter of 2010. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the first quarter of 2011 and first quarter of 2010 is mainly due to the impact of earnings from outside the U.S.

NOTE 4 Earnings Per Share:

Basic and diluted earnings per share for the three-month periods ended March 31, 2011 and 2010 are calculated as follows:

	Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share amounts)	
Basic earnings per share		
Numerator:		
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308
Denominator:		
Weighted-average common shares for basic earnings per share	91,633	91,386
Basic earnings per share	\$ 1.16	\$ 0.69
Diluted earnings per share		
Numerator:		
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308

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Denominator:

Weighted-average common shares for basic earnings per share	91,633	91,386
Incremental shares under stock compensation plans	884	807

Total shares	92,517	92,193
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Diluted earnings per share	\$ 1.15	\$ 0.69
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Cash dividends declared for the three-month period ended March 31, 2011 totaled 16.5 cents per share, which were declared on February 16, 2011 and paid on April 1, 2011. Cash dividends declared for the three-month period ended March 31, 2010 totaled 14.0 cents per share, which were declared on February 17, 2010 and paid April 1, 2010.

NOTE 6 Inventories:

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Finished goods	\$ 295,341	\$ 279,365
Raw materials	63,264	66,645
Stores, supplies and other	44,362	43,200
Total inventories	\$ 402,967	\$ 389,210

NOTE 7 Investments:

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

Effective January 1, 2010, we entered into a new operating agreement relating to our heretofore consolidated joint venture Stannica LLC and divested ten percent of our interest in the venture to our partner for proceeds of approximately \$2.1 million (of which \$1.6 million in cash was received in the first quarter of 2010 and the remainder was collected in the third quarter of 2010), reducing our ownership to fifty percent. We determined that the joint venture was a variable interest entity but that we were not the primary beneficiary of the venture arrangement; accordingly, we deconsolidated our investment in this venture. We recorded a gain of approximately \$1.1 million on the transaction (included in consolidated gross profit), an \$8.1 million reduction in noncontrolling interests and \$20.4 million reduction in other consolidated net assets comprised of \$14.7 million in cash plus other net working capital. Our retained equity investment in the joint venture was recorded at its fair value of \$11.3 million (giving rise to the gain amount noted above) and is reported in Investments in our condensed consolidated balance sheet. To estimate the fair value of our investment, we used an income approach based on a discounted cash flow model which incorporated estimates and assumptions supported mainly by unobservable inputs, including pricing and volume data, anticipated growth rates, profitability levels, inflation factors, tax and discount rates. Our maximum exposure to loss in connection with our continuing involvement with Stannica LLC is limited to our investment carrying value. Starting in the first quarter of 2010, the earnings associated with our investment in Stannica LLC were reported in Equity in net income of unconsolidated investments in our consolidated statement of income in our Catalysts segment. Prior to this transaction, Stannica LLC was included in our Polymer Solutions segment. The carrying value of our investment in Stannica LLC was \$8.0 million and \$10.2 million at March 31, 2011 and December 31, 2010, respectively.

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Variable-rate domestic bank loans	\$	\$
5.10% Senior notes, net of unamortized discount of \$128 at March 31, 2011 and \$137 at December 31, 2010	324,872	324,863
4.50% Senior notes, net of unamortized discount of \$3,050 at March 31, 2011 and \$3,128 at December 31, 2010	346,950	346,872
Fixed rate foreign borrowings	29,808	33,223
Capital lease obligation	6,042	5,873
Variable-rate foreign bank loans	59,537	149,520
Miscellaneous	485	559
Total	767,694	860,910
Less amounts due within one year	9,097	8,983
Total long-term debt	\$ 758,597	\$ 851,927

Aggregate maturities of long-term debt as of March 31, 2011 are as follows (in millions): 2011 \$9.0; 2012 \$14.5; 2013 \$58.2; 2014 \$6.0; 2015 \$327.1; thereafter \$356.1.

NOTE 9 Commitments and Contingencies:

We had the following activity in our recorded environmental liabilities for the three months ended March 31, 2011, as follows (in thousands):

Beginning balance at December 31, 2010	\$ 13,806
Expenditures	(567)
Changes in estimates	50
Foreign currency translation	779
Ending balance at March 31, 2011	14,068
Less amounts reported in Accrued expenses	1,188
Amounts reported in Other noncurrent liabilities	\$ 12,880

The amounts recorded represent our future remediation and other anticipated environmental liabilities. Approximately 70% of our recorded liability is related to the closure and post-closure activities at a former landfill associated with our Bergheim, Germany site which was recorded at the time of our acquisition of this site in 2001. This closure project has been approved under the authority of the governmental permit for this site and is scheduled for completion in 2017, with post-closure monitoring to occur for 30 years thereafter. The remainder of our recorded

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liability is associated with sites that are being evaluated under governmental authority but for which final remediation plans have not yet been approved. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of 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 \$17.3 million before income taxes.

In connection with the remediation activities at our Bergheim, Germany site as required by the German environmental authorities, we have pledged certain of our land and housing facilities at this site with a recorded value of \$6.3 million.

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

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ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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, South Carolina. The alleged violations include (i) the applicability of the specific regulations to certain intermediates manufactured at the plant, (ii) failure to comply with certain reporting requirements, (iii) improper evaluation and testing to properly implement the regulations and (iv) the sufficiency of the leak detection and repair program at the plant. 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.

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

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

NOTE 10 Operating Segments:

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

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

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

	Three Months Ended March 31, 2011 2010 (In thousands)	
Net sales:		
Polymer Solutions	\$ 258,223	\$ 216,653
Catalysts	260,957	227,653
Fine Chemistry	177,350	135,964
Total net sales	\$ 696,530	\$ 580,270
Segment operating profit:		
Polymer Solutions	\$ 69,831	\$ 40,363
Catalysts	62,131	46,995
Fine Chemistry	33,959	12,568
Subtotal	165,921	99,926
Equity in net income of unconsolidated investments:		
Polymer Solutions	2,489	2,194
Catalysts	10,461	8,109
Fine Chemistry		
Corporate & Other	(119)	(27)
Total equity in net income of unconsolidated investments	12,831	10,276
Net income attributable to noncontrolling interests:		
Polymer Solutions	(2,846)	(790)
Catalysts		
Fine Chemistry	(4,425)	(798)
Corporate & Other	84	(18)
Total net income attributable to noncontrolling interests	(7,187)	(1,606)
Segment income:		
Polymer Solutions	69,474	41,767
Catalysts	72,592	55,104
Fine Chemistry	29,534	11,770
Total segment income	171,600	108,641
Corporate & other	(23,594)	(16,749)
Restructuring and other charges ⁽¹⁾		(6,958)
Interest and financing expenses	(9,592)	(5,936)
Other income, net	338	1,010
Income tax expense	(32,172)	(16,700)

Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308
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- (1) The quarter ended March 31, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) associated with restructuring costs related principally to planned reductions in force at our Bergheim, Germany site.

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net Periodic Pension Benefit Cost (Credit):		
Service cost	\$ 2,932	\$ 2,694
Interest cost	8,076	7,906
Expected return on assets	(12,119)	(10,072)
Amortization of net transition asset		(2)
Amortization of prior service benefit	(245)	(250)
Amortization of net loss	6,493	4,221
Total net periodic pension benefit cost	\$ 5,137	\$ 4,497
Net Periodic Postretirement Benefit Cost (Credit):		
Service cost	\$ 125	\$ 136
Interest cost	845	901
Expected return on assets	(111)	(134)
Amortization of prior service benefit	(99)	(426)
Amortization of net loss	566	421
Total net periodic postretirement benefit cost	\$ 1,326	\$ 898
Total net periodic pension and postretirement benefit cost	\$ 6,463	\$ 5,395

We have made contributions of \$50.8 million and \$21.4 million to our qualified and nonqualified pension plans during the three-month periods ended March 31, 2011 and 2010, respectively.

We paid approximately \$1.1 million and \$0.8 million in premiums to the U.S. postretirement benefit plan during the three-month periods ended March 31, 2011 and 2010, respectively.

NOTE 12 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, Trade and Other Accounts Receivables and Accounts Payable The carrying value approximates fair value due to their short-term nature.

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Long-Term Debt The carrying value of long-term debt reported in the accompanying consolidated balance sheets, with the exceptions of the 4.5% and 5.1% senior notes and the foreign currency denominated debt at Jordan Bromine Company Limited, approximates fair value as substantially all of the long-term debt bears interest based on prevailing variable market rates currently available in the countries in which we have borrowings.

	March 31, 2011		December 31, 2010	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Long-term debt	\$ 767,694	\$ 784,669	\$ 860,910	\$ 879,511

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

Foreign Currency Forward Contracts We enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At March 31, 2011 and December 31, 2010, we had outstanding foreign currency forward contracts with notional values totaling \$260.9 million and \$375.4 million, respectively. At December 31, 2010, we had balances of \$0.5 million and \$5.4 million in Other accounts receivable and Accrued expenses, respectively, associated with the fair values of our foreign currency forward contracts (at March 31, 2011 these amounts were insignificant). Gains and losses on foreign currency forward contracts are recognized currently in income; however, fluctuations in the value of these contracts are generally offset by the changes in the value of the underlying exposures being hedged. For the three-month periods ended March 31, 2011 and 2010 we recognized gains of \$5.8 million and \$0.2 million, respectively, in Other income, net in our consolidated statements of income related to the change in the fair values of our foreign currency forward contracts (with such amounts being substantially offset by changes in the value of the underlying exposures being hedged). Also, for the three months ended March 31, 2011, we recorded \$(5.8) million related to the change in the fair values of our foreign currency forward contracts and \$0.9 million of cash settlements in Other, net in our March 31, 2011 statement of cash flows. Such amounts associated with these activities for the three months ended March 31, 2010 were not material.

NOTE 13 Fair Value Measurement:

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

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

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

	March 31, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
Assets:			
Investments under executive deferred compensation plan ^(a)	\$ 17,374	\$ 17,374	\$
Equity securities ^(b)	\$ 30	\$ 30	\$
Foreign currency forward contracts ^(c)	\$ 1	\$	\$ 1
Liabilities:			
	\$ 17,374	\$ 17,374	\$

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Obligations under executive deferred compensation plan
(a)

	December 31, 2010	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
Assets:			
Investments under executive deferred compensation plan ^(a)	\$ 17,763	\$ 17,763	\$
Equity securities ^(b)	\$ 29	\$ 29	\$
Foreign currency forward contracts ^(c)	\$ 540	\$	\$ 540
Liabilities:			
Obligations under executive deferred compensation plan ^(a)	\$ 17,763	\$ 17,763	\$
Foreign currency forward contracts ^(c)	\$ 5,413	\$	\$ 5,413

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

- (a) We maintain an Executive Deferred Compensation Plan, or the Plan, that was adopted in 2001 and subsequently amended. The purpose of the Plan is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The Plan is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust, or the Trust, that was created to provide a source of funds to assist in meeting the obligations of the Plan, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statements of income) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.
- (b) Our investments in equity securities are classified as available-for-sale and are reported in Investments in the consolidated balance sheets. The changes in fair value are reported in Other within Comprehensive income (loss) in our statements of changes in equity. These securities are classified within Level 1.
- (c) As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, we minimize our risks from interest and foreign currency exchange rate fluctuations through the use of derivative financial instruments. 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 foreign currency forward contracts are valued using broker quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

NOTE 14 Restructuring and Other Charges:

The three-month period ended March 31, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) associated with restructuring costs related principally to planned reductions in force at our Bergheim, Germany site. Payments under this restructuring plan are expected to occur through 2014.

We had the following activity in our recorded workforce reduction liabilities for the three months ended March 31, 2011 (in thousands):

Beginning balance at December 31, 2010	\$ 7,074
Workforce reduction charges	950
Payments	(1,224)
Foreign currency translation	478
Ending balance at March 31, 2011	7,278
Less amounts reported in Accrued expenses	3,806
Amounts reported in Other noncurrent liabilities	\$ 3,472

During the first quarter of 2011, we recorded approximately \$1.0 million in charges related to restructuring programs at various manufacturing locations in the U.S. Payments under these programs are expected to occur within the next 12 months.

NOTE 15 Recently Issued Accounting Pronouncements:

In December 2010, the Financial Accounting Standards Board, or FASB, amended its accounting guidance related to the disclosure of pro forma information for business combinations. Under the amended guidance, a public entity that presents comparative financial statements must disclose the revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had

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occurred as of the beginning of the prior annual reporting period. The amendments also require public entities to provide a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to business combination(s) that are included in the reported pro forma revenue and earnings. These amendments became effective for us on January 1, 2011 and did not have a material impact on our consolidated financial statements.

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

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ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

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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, 2010. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading "Financial Condition and Liquidity" on page 23.

Forward-looking Statements

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

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

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;

political unrest or instability affecting our manufacturing operations or joint ventures;

changes in accounting standards;

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

changes in 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;

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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.

Overview

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

First Quarter 2011

During the first quarter of 2011:

We achieved quarterly earnings of \$1.15 per share on a diluted basis, up 67 percent over the first quarter 2010.

Our net sales for the quarter increased 20 percent from the first quarter 2010 to \$697 million.

We had strong operating performance with significant year-over-year profit growth across all three segments.

Our quarterly dividend increased to \$0.165 per share of common stock (\$0.66 annually).

Outlook

During the first quarter of 2011 we have seen strong demand in the global markets that we serve contributing to an already tight supply situation for many of our products. Our businesses are well positioned to capitalize on opportunities in both recovering markets and emerging markets that bring new demand.

We continue to monitor key economic indicators and work to manage potential headwinds such as increased raw material and energy costs, pensions and other personnel costs. Also, we are monitoring potential global business impacts from the March 2011 earthquake and tsunami activity off the northeast coast of Japan, although our first quarter 2011 results were not materially affected by this event.

Overall, we expect the same fundamentals that drove our 2010 performance to remain in place and position us to deliver solid earnings growth in 2011.

Polymer Solutions: Our pricing programs combined with overall stable demand in the consumer electronics, automotive and commercial construction markets resulted in strong financial performance during the first quarter of 2011, especially in our fire safety business. Successful implementation of our pricing initiatives will help to offset raw material inflation headwinds we are facing as well as fund further investment in new products and technologies. Further, we believe improving global standards of living, coupled with the potential for increasingly stringent fire-safety regulations and global climate initiatives, should drive continued long-term demand for fire safety products.

Our presence in China should continue to grow with the newly added capacity of our antioxidants facility in Shanghai. Also, our phosphorous-based flame-retardant production capability at our Nanjing site is well positioned to serve the Asia Pacific construction and electronics markets.

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Greenarmor™, the first Earthwise™ product from our Polymer Solutions segment, is expected to be commercially available in 2011. The Earthwise™ portfolio is expected to grow to include products from other business units and segments of Albemarle.

Catalysts: Improved volumes and higher pricing to counter significant raw material price increases drove net sales and earnings growth in our Catalysts segment in the first q